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1-1-1998

## Financial Statements with Independent Auditors' Report, 1997

City of Festus

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**CITY OF FESTUS, MISSOURI**  
**FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**September 30, 1997**

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Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

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## INDEPENDENT AUDITORS' REPORT

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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, 1997. 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 and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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, 1997, 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 our report dated December 15, 1997 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

December 15, 1997



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
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, 1997 and have issued our report thereon dated December 15, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that

would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated January 29, 1998.

This report is intended for the information of the Honorable Mayor and Members of the City Council of the City of Festus, Missouri. However, this report is a matter of public record and its distribution is not limited.

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

December 15, 1997

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

September 30, 1997

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Proprietary</u>
	General	Special Revenue	Agency Fund	Airport
<b>ASSETS</b>				
Cash and investments	\$ 715,101	\$ 344,607	\$ -	\$ -
Receivables (net of allowance for uncollectible accounts)				
Taxes	249,555	128,875	-	-
Special assessments	6,358	56,412	-	-
Service charges	36,584	-	-	-
Federal and state assistance programs	13,929	-	-	-
Other	12,003	22,483	-	3,590
Interest	3,723	2,714	-	-
Inventory of supplies	1,514	-	-	-
Prepaid expenses	69,965	23,741	-	830
Due from other funds	148,695	-	-	-
Restricted cash and investments	-	746,477	-	-
Investments - deferred compensation plan	-	-	38,167	-
Capital improvements sales tax receivable	-	273,955	-	-
Interest in joint venture	-	-	-	-
Property, plant and equipment, net of accumulated depreciation	-	-	-	83,095
Construction in progress	-	-	-	-
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>\$1,257,427</b>	<b>\$1,599,264</b>	<b>\$38,167</b>	<b>\$87,515</b>

The accompanying notes are an integral part of this statement.

Fund Types			Account Groups		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only) Reporting Entity
Water and Sewer	Total Enterprise Funds	Internal Service	General Fix Assets	General Long-term Debt	Primary Government		
\$ 6,867	\$ 6,867	\$ -	\$ -	\$ -	\$ 1,066,575	\$ -	\$ 1,066,575
-	-	-	-	-	378,430	-	378,430
-	-	-	-	-	62,770	-	62,770
146,585	146,585	-	-	-	183,169	-	183,169
101,450	101,450	-	-	-	115,379	-	115,379
34,392	37,982	-	-	-	72,468	-	72,468
3,037	3,037	-	-	-	9,474	-	9,474
43,502	43,502	-	-	-	45,016	-	45,016
17,178	18,008	1,516	-	-	113,230	-	113,230
50,400	50,400	-	-	-	199,095	-	199,095
801,663	801,663	-	-	-	1,548,140	32,546	1,580,686
-	-	-	-	-	38,167	-	38,167
-	-	-	-	-	273,955	-	273,955
716,950	716,950	-	-	-	716,950	-	716,950
3,020,718	3,103,813	1,065	-	-	3,104,878	-	3,104,878
129,227	129,227	-	-	-	129,227	-	129,227
-	-	-	9,177,722	-	9,177,722	-	9,177,722
-	-	-	-	1,152,053	1,152,053	-	1,152,053
-	-	-	-	35,000	35,000	-	35,000
-	-	-	-	5,151	5,151	-	5,151
-	-	-	-	226,000	226,000	-	226,000
148,981	148,981	-	-	-	148,981	-	148,981
<b>\$5,220,950</b>	<b>\$5,308,465</b>	<b>\$2,581</b>	<b>\$9,177,722</b>	<b>\$1,418,204</b>	<b>\$18,801,830</b>	<b>\$32,546</b>	<b>\$18,834,376</b>



