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1-1-1997

## Financial Statements with Independent Auditors' Report, 1996

City of Festus

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**CITY OF FESTUS, MISSOURI**  
**FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**September 30, 1996**

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# B·S·W

Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

## INDEPENDENT AUDITORS' REPORT

(314) 432-6001  
Fax (314) 432-3130

To the Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the accompanying general-purpose financial statements of the City of Festus, Missouri (the City) as of and for the year ended September 30, 1996. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Festus, Missouri as of September 30, 1996, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued reports dated December 6, 1996 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

*Brown Smith Wallace, L.L.C.*

December 6, 1996



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

(314) 432-6001  
Fax (314) 432-3130

**INDEPENDENT AUDITORS' REPORT ON  
THE INTERNAL CONTROL STRUCTURE  
BASED ON AN AUDIT OF GENERAL PURPOSE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To The Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City), as of and for the year ended September 30, 1996, and have issued our report thereon dated December 6, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

In planning and performing our audit of the general-purpose financial statements of the City, for the year ended September 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

The management of the City is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may

nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

1. Revenue Bonds - Series 1990

In prior years, we have recommended that the City establish controls consistent with Sections of its Ordinance No. 2126 related to the Combined Waterworks and Sewerage System Refunding and Improvement Revenue Bonds - Series 1990.

The ordinance requires that separate funds be set up to account for liquid assets, debt reserves and revenues of the System. The City has elected to establish separate general ledger accounts, rather than separate funds, to account for these items.

Recommendation:

We recommend the City establish the required separate funds in its treasury.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the City, in a separate letter dated December 6, 1996.

This report is intended for the information of management, members of the City Council, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

*Brown Smith Wallace, L.L.C.*

December 6, 1996



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

(314) 432-6001  
Fax (314) 432-3130

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
BASED ON AN AUDIT OF GENERAL PURPOSE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To The Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City), as of and for the year ended September 30, 1996, and have issued our report thereon dated December 6, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City, is the responsibility of the City's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have reported to the management of City of Festus in a separate letter dated December 6, 1996.

This report is intended for the information of management, members of the City Council, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

*Brown Smith Wallace, L.L.C.*

December 6, 1996



**CITY OF FESTUS, MISSOURI**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES, ACCOUNT GROUPS AND COMPONENT UNIT**

September 30, 1996

	Governmental Fund Types		Fiduciary Fund Type
	General	Special Revenue	Agency Fund
<b>ASSETS</b>			
Cash and investments	\$ 429,117	\$ 639,278	\$ -
Receivables (net of allowance for uncollectible accounts)			
Taxes	245,276	88,322	-
Special assessments	8,232	92,478	-
Service charges	31,147	-	-
Federal and state assistance programs	23,801	73,055	-
Other	11,409	38,355	-
Interest	44	4,568	-
Inventory of supplies	1,514	-	-
Prepaid expenses	41,245	13,696	-
Due from other funds	229,116	2,458	-
Restricted cash and investments	50,052	374,926	-
Investments - deferred compensation plan	-	-	7,515
Capital improvements sales tax receivable	-	182,380	-
Interest in joint venture	-	-	-
Property, plant and equipment, net of accumulated depreciation	-	-	-
Investment in general fixed assets	-	-	-
Amounts to be provided for			
Capital lease payments	-	-	-
Special assessment bonds with governmental commitment	-	-	-
Notes payable	-	-	-
Use tax refund - long term	-	-	-
Unamortized bond issue costs	-	-	-
<b>TOTAL ASSETS</b>	<b>\$1,070,953</b>	<b>\$1,509,516</b>	<b>\$7,515</b>

The accompanying notes are an integral part of this statement.

Proprietary Fund Types		Account Groups		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
Enterprise	Internal Service	General Fixed Assets	General Long-term Debt	Primary Government		Reporting Entity
\$ 102,604	\$1,578	\$ -	\$ -	\$ 1,172,577	\$ -	\$ 1,172,577
-	-	-	-	333,598	-	333,598
-	-	-	-	100,710	-	100,710
146,811	-	-	-	177,958	-	177,958
-	-	-	-	96,856	-	96,856
8,908	-	-	-	58,672	-	58,672
47,123	-	-	-	51,735	-	51,735
43,502	-	-	-	45,016	-	45,016
7,607	-	-	-	62,548	-	62,548
-	-	-	-	231,574	-	231,574
736,241	-	-	-	1,161,219	33,124	1,194,343
-	-	-	-	7,515	-	7,515
-	-	-	-	182,380	-	182,380
754,462	-	-	-	754,462	-	754,462
2,999,409	2,347	-	-	3,001,756	-	3,001,756
-	-	7,479,473	-	7,479,473	-	7,479,473
-	-	-	917,038	917,038	-	917,038
-	-	-	50,000	50,000	-	50,000
-	-	-	9,908	9,908	-	9,908
-	-	-	226,000	226,000	-	226,000
87,240	-	-	-	87,240	-	87,240
\$4,933,907	\$3,925	\$7,479,473	\$1,202,946	\$16,208,235	\$33,124	\$16,241,359

**CITY OF FESTUS, MISSOURI**

**COMBINED BALANCE SHEET  
ALL FUND TYPES, ACCOUNT GROUPS AND COMPONENT UNIT - CONTINUED**

September 30, 1996

	Governmental Fund Types		Fiduciary Fund Type
	General	Special Revenue	Agency Fund
<b>LIABILITIES</b>			
Accounts payable	\$ 49,278	\$ 27,316	\$ -
Accrued payroll and compensated absence payable	153,531	42,842	-
Accrued payroll taxes	11,469	4,620	-
Obligation under capital lease	-	-	-
Special assessment bonds with governmental commitment	-	-	-
Accrued interest	2,852	683	-
Customer deposits	-	1,020	-
Due to other funds	-	205,375	-
Deferred revenue	19,063	356,005	-
Use tax refund	96,000	48,000	-
Use tax refund - long term	-	-	-
Other liabilities	68,627	26,755	7,515
Revenue bonds payable, net of discount	-	-	-
Note payable	-	-	-
<b>Total liabilities</b>	<b>400,820</b>	<b>712,616</b>	<b>7,515</b>
<b>FUND EQUITY AND OTHER CREDITS</b>			
Contributed capital	-	-	-
Investment in general fixed assets	-	-	-
Retained earnings			
Reserved for revenue bonds	-	-	-
Unreserved	-	-	-
Fund balances			
Reserved for inventory of supplies	1,514	-	-
Reserved for prepaid expenses	41,245	-	-
Reserved for encumbrances	6,684	7,051	-
Unreserved	620,690	789,849	-
<b>Total fund equity and other credits</b>	<b>670,133</b>	<b>796,900</b>	<b>-</b>
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<b>\$1,070,953</b>	<b>\$1,509,516</b>	<b>\$7,515</b>

The accompanying notes are an integral part of this statement.

Proprietary Fund Types		Account Groups		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
Enterprise	Internal Service	General Fixed Assets	General Long-term Debt	Primary Government		Reporting Entity
\$ 16,168	\$ 534	\$ -	\$ -	\$ 93,296	\$ -	\$ 93,296
30,502	2,315	-	-	229,190	-	229,190
3,272	244	-	-	19,605	-	19,605
-	-	-	917,038	917,038	-	917,038
-	-	-	50,000	50,000	-	50,000
61,659	-	-	-	65,194	-	65,194
143,618	-	-	-	144,638	-	144,637
24,836	1,363	-	-	231,574	-	231,574
-	-	-	-	375,068	-	375,068
-	-	-	-	144,000	-	144,000
-	-	-	226,000	226,000	-	226,000
1,438	-	-	-	104,335	-	104,335
3,408,032	-	-	-	3,408,032	-	3,408,032
-	-	-	9,908	9,908	-	9,908
3,689,525	4,456	-	1,202,946	6,017,878	-	6,017,878
824,870	-	-	-	824,870	-	824,870
-	-	7,479,473	-	7,479,473	-	7,479,473
346,000	-	-	-	346,000	-	346,000
73,512	(531)	-	-	72,981	-	72,981
-	-	-	-	1,514	-	1,514
-	-	-	-	41,245	-	41,245
-	-	-	-	13,735	-	13,735
-	-	-	-	1,410,539	33,124	1,443,663
1,244,382	(531)	7,479,473	-	10,190,357	33,124	10,223,481
<b>\$4,933,907</b>	<b>\$3,925</b>	<b>\$7,479,473</b>	<b>\$1,202,946</b>	<b>\$16,208,235</b>	<b>\$33,124</b>	<b>\$16,241,359</b>

**CITY OF FESTUS, MISSOURI**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES -**  
**ALL GOVERNMENTAL FUND TYPES AND COMPONENT UNIT**

Year ended September 30, 1996

	General Fund	Special Revenue Fund
<b>Revenues:</b>		
Property taxes		
Real estate	\$ 185,273	\$ 134,162
Personal property	53,801	38,960
Replacement tax	11,889	8,610
Other taxes		
Franchise - utilities and railroads	457,832	7,392
Sales taxes	1,699,193	1,271,597
Intangible taxes	476	344
Intergovernmental revenues		
State gasoline taxes	204,851	-
State library aid	-	4,262
Federal, state and local program advances and reimbursements	110,495	525,419
Special sewer assessments	-	10,052
Licenses and permits	144,302	-
Fines and penalties	166,493	21,630
Interest	29,360	30,155
Miscellaneous	42,780	63,932
Services charges		
Trash collection	299,724	-
Total revenues	3,406,469	2,116,515

The accompanying notes are an integral part of this statement.

Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Primary Government
\$ 319,435	\$ -	\$ 319,435
92,761	-	92,761
20,499	-	20,499
465,224	-	465,224
2,970,790	-	2,970,790
820	-	820
204,851	-	204,851
4,262	-	4,262
635,914	-	635,914
10,052	-	10,052
144,302	-	144,302
188,123	-	188,123
59,515	1,617	61,132
106,712	-	106,712
299,724	-	299,724
5,522,984	1,617	5,524,601

**CITY OF FESTUS, MISSOURI**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES -  
ALL GOVERNMENTAL FUND TYPES AND COMPONENT UNIT - CONTINUED**

Year ended September 30, 1996

	General Fund	Special Revenue Fund
<b>Expenditures:</b>		
Current		
General government	510,209	25,259
Public safety	2,022,785	6,787
Streets and sewers	156,938	1,696,274
Health and sanitation	-	49,264
Library	-	120,061
Parks	-	303,711
Non-departmental	306,374	-
Program expenses	-	293,158
Use tax refund	96,000	48,000
Principal debt service	189,894	15,000
Interest debt service	58,380	5,750
Total expenditures	3,340,580	2,563,264
Excess (deficiency) of revenues over expenditures	65,889	(446,749)
<b>Other financing sources (uses):</b>		
Operating transfers in	-	254,338
Operating transfers out	(254,338)	-
Excess (deficiency) of revenues and other sources over (under) expenditures	(188,449)	(192,411)
<b>Total fund equity and other credits at beginning of year</b>	858,582	963,621
Correction of an error	-	25,690
<b>TOTAL FUND EQUITY AND OTHER CREDITS AT END OF YEAR</b>	<b>\$ 670,133</b>	<b>\$ 796,900</b>

The accompanying notes are an integral part of this statement.

Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Reporting Entity
\$ 535,468	\$ -	\$ 535,468
2,029,572	-	2,029,572
1,853,212	-	1,853,212
49,264	-	49,264
120,061	-	120,061
303,711	-	303,711
306,374	-	306,374
293,158	-	293,158
144,000	-	144,000
204,894	-	204,894
64,130	-	64,130
5,903,844	-	5,903,844
(380,860)	1,617	(379,243)
254,338	-	254,338
(254,338)	-	(254,338)
(380,860)	1,617	(379,243)
1,822,203	31,507	1,853,710
25,690	-	25,690
\$1,467,033	\$33,124	\$1,500,157



**CITY OF FESTUS, MISSOURI**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL -  
GENERAL AND SPECIAL REVENUE FUND TYPES - BUDGET BASIS**

Year ended September 30, 1996

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues - budget basis</b>			
Property taxes			
Real estate	\$ 189,400	\$ 185,726	\$ (3,674)
Personal property	48,000	53,801	5,801
Replacement tax	12,500	11,889	(611)
Other taxes			
Franchise - utilities and railroads	421,000	457,832	36,832
Sales taxes	1,689,000	1,699,193	10,193
Intangible taxes	8,000	476	(7,524)
Intergovernmental revenues			
State gasoline taxes	198,000	204,851	6,851
State library aid	-	-	-
Federal, state and local program advances and reimbursements	121,000	110,495	(10,505)
Special sewer assessments	-	-	-
Licenses and permits	137,000	144,302	7,302
Fines and penalties	195,900	166,493	(29,407)
Interest	45,000	29,360	(15,640)
Miscellaneous	53,050	42,780	(10,270)
Services charges			
Trash collection	290,000	299,724	9,724
<b>Total revenues - budget basis</b>	<b>3,407,850</b>	<b>3,406,922</b>	<b>(928)</b>
<b>Expenditures - budget basis</b>			
Current			
General government	625,510	510,209	115,301
Public safety	2,171,813	2,022,785	149,028
Streets and sewers	163,680	156,938	6,742
Health and sanitation	-	-	-
Library	-	-	-
Parks	-	-	-
Non-departmental Program expenses	309,525	328,375	(18,850)
Principal debt service	249,546	189,894	59,652
Interest debt service	59,687	58,380	1,307
<b>Total expenditures - budget basis</b>	<b>3,579,761</b>	<b>3,266,581</b>	<b>313,180</b>

The accompanying notes are an integral part of this statement.

Special Revenue Fund			Totals - (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 134,900	\$ 134,162	\$ (738)	\$ 324,300	\$ 319,888	\$ (4,412)
34,520	38,960	4,440	82,520	92,761	10,241
8,555	8,610	55	21,055	20,499	(556)
8,630	7,392	(1,238)	429,630	465,224	35,594
1,027,000	1,271,597	244,597	2,716,000	2,970,790	254,790
5,305	344	(4,961)	13,305	820	(12,485)
-	-	-	198,000	204,851	6,851
3,200	4,262	1,062	3,200	4,262	1,062
1,398,163	789,270	(608,893)	1,519,163	899,765	(619,398)
16,000	10,052	(5,948)	16,000	10,052	(5,948)
-	-	-	137,000	144,302	7,302
23,375	21,630	(1,745)	219,275	188,123	(31,152)
14,375	30,155	15,780	59,375	59,515	140
43,982	63,932	19,950	97,032	106,712	9,680
-	-	-	290,000	299,724	9,724
2,718,005	2,380,366	(337,639)	6,125,855	5,787,288	(338,567)
30,338	25,259	5,079	655,848	535,468	120,380
7,500	6,787	713	2,179,313	2,029,572	149,741
2,761,785	1,987,914	773,871	2,925,465	2,144,852	780,613
52,702	49,264	3,438	52,702	49,264	3,438
131,289	120,061	11,228	131,289	120,061	11,228
332,891	303,711	29,180	332,891	303,711	29,180
-	-	-	309,525	328,375	(18,850)
159,200	293,158	(133,958)	159,200	293,158	(133,958)
15,000	15,000	-	264,546	204,894	59,652
9,950	5,750	4,200	69,637	64,130	5,507
3,500,655	2,806,904	693,751	7,080,416	6,073,485	1,006,931

**CITY OF FESTUS, MISSOURI**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL -  
GENERAL AND SPECIAL REVENUE FUND TYPES - BUDGET BASIS - CONTINUED**

Year ended September 30, 1996

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Excess (deficiency) of revenues over expenditures - budget basis</b>	(171,911)	140,341	312,252
<b>Other financing sources (uses):</b>			
Operating transfers in	-	-	-
Operating transfers out	(254,338)	(254,338)	-
<b>Total fund equity and other credits at beginning of year - budget basis</b>	650,000	829,653	179,653
<b>Total fund equity and other credits at end of year - budget basis</b>	\$223,751	\$715,656	\$491,905

The accompanying notes are an integral part of this statement.

Special Revenue Fund			Totals - (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
(782,650)	(426,538)	356,112	(954,561)	(286,197)	668,364
254,338	254,338	-	254,338	254,338	-
-	-	-	(254,338)	(254,338)	-
1,304,575	957,130	(347,445)	1,954,575	1,786,783	(167,792)
\$776,263	\$784,930	\$ 8,667	\$1,000,014	\$1,500,586	\$500,572

**CITY OF FESTUS, MISSOURI**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN RETAINED EARNINGS -**  
**PROPRIETARY FUND TYPES**

Year ended September 30, 1996

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	Enterprise	Internal Service	
<b>Operating revenues</b>			
Water sales and sewer use charge	\$1,293,154	\$ -	\$1,293,154
Gas sales	65,724	-	65,724
Hanger rent	30,745	-	30,745
Service charges	-	56,909	56,909
<b>Total operating revenues</b>	<b>1,389,623</b>	<b>56,909</b>	<b>1,446,532</b>
<b>Operating expenses</b>			
Personal services	379,864	30,341	410,205
Materials and supplies	134,464	27,544	162,008
Heat, light and power	104,641	-	104,641
Contractual services	208,590	-	208,590
Depreciation and amortization	160,083	1,282	161,365
Other	132,531	-	132,531
<b>Total operating expenses</b>	<b>1,120,173</b>	<b>59,167</b>	<b>1,179,340</b>
<b>Operating income (loss)</b>	<b>269,450</b>	<b>(2,258)</b>	<b>267,192</b>
<b>Non-operating income (expenses)</b>			
Interest income	42,943	-	42,943
Interest expense	(246,641)	-	(246,641)
Joint venture loss (net) - before adding back depreciation on assets financed by grants from other governments	(37,450)	-	(37,450)
<b>Net income (loss)</b>	<b>28,302</b>	<b>(2,258)</b>	<b>26,044</b>
<b>Add depreciation on assets financed by grants from other governments</b>	<b>27,523</b>	<b>-</b>	<b>27,523</b>
<b>Increase (decrease) in retained earnings</b>	<b>55,825</b>	<b>(2,258)</b>	<b>53,567</b>
<b>Retained earnings , beginning of year</b>	<b>363,687</b>	<b>1,727</b>	<b>365,414</b>
<b>Retained earnings (deficit), end of year</b>	<b>\$ 419,512</b>	<b>\$ (531)</b>	<b>\$ 418,981</b>

The accompanying notes are an integral part of this statement.

CITY OF FESTUS, MISSOURI

COMBINED STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND TYPES

Year ended September 30, 1996

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
<b>Cash flows from operating activities:</b>			
Operating income (loss)	\$269,450	\$(2,258)	\$267,192
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	160,083	1,282	161,365
Change in assets and liabilities:			
Increase in service charges receivable	(14,489)	-	(14,489)
Increase in accrued interest receivable	(18,171)	-	(18,171)
Decrease in other accounts receivable	2,847	-	2,847
Decrease in prepaid expenses	1,639	1,199	2,838
Decrease in accounts payable	(17,674)	(1,517)	(19,191)
Increase in accrued liabilities	7,513	813	8,326
Increase in customer deposits	11,238	-	11,238
Increase in interfund payable	24,836	1,363	26,199
Decrease in other liabilities	(419)	-	(419)
<b>Net cash provided by operating activities</b>	<b>426,853</b>	<b>882</b>	<b>427,735</b>

The accompanying notes are an integral part of this statement.

**CITY OF FESTUS, MISSOURI**

**COMBINED STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND TYPES - CONTINUED**

Year ended September 30, 1996

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	Enterprise	Internal Service	
<b>Cash flows from financing activities:</b>			
Principal paid on notes payable	(20,000)	-	(20,000)
Interest on debt	(246,641)	-	(246,641)
<b>Net cash used in financing activities</b>	<b>(266,641)</b>	<b>-</b>	<b>(266,641)</b>
<b>Cash flows from investing activities:</b>			
Acquisition and construction of capital assets	(232,520)	-	(232,520)
Purchase of investments	(232,750)	-	(232,750)
Interest on investments	42,943	-	42,943
<b>Net cash used in investing activities</b>	<b>(422,327)</b>	<b>-</b>	<b>(422,327)</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(262,115)</b>	<b>882</b>	<b>(261,233)</b>
<b>Cash and restricted cash, beginning of year</b>	<b>364,719</b>	<b>696</b>	<b>365,415</b>
<b>Cash and restricted cash, end of year</b>	<b>102,604</b>	<b>1,578</b>	<b>104,182</b>
<b>ADD: Investments and restricted investments</b>	<b>736,241</b>	<b>-</b>	<b>736,241</b>
<b>Total cash and investments - restricted and unrestricted</b>	<b>\$838,845</b>	<b>\$1,578</b>	<b>\$840,423</b>

The accompanying notes are an integral part of this statement.

**CITY OF FESTUS, MISSOURI**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 1996

**Note A - Summary of Significant Accounting Policies**

The financial statements of the City of Festus, Missouri (the "City") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**Financial Reporting Entity**

The City is a municipality governed by an elected eight member council. As required by generally accepted accounting principles, these financial statements present the primary government of the City. In evaluating the financial reporting entity, management has considered all potential component units.

Included in the reporting entity:

Festus Public Library Foundation, Inc. - a component unit of the City of Festus. The purpose of the component unit is to establish future expansion and repair of the Library building, and to update and add to the collection of books, materials and equipment in the Library. Separate financial statements are not available for this component unit.

Excluded from the reporting entity:

Festus R-6 School District and the Jefferson Junior College District - These potential component units are separate legal entities and have separate elected boards. These potential component units are excluded from the reporting entity because the City is not financially accountable for their actions.

**Fund Accounting**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.



## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### Note A - Summary of Significant Accounting Policies (Continued)

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

#### Governmental Fund Types

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditures for specified purposes.

#### Proprietary Fund Types

Enterprise Fund - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to a commercial enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - The Internal Service Fund is used to account for financing of services provided by one department to other departments of the City on a cost-plus basis.

#### Fiduciary Fund Type

Agency Fund - Deferred Compensation Fund - Fiduciary Fund types are those used to account for assets when a governmental unit is functioning either as a trustee or an agent for another party. The Agency Fund is used to account for assets held by the City as an agent for individuals. This fund includes the City's deferred compensation plan which is administered by an insurance company.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note A - Summary of Significant Accounting Policies (Continued)**

**Account Groups**

General Fixed Assets Account Group - The General Fixed Assets Account Group is used to account for all fixed assets of the City, except those accounted for in the Enterprise Funds. No depreciation is recorded on general fixed assets.

General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to account for all unmatured long-term obligations of the City, except for debt accounted for in the Enterprise Funds.

**Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types and the agency fund. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### **Note A - Summary of Significant Accounting Policies (Continued)**

The City considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the General Fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, interest revenue and charges for services. Sales taxes collected and held by the state at year-end on behalf of the City also are recognized as revenue. Fines and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim on them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

#### **Budgets and Encumbrances**

Budgets are adopted on a cash basis. An annual appropriated budget is adopted for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year-end.

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### Note A - Summary of Significant Accounting Policies (Continued)

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

#### Cash Deposits and Investments

Deposits and investments are stated at cost, which approximates market.

Cash balances for all the City's funds are pooled and invested to the extent possible. Interest earned from such investments is allocated to each of the funds based on the fund's average cash and investments balance.

State statutes authorize the deposit of funds in banks and trust companies or the investment of funds in bonds or treasury certificates of the United States, other interest-bearing obligations guaranteed as to both principal and interest by the United States, bonds of the State of Missouri or of the City, or time certificates of deposit; provided however, that no such investment shall be purchased at a price in excess of par. Funds in the form of cash on deposit or time certificates of deposit are required to be insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by authorized investments held in the City's name at third-party banking institutions.

#### Inventory

Inventory of materials and supplies included in the Enterprise Fund, consisting principally of items held for consumption, are stated at the lower of cost or market, cost determined on the first-in, first-out method.

Purchases of materials and supplies in the Governmental Fund Types are charged to expenditures as incurred. Amounts of inventories in the Governmental Fund Types are immaterial.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note A - Summary of Significant Accounting Policies (Continued)**

**Interfund**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Fees for services or equipment rental charged by one fund to another are included in other revenue.

**Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond September 30, 1996 are recorded as prepaid expenses.

**Restricted Assets**

Special Revenue Funds - Certain capital improvements sales tax receivables are classified as restricted assets on the balance sheet because their use and availability is limited by the sales tax agreement with Jefferson County. The funds are to be used for capital improvements to maintain roads and become available upon the City's request for reimbursement of expenditures on an approved project.

Enterprise Fund - Certain proceeds of Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "Construction Fund" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "Debt Service Reserve Fund" account is used only for the payment of principal and interest on the revenue bonds and paying agent fees. The bond covenants also require the City to set aside an amount sufficient to pay the estimated cost of operating and maintaining the water and sewer system for one month.

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### Note A - Summary of Significant Accounting Policies (Continued)

The Water and Sewer Fund maintains separate cash and investment accounts for the purpose of segregating funds received for customer security deposits. Funds received in payment of customer deposits are recorded in these accounts. Refunds of customer deposits are paid from these accounts. Liabilities payable from restricted assets are reported separately to indicate that the source of payment is the restricted assets.

Restricted asset accounts are maintained in the General Fund and City Transportation Tax Fund for local use tax revenues received. The City has chosen to restrict the tax proceeds in anticipation of an appeal of the Supreme Court decision on the constitutionality of the statewide tax. The outcome of the appeal is not presently determinable; however, the City has acknowledged its responsibility to the State to refund the revenues in the event a decision is brought against the State that would require repayment of some or all of the taxes collected.

#### Fixed Assets

General fixed assets are recorded as expenditures in the Governmental Fund Types and, except for roads, bridges, curbs, gutters, drainage systems, lighting systems and similar public domain City improvements, are capitalized in the General Fixed Assets Account Group. Assets in this account group are recorded at cost, estimated historical cost where original historical cost is not available, or, in the case of contributed assets, at estimated fair market value at the time of acquisition. No depreciation is provided on general fixed assets.

Fixed assets of the Proprietary Funds are recorded generally at cost. Contributed assets are carried at estimated fair market value at the date of contribution, except assets contributed by other funds, which are recorded at the contributing fund's cost. For retirements or other dispositions of assets, the assets and related accumulated depreciation accounts are eliminated and the difference between the net carrying value and any proceeds received is included in income.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note A - Summary of Significant Accounting Policies (Continued)**

Depreciation is provided on the straight-line basis over the following estimated useful lives:

Building and improvements	15 - 40 years
Water and sewer systems and improvements	5 - 50 years
Machinery and equipment	5 - 12 years

**Property Taxes**

Property taxes are recorded as revenue in the fiscal year in which they are levied. Taxes levied and uncollected are carried as an asset of the applicable fund. An allowance has been established for the estimated uncollectible property taxes. The tax rate of \$.72 per one hundred dollars of assessed valuation is allocated as follows - \$.41 for general revenue purposes, \$.11 for maintaining and operating the City's park, \$.11 for maintaining and operating a public library and \$.09 for public health purposes.

The City's property tax calendar is as follows:

Property is assessed by the county on January 1 each year.

The tax levy ordinance is adopted and filed with the county clerk on or before September 1.

Property taxes are due to be collected on or before December 31. A lien is placed on any property which has delinquent taxes.

**Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note A - Summary of Significant Accounting Policies (Continued)**

**Long-Term Obligations**

Long-term debt related to capital lease obligations is reported in the General Long-term Debt Account Group. Revenue bonds which have been issued to fund capital projects of the Enterprise Funds are to be repaid from revenues of the Enterprise Funds and are recorded in the Enterprise Funds.

**Fund Equity**

Contributed capital recorded in the Enterprise Funds represents capital grants or contributions received from other City funds or other governmental units. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**Bond Discounts/Issuance Costs**

Bond discounts and issuance costs of the Enterprise Funds are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable.

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.



## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### **Note A - Summary of Significant Accounting Policies (Continued)**

##### **Total Columns on Combined Financial Statements**

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that the totals are presented only to facilitate financial analysis. Data in these columns are not intended to present financial position, results of operations, or changes in financial position in conformity with GAAP. Such data are not comparable to a consolidation and no interfund eliminations were made in its aggregation.

#### **Note B - Legal Compliance - Budgets**

In August, all departments submit requests for appropriation to the City's budget committee so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. During September, the budget is presented to the City Council for review. Prior to October 1, the budget is enacted by City Council through passage of an ordinance. Expenditures may not legally exceed budgeted appropriations at the activity level. Budgeted amounts in the accompanying financial statements include transfers and revisions to the original budget ordinance. The City Administrator is authorized to transfer appropriations between budget line items within departments. The City Council must approve transfers between funds and departments.

#### **Note C - Cash and Investments**

The City maintains a cash and investment pool that is available for use by all funds. Each fund's or fund type's share of the pool balance is reported in the financial statements as "cash and investments". Earnings from the pooled accounts are allocated monthly to each participating fund based on a formula that takes into consideration each fund's average balance in the pool. For purposes of reporting cash flows, the City considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

Note C - Cash and Investments (Continued)

At September 30, 1996, cash and investments consisted of the following:

	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>
Petty cash	\$ 900	\$ 900	\$ -
Cash in banks	34,675	33,513	1,162
Money market accounts and repurchase agreements	763,531	730,954	32,577
U.S. government securities	<u>1,534,690</u>	<u>407,210</u>	<u>1,127,480</u>
	<u>\$2,333,796</u>	<u>\$1,172,577</u>	<u>\$1,161,219</u>

Deposits

At year-end, the carrying amount of the City's deposits was \$148,205 and the bank balance was \$475,426. Of the bank balance \$100,000 was covered by federal depository insurance and \$375,426 was covered by collateral held by the pledging bank in the City's name.

In addition, investments in repurchase agreements totaling \$650,000 are included in the carrying value of the City's pooled money market deposits. The carrying amount of these deposits approximates market value.

Investments

The City's investments are categorized as either (1) insured or registered or securities held by the City or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

All investments held by the City and its component unit at September 30, 1996, including repurchase agreements, were classified as Category 1 investments and consisted of U.S. government securities. Investments of the City, other than repurchase agreements, are carried at a cost of \$1,534,690 and have a total market value of \$1,595,000. Investments held by the component unit at September 30, 1996 are carried at market, which approximates cost.

The City's agency fund investments include uninsured and unregistered investments in an insurance company's investment pool. Agency fund investments are reported in the financial statements at market value.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note C - Cash and Investments (Continued)**

Statutes require collateral pledged for deposits to be held in the City's name by the bank's trust department.

**Note D - Receivables**

Receivables at September 30, 1996 consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Total</u>
Receivables:				
Taxes	\$245,276	\$ 88,322	\$ -	\$333,598
Special assessments	8,232	92,478	-	100,710
Service charges	31,584	-	151,430	183,014
Federal and state assistance programs	23,801	73,055	-	96,856
Other	11,409	38,355	8,908	58,672
Interest	<u>44</u>	<u>4,568</u>	<u>47,123</u>	<u>51,735</u>
Gross receivables	320,346	296,778	207,461	824,585
Less allowance for uncollectibles on service charges	<u>(437)</u>	<u>-</u>	<u>(4,619)</u>	<u>(5,056)</u>
Net total receivables	<u>\$319,909</u>	<u>\$296,778</u>	<u>\$202,842</u>	<u>\$819,529</u>

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note E - Fixed Assets**

The following is a summary of changes in the components of the General Fixed Assets Account Group for the year ended September 30, 1996:

	Balances October 1, <u>1995</u>	<u>Additions</u>	Retire- ments	Balances September 30, <u>1996</u>
Land	\$1,009,202	\$ 51,855	\$ -	\$1,061,057
Buildings and improvements	2,263,263	61,033	-	2,324,296
Improvements other than buildings	302,600	268,706	-	571,306
Equipment	<u>3,380,000</u>	<u>142,814</u>	-	<u>3,522,814</u>
<b>Total</b>	<u><u>\$6,955,065</u></u>	<u><u>\$524,408</u></u>	<u><u>\$ -</u></u>	<u><u>\$7,479,473</u></u>

The following is a summary of proprietary fund-type fixed assets at September 30, 1996:

	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Vehicle Maintenance Fund</u>	<u>Totals</u>
Land	\$ 64,724	\$ 45,600	\$ -	\$ 110,324
Water system	3,032,911	-	-	3,032,911
Sewer system	1,570,025	-	-	1,570,025
Buildings and improvements	144,034	9,753	-	153,787
Tools and equipment	71,610	-	6,408	78,018
Automobiles and trucks	115,952	-	-	115,952
Furniture and fixtures	15,873	-	-	15,873
Airport improvements	-	290,080	-	290,080
Computer	4,967	-	-	4,967
	<u>5,020,096</u>	<u>345,433</u>	<u>6,408</u>	<u>5,371,937</u>
Less: accumulated depreciation	<u>(2,069,374)</u>	<u>(296,746)</u>	<u>(4,061)</u>	<u>(2,370,181)</u>
<b>Net fixed assets</b>	<u><u>\$2,950,722</u></u>	<u><u>\$ 48,687</u></u>	<u><u>\$2,347</u></u>	<u><u>\$ 3,001,756</u></u>

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### Note F - Risk Management

The City is a member of the Missouri Intergovernmental Risk Management Association ("MIRMA"), a state-wide governmental self-insurance pool which provides property, liability and workers' compensation coverages to its participating members in a single comprehensive multi-line package. The various lines of coverage are not available individually and the membership is limited to municipalities and municipally owned utilities. The City's policy covers all real and personal property owned by the City except sewer lines. The policy is for replacement cost and has a June 30 anniversary date.

MIRMA is funded by annual member assessments calculated at a rate per \$100 of annual payroll which applies to all lines of coverage on a composite basis. These funds are used to pay losses within specific risk retention limits shared equally by all members; purchase excess insurance which provides a transfer of catastrophic risk to private insurance carriers; purchase services such as claims administration, loss prevention and data processing; and pay administrative expenses. The City paid an assessment totaling \$90,066 for MIRMA's fiscal year ended June 30, 1996 and has paid an assessment totaling \$93,342 for the year ended June 30, 1995.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

**Note G - Long-term Debt**

The following is a summary of the changes in long-term debt for the year ended September 30, 1996:

	<u>Balances October 1, 1995</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Balances September 30, 1996</u>
General Long-term Debt Account Group:				
Special assessment bonds payable	\$ 65,000	\$ -	\$ 15,000	\$ 50,000
Capitalized lease obligations	1,102,836	-	185,798	917,038
Note payable	14,300	-	4,392	9,908
Use tax refund - long term	<u>-</u>	<u>226,000</u>	<u>-</u>	<u>226,000</u>
	1,182,136	226,000	205,190	1,202,946
Enterprise Funds:				
Revenue bonds payable	3,480,000	-	20,000	3,460,000
Less: unamortized discount on revenue bonds payable	<u>(54,752)</u>	<u>-</u>	<u>(2,784)</u>	<u>(51,968)</u>
	<u>3,425,248</u>	<u>-</u>	<u>17,216</u>	<u>3,408,032</u>
<b>Total</b>	<b><u>\$4,607,384</u></b>	<b><u>\$226,000</u></b>	<b><u>\$222,406</u></b>	<b><u>\$4,610,978</u></b>

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### Note G - Long-term Debt (Continued)

##### Bonds

On June 1, 1990, the City issued \$3,480,000 of Combined Waterwork and Sewerage Refunding and Improvement Revenue Bonds with interest ranging from 6.7% to 8.7% per annum to advance refund \$2,225,000 of outstanding 1988 series bonds with annual interest ranging from 6.0% to 7.6% and to extend and improve the combined waterworks and sewerage system of the City. Proceeds of \$2,096,000 plus other monies contributed by the City in the amount of \$203,000 were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 series bonds. Proceeds of \$640,000 were designated for construction of the combined waterworks and sewerage system. Proceeds of \$346,000 are included in the debt service reserve account. Remaining proceeds of \$133,000 were used to finance the bond issue.

The 1988 series bonds are considered to be defeased and the liability for those bonds has been removed from the proprietary fund type - enterprise fund and replaced by the 1990 series bonds. As of September 30, 1996 \$0 of the defeased 1988 series bonds were outstanding.

Bonds payable at September 30, 1996 are comprised of the individual issues described in the following paragraphs:

##### Special Assessments Combined Waterworks and Sewerage Systems Bonds, Series 1984:

These special assessment bonds are supported by a pledge of the City's full faith and credit. However, the related bond ordinance requires that as soon as any contract for extending or improving the combined waterworks and sewerage system has been completed, the City shall levy and assess all of the cost of such improvements on the property benefitted by such improvement. The amounts so levied and assessed shall be collected by the City and used to reimburse itself for the amount paid or to be paid by it on the bonds. The ordinance does not require establishing and maintaining a sinking fund or reserve account.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note G - Long-term Debt (Continued)**

Principal payments are payable annually on March 1 and are not subject to early redemption. Interest payments, payable semi-annually on March 1 and September 1, are at the interest rate of 10% per annum.

Combining Waterworks and Sewerage System Refunding and Improvement Revenue Bonds, Series 1990:

These revenue bonds mature serially through July 2015 and are subject to optional redemption beginning in 1996. Interest is payable semi-annually on January 1 and July 1 at rates ranging from 6.7% to 8.7% per annum.

The bonds are payable solely from the revenue derived by the City from the operation of its combined waterworks and sewerage system and are not a general obligation of the City.

Under the terms of the City ordinance authorizing the bond issue, monthly allocations of monies held in the Water and Sewer Enterprise Fund are required to be made to certain accounts of the fund as follows:

- To the Operation and Maintenance Account, an amount sufficient to pay the estimated cost of operating and maintaining the system during the ensuing 30-day period.
- To the Debt Service Fund Account, specified pro rata portions of principal and interest on the bonds becoming due at the next succeeding payment dates, plus agent fees.
- To the Construction Fund Account, proceeds of revenue bond issuances that are restricted for use in extending and improving the combined waterworks and sewerage system.
- To the Debt Service Reserve Fund Account, resources set aside to make up potential future deficiencies.



**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note G - Long-term Debt (Continued)**

The ordinance authorizing the bond issue also requires all revenues derived from the waterworks and sewerage system be segregated and kept separate from all other monies, revenues, funds and accounts of the City. The City does not have separate funds to segregate system earnings and funds from other City funds.

Also, under the rate covenant, the City must maintain and collect rates and charges for its services that will produce revenue sufficient to pay, among other things, operating costs, principal and interest and provide reasonable and adequate reserves. The City realized net income of \$45,389 from its waterworks sewerage system for the year ended September 30, 1996.

The covenant also requires that insurance be obtained to cover all system property. The system was insured at September 30, 1996.

The ordinance provides an acceleration of maturity in event of default which may be declared by owners of 25% in principal amount of the bonds then outstanding.

Revenue Bonds and Special Assessment Bonds debt service requirements to maturity as of September 30, 1996 are as follows:

	Revenue <u>bonds</u>	Special assessment <u>bonds</u>	<u>Total</u>
1997	\$ 35,000	\$15,000	\$ 50,000
1998 - 2002	475,000	35,000	510,000
2003 - 2007	805,000	-	805,000
2008 - 2012	1,160,000	-	1,160,000
2013 - 2015	<u>985,000</u>	<u>-</u>	<u>985,000</u>
	3,460,000	50,000	3,510,000
Less: unamortized discount	<u>(51,968)</u>	<u>-</u>	<u>(51,968)</u>
Net bonds outstanding	<u>\$3,408,032</u>	<u>\$50,000</u>	<u>\$3,458,032</u>

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note G - Long-term Debt (Continued)**

**Capital Leases**

During fiscal 1987 the City entered into a fifteen-year lease purchase agreement to finance the construction of a new City Hall building. The proceeds from the lease agreement were deposited into an escrow account and used by the City to pay for construction costs of the project. During fiscal 1994, the City refinanced the lease, resulting in a reduction of the interest rate from 7.85% per annum to 5.842% per annum on the unpaid balance over the remainder of the original lease period. The capital lease obligation is repaid from the General Fund in monthly installments. At the end of the lease term, ownership of the leased property will transfer to the City. The building has been recorded in the General Fixed Assets Account Group at a cost of \$1,474,409.

During fiscal 1993, the City entered into a lease purchase agreement for radio equipment. Repayments for the lease are monthly installments over a three-year period repaid out of the general fund with interest at 6.61% on the unpaid balance. The equipment has been capitalized in the General Fixed Asset Account Group at a cost of \$38,832.

On March 15, 1994, the City entered into a lease-purchase agreement for fire equipment contingent upon acceptance of delivery of the equipment in fiscal 1995. Delivery of the equipment was accepted in December 1994. Repayments for the lease consist of five equal payments, one upon delivery and four annual installments beginning March 1995, paid out of the general fund with interest at 4.1% on the unpaid balance. The equipment has been capitalized in the General Fixed Asset Account Group at a cost of \$427,506.

During fiscal 1995, the City entered into a lease purchase agreement for ballfield lights. Repayments for the lease are annual installments over a four-year period paid out of the general fund with interest at 6.0% on the unpaid balance. The equipment has been capitalized in the General Fixed Asset Account Group at a cost of \$31,886.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note G - Long-term Debt (Continued)**

Future minimum lease payments under the agreements at September 30, 1996 are as follows:

	<u>Building lease</u>	<u>Equipment leases</u>	<u>Total</u>
Year ending September 30:			
1997	\$157,770	\$ 80,449	\$ 238,219
1998	157,770	80,449	238,219
1999	157,770	-	157,770
2000	157,770	-	157,770
2001	157,770	-	157,770
Thereafter	<u>118,327</u>	<u>-</u>	<u>118,327</u>
Total minimum lease payments	907,177	160,898	1,068,075
Less: amounts representing interest	<u>138,222</u>	<u>12,815</u>	<u>151,037</u>
Present value of minimum lease payments	<u>\$768,955</u>	<u>\$148,083</u>	<u>\$ 917,038</u>

**Note Payable**

On September 8, 1993, the City entered into an agreement to purchase land for \$27,100. The terms of the agreement required a \$5,000 cash deposit to be paid to the sellers on October 1, 1993, with the remaining balance of \$22,100 plus interest at 8% per year to be paid to the sellers in 60 monthly installments of \$448 beginning October 1, 1993. The note is paid out of the General Fund and is secured by land.

**Use tax refund - long term**

This amount represents the long term portion of the City's liability for a refund of a previously collected local use tax. ( See Note P)

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note H - Deficit Fund Equity**

At September 30, 1996, the following funds had deficit fund equity:

	<u>Deficit Fund Equity</u>
Special Revenue Funds:	
Community Development Block Grant Phase II	\$ 412
FEMA Demolition	96,563
FEMA 404	430
Emergency (flood)	60,541
Community Development Block Grant	861
Law Enforcement Training	2,248
Proprietary Funds:	
Internal Service	531

These unreserved deficit fund equities are expected to be absorbed by appropriation of future city revenues or by future federal and state program advances.

**Note I - Excess of Expenditures and Expenses Over Appropriations**

Expenditures on the budgetary basis exceeded appropriations for the following governmental and proprietary funds:

	<u>Expenditures on cash/ budget basis</u>	<u>Appropriations</u>
Special Revenue Funds:		
FEMA Demolition	\$204,112	\$ 0
Federal Forfeitures Monies	8,962	0
Flood	45,224	22,650
Enterprise Fund:		
Airport	121,944	113,477

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note J - Interfund Assets/Liabilities**

Interfund receivable/payable balances at September 30, 1996, were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$229,116	\$ -
Special Revenue		
Law Enforcement Training	-	2,248
Health	-	16
Library	-	474
City Transportation Tax	-	4,734
County Transportation Tax	2,458	-
Flood	-	67,655
Community Development Block Grant	-	996
Section 404	-	431
FEMA Demolition	-	128,398
Community Development Block Grant Phase II	-	423
Enterprise Funds		
Airport	-	24,836
Internal Maintenance Fund	<u>-</u>	<u>1,363</u>
	<u>\$231,574</u>	<u>\$231,574</u>

**Note K - Festus-Crystal City Sewerage Treatment Commission**

The City of Festus and the City of Crystal City, Missouri participate in the Festus-Crystal City Sewerage Treatment Commission (the "Commission") which was formed for the purpose of operating and maintaining a sewerage treatment facility for the two cities. Both City councils appoint two members to the Commission. The City of Festus is committed to pay monthly to the Commission an amount equal to 60% of the previous month's costs of operation and maintenance of the shared facility and repairs and replacements of equipment as well as to contribute an additional \$500 per month. Crystal City is committed to pay the remaining 40% of described costs and additional contribution of \$350 per month. Complete financial statements of the Commission can be obtained

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note K - Festus-Crystal City Sewerage Treatment Commission (Continued)**

directly from their administrative offices. The City accounts for its participation in this joint venture under the equity method of accounting to reflect its 60% ownership of the Commission. The City's interest in the joint venture at September 30, 1996 is \$754,462 and its share of the Commission's net loss before adding back depreciation on assets financed by grants from other governments is \$37,450. Depreciation on assets financed by grants from other governments, \$27,523, is reflected in the Statement of Revenues, Expenses and Changes in Retained Earnings and is due to depreciation expense for fixed assets maintained by the Commission which were purchased with Commission assets. Depreciation expense is charged against contributed capital. For the year ended September 30, 1996, the City's cost for sewerage treatment services provided by the Commission was \$187,066.

**(The following paragraph is unaudited)**

The Festus-Crystal City Sewerage Commission maintains its accounts on the cash basis. Total assets and equity of the Commission at September 30, 1996 were both \$1,473,164. Commission management stated that no long-term liabilities were outstanding at September 30, 1996. For the year ended September 30, 1996, total receipts, disbursements and depreciation were \$311,880; \$311,777 and \$62,520, respectively, and total capital contributions were \$10,200, resulting in a net decrease in the Commission's equity of \$52,217.

**Note L - Enterprise Fund Segment Information**

Operations accounted for in the Enterprise Fund are financed and operated in a manner similar to private business enterprises. It is generally intended that the costs of providing goods or services to the general public on a continuing basis be financed and recovered primarily through user charges.

**Water and Sewer Fund** - The Water and Sewer Fund provides basic water and sewage services to the citizens of Festus, Missouri.

The assets of the Fund are applicable to both the water and the sewer utilities and the combined revenues of the utilities are pledged to all outstanding debt of the Fund.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note L - Enterprise Fund Segment Information (Continued)**

**Airport Fund** - The Airport Fund provides airport facilities to the citizens of Festus, Missouri to include the sale of gasoline and oil and hanger space.

	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Total</u>
Operating revenues	\$1,293,154	\$96,469	\$1,389,623
Depreciation and amortization	159,982	101	160,083
Operating income (loss)	286,439	(16,989)	269,450
Net income (loss)	45,389	(17,087)	28,302
Property, plant and equipment additions	229,332	3,188	232,520
Net working capital	436,721	3,672	440,393
Total assets	4,880,629	53,278	4,933,907
Bonds payable - net of bond discount	3,408,032	-	3,408,032
Total equity	1,216,858	27,524	1,244,382

**Note M - Employee Retirement Benefit Plan**

**Plan Description** - The City of Festus participates in the Missouri Local Government Employees Retirement Systems (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note M - Employee Retirement Benefit Plan (Continued)**

**Funding Status** - The City of Festus' full-time employees do not contribute to the pension plan. The political subdivision is required by state statute to contribute at an actuarially determined rate; the current rate is 4.1% (general) and 4.3% (police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

**Annual Pension Cost** - For 1996, the political subdivision's annual pension cost of \$79,333 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 1994 and/or 1995 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.0% per year, compounded annually, before retirement and 4.0% per year, compounded annually, after retirement, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.0% per year, depending on age, attributable to seniority/merit, and (d) pre- and post-retirement mortality based on the 1984 Group Annuity Mortality table set back no years for men and 6 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 29, 1996 was 15 years.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/94	\$74,013	100%	\$0
06/30/95	\$71,548	100%	\$0
06/30/96	\$79,333	100%	\$0



**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note M - Employee Retirement Benefit Plan (Continued)**

**Required Supplementary Information  
Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial Accrued Liability</u>	<u>(b-a) Unfunded Accrued Liability (UAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>[(b-a)/c] UAL as a Percentage of Covered Payroll</u>
02/28/94	\$1,880,265	\$1,671,410	\$(208,855)	112	\$1,735,762	-
02/28/95	2,117,722	1,865,355	(252,367)	114	1,732,251	-
02/29/96	2,355,226	2,117,314	(237,912)	111	1,998,670	-

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 29, 1996 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

**Note N - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's management and legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note O - Budgetary Data**

The City's budgetary basis of accounting differs from generally accepted accounting principles (GAAP), as used in presenting actual data for comparative purposes. For budgetary purposes, taxes are recognized as revenue in the year in which they become an enforceable lien on property. For GAAP purposes, taxes are recognized as revenue when both measurable and available. For budgetary purposes, expenditures are recognized when paid, while for GAAP purposes, expenditures are recognized when incurred. To provide a meaningful comparison of actual results with the budget, the actual results of operations are presented in the combined statement of revenues, expenditures, and changes in fund balances - budget and actual - general and special revenue fund types - budget basis in accordance with the budget basis of accounting.

The effects upon the 1996 financial statements from the different bases of revenue and expenditure recognition are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Revenues, GAAP basis -		
September 30, 1996	\$3,406,469	\$2,116,515
(Increase) Decrease in receivables, net	(6,026)	507,084
Increase (decrease) in deferred revenue	<u>6,479</u>	<u>(243,233)</u>
Revenues-budgetary basis -		
September 30, 1996	<u>3,406,922</u>	<u>2,380,366</u>
 Expenditures, GAAP basis-		
September 30, 1996	3,340,580	2,563,264
Decrease in prepaid expenses	(1,390)	(3,328)
Decrease in accounts payable	23,781	16,082
(Increase) Decrease in accrued payroll	(10,894)	1,713
(Increase) Decrease in accrued payroll taxes	(1,507)	372
Increase in use tax refund liability	(96,000)	(48,000)
Decrease in other liabilities	<u>12,011</u>	<u>276,801</u>
Expenditures-budgetary basis -		
September 30, 1996	<u>3,266,581</u>	<u>2,806,904</u>
 Excess (deficiency) of revenues over expenditures on budgetary basis -		
September 30, 1996	\$ <u>140,341</u>	\$ <u>(426,538)</u>

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1996

#### **Note P - Use Tax Refund Liability**

On March 27, 1996 the Supreme Court of Missouri deemed the 1.5 percent local use tax as unconstitutional. The City began collecting the 1.5 percent local use tax during fiscal year end 1992. The City has recorded all of these funds as revenue in the prior and current years. The probable method of repayment is the withholding of \$12,000 per month from subsequent sales tax remittances. The City's liability is \$370,000, of which \$144,000 has been recorded as a current liability and the remainder in the long term debt account group.

#### **Note Q - Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to full-time employees, permits them to defer a portion of their salary until future years. The City does not contribute to the plan. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors in an amount equal to the fair market value of the deferred account for each participant. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. Assets and liabilities of this plan are reported in the Agency Fund.

#### **Note R - Correction of Error**

In fiscal 1995, the City ascertained that the endowment assets of the Library Fund, a Special Revenue Fund, had been under the control of the Festus Public Library Foundation, Inc. an organization which is legally separate from the City, but whose relationship with City is such that inclusion in the City's financial statement is required in accordance with accounting and reporting standards for local governments. Accordingly, this entity and its related assets were recognized as a component unit in the fiscal 1995 financial statements. An error was made in recording the component unit on the 1995 financial statements. The 1996 financial statements correct the error made in the previous year.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1996

**Note S - Proprietary Funds**

Contributed capital was reduced by the current year's depreciation expense on fixed assets constructed from externally restricted grants.

The City applies to its proprietary activities all applicable GASB pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with GASB pronouncements.

**FEDERAL FINANCIAL ASSISTANCE**



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

(314) 432-6001  
Fax (314) 432-3130

## INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City), as of September 30, 1996 and for the year then ended, and have issued our report thereon dated December 6, 1996. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Office of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements of the City of Festus, Missouri taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.

*Brown Smith Wallace, L.L.C.*

December 6, 1996

**CITY OF FESTUS, MISSOURI**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

For the Year Ended September 30, 1996

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Recognized</u>	<u>Expendi- tures</u>
<u>Federal Emergency Management Agency</u>				
Passed through Missouri State Emergency Management Agency Disaster Assistance Program	83.516	*	\$ 40,868	\$234,137
Section 404		*	\$ 0	\$ 215
<u>Housing and Urban Development</u>				
Passed through Missouri Department of Economic Development: Community Development Block Grant Program (1)		*	\$326,500	\$327,625
<u>Other Federal Assistance</u>				
Drug Enforcement Agency		*	\$ 32,895	\$ 8,962
Department of Justice		*	\$ 89,426	\$ 89,426

\*Final amount not determinable  
(1)Major program



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

(314) 432-6001  
Fax (314) 432-3130

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL  
CONTROL STRUCTURE USED IN ADMINISTERING  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City), for the year ended September 30, 1996, and have issued our report thereon dated December 6, 1996. We have also audited the compliance of the City with requirements applicable to major federal financial assistance programs and have issued our report thereon dated December 6, 1996.

We conducted our audits in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement and whether the City complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended September 30, 1996, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the general-purpose financial statements of the City and on the compliance of the City with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general-purpose financial statements in a separate report dated December 6, 1996.



The management of the City of Festus, Missouri, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

General Requirements

Political Activities  
Civil Rights  
Cash Management  
Relocation Assistance and Real Property Acquisition  
Federal Financial Reports  
Allowable Costs/Cost Principles  
Drug-free Workplace Act  
Administrative Requirements

Specific Requirements

Types of Service Allowed or Unallowed  
Matching  
Special Tests and Provisions  
Claims for Advances and Reimbursement

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended September 30, 1996, the City expended 50% of its total federal financial assistance under major federal financial assistance programs as reported in the Schedule of Federal Financial Assistance.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we have considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the City's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we also noted other matters involving the internal control structure and its operation that we have reported to the management of the City of Festus, Missouri, in a separate letter dated December 6, 1996.

This report is intended for the information of management, members of the City Council, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

*Brown Smith Wallace, L.L.C.*

December 6, 1996



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

(314) 432-6001  
Fax (314) 432-3130

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH THE GENERAL REQUIREMENTS APPLICABLE  
TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City), as of and for the year ended September 30, 1996, and have issued our report thereon dated December 6, 1996.

We have applied procedures to test the City's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended September 30, 1996: political activity, civil rights, cash management, relocation assistance and real property acquisition, federal financial reports, allowable costs/cost principles, Drug-free Workplace Act and administrative requirements.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material or immaterial instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe the City had not complied, in all material respects, with those requirements.

This report is intended for the information of management, members of the City Council, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

*Brown Smith Wallace, L.L.C.*

December 6, 1996



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

(314) 432-6001  
Fax (314) 432-3130

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the general-purpose financial statements of the City of Festus, Missouri, as of and for the year ended September 30 1996, and have issued our report thereon dated December 6, 1996.

We have also audited the City of Festus, Missouri's compliance with the requirements governing types of services allowed or not allowed; matching; special tests and provisions; and claims for advances and reimbursements that are applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the year ended September 30, 1996. The management of the City of Festus is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Festus' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Festus, Missouri, complied, in all material respects, with the requirements governing types of services allowed or not allowed; matching; special tests and provisions; and claims for advances and reimbursements; that are applicable to its major federal financial assistance program for the year ended September 30, 1996.

This report is intended for the information of management, members of the City Council and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

*Brown Smith Wallace, L.L.C.*

December 6, 1996



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

1050 N. Lindbergh Blvd.  
St. Louis, MO 63132

(314) 432-6001  
Fax (314) 432-3130

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and  
Members of the City Council  
of the City of Festus, Missouri  
Festus, Missouri

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City), as of and for the year ended September 30 1996, and have issued our report thereon dated December 6, 1996.

In connection with our audit of the City's general-purpose financial statements and with our consideration of the City's internal control structure used to administer federal financial programs as required by Office of Management and Budget Circular A-128, "Audits of State and Local Government's," we selected certain transactions applicable to certain non-major federal programs for the year ended September 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; and any special tests and provisions, claims for advancements and reimbursements and amounts claimed or used for matching that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements.

This report is intended for the information of management, members of the City Council, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

*Brown Smith Wallace, L.L.C.*

December 6, 1996