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

September 30, 1997

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Proprietary</u>
	General	Special Revenue	Agency Fund	Airport
<b>LIABILITIES</b>				
Accounts payable	\$ 137,191	\$ 68,223	\$ -	\$ 664
Accrued payroll and compensated absence payable	155,862	41,450	-	941
Accrued payroll taxes	11,567	5,131	-	72
Obligation under capital lease	-	-	-	-
Special assessment bonds with governmental commitment	-	-	-	-
Accrued interest	2,852	682	-	-
Customer deposits	-	128	-	-
Due to other funds	-	47,955	-	-
Deferred revenue	15,448	374,041	-	-
Use tax refund	96,000	48,000	-	-
Use tax refund - long term	-	-	-	-
Other liabilities	86,809	27,695	38,167	-
Revenue bonds payable, net of discount	-	-	-	-
Note payable	-	-	-	-
<b>Total liabilities</b>	<b>505,729</b>	<b>613,305</b>	<b>38,167</b>	<b>1,677</b>
<b>FUND EQUITY AND OTHER CREDITS</b>				
Contributed capital	-	-	-	134,423
Investment in general fixed assets	-	-	-	-
Retained earnings (deficit)	-	-	-	-
Reserved for revenue bonds	-	-	-	-
Unreserved	-	-	-	(48,585)
Fund balances	-	-	-	-
Reserved for inventory of supplies	-	-	-	-
Reserved for prepaid expenses	-	-	-	-
Reserved for encumbrances	2,176	9,050	-	-
Unreserved	749,522	976,909	-	-
<b>Total fund equity and other credits</b>	<b>751,698</b>	<b>985,959</b>	<b>-</b>	<b>85,838</b>
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<b>\$1,257,427</b>	<b>\$1,599,264</b>	<b>\$38,167</b>	<b>\$87,515</b>

The accompanying notes are an integral part of this statement.

Fund Types			Accounts Groups		Totals (Memorandum Only)	Component	Totals (Memorandum Only)
Water and Sewer	Total Enterprise Funds	Internal Service	General Fix Assets	General Long-term Debt	Primary Government	Unit	Reporting Entity
\$ 45,117	\$ 45,781	\$1,946	\$ -	\$ -	\$ 253,141	\$ -	\$ 253,141
34,992	35,933	1,705	-	-	234,950	-	234,950
3,459	3,531	255	-	-	20,484	-	20,484
-	-	-	-	1,152,053	1,152,053	-	1,152,053
-	-	-	-	35,000	35,000	-	35,000
51,015	51,015	-	-	-	54,549	-	54,549
151,931	151,931	-	-	-	152,059	-	152,059
151,140	151,140	-	-	-	199,095	-	199,095
-	-	-	-	-	389,489	-	389,489
-	-	-	-	-	144,000	-	144,000
-	-	-	-	226,000	226,000	-	226,000
1,401	1,401	-	-	-	154,072	-	154,072
3,470,816	3,470,816	-	-	-	3,470,816	-	3,470,816
-	-	-	-	5,151	5,151	-	5,151
3,909,871	3,911,548	3,906	-	1,418,204	6,490,859	-	6,490,859
662,923	797,346	-	-	-	797,346	-	797,346
-	-	-	9,177,722	-	9,177,722	-	9,177,722
346,000	346,000	-	-	-	346,000	-	346,000
302,156	253,571	(1,325)	-	-	252,246	-	252,246
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	11,226	-	11,226
-	-	-	-	-	1,726,431	32,546	1,758,977
1,311,079	1,396,917	(1,325)	9,177,722	-	12,310,971	32,546	12,343,517
\$5,220,950	\$5,308,465	\$2,581	\$9,177,722	\$1,418,204	\$18,801,830	\$32,546	\$18,834,376

**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, 1997

	General Fund	Special Revenue Fund
<b>Revenues:</b>		
Property taxes		
Real estate	\$ 207,740	\$ 150,218
Personal property	61,954	44,875
Replacement tax	11,280	8,169
Other taxes		
Franchise - utilities and railroads	468,397	8,171
Sales taxes	1,640,193	1,139,619
Intangible taxes	1,126	816
Intergovernmental revenues		
State gasoline taxes	223,026	-
State library aid	-	2,555
Federal, state and local program advances and reimbursements	80,122	527,235
Special sewer assessments	-	21,017
Licenses and permits	133,626	-
Fines and penalties	199,572	23,946
Interest	29,818	33,629
Miscellaneous	38,481	80,604
Services charges		
Trash collection	344,288	-
Total revenues	3,439,623	2,040,854

The accompanying notes are an integral part of this statement.

Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Reporting Entity
\$ 357,958	\$ -	\$ 357,958
106,829	-	106,829
19,449	-	19,449
476,568	-	476,568
2,779,812	-	2,779,812
1,942	-	1,942
223,026	-	223,026
2,555	-	2,555
607,357	-	607,357
21,017	-	21,017
133,626	-	133,626
223,518	-	223,518
63,447	1,677	65,124
119,085	-	119,085
344,288	-	344,288
5,480,477	1,677	5,482,154

**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, 1997

	General Fund	Special Revenue Fund
<b>Expenditures:</b>		
Current		
General government	460,025	101,099
Public safety	1,885,909	-
Streets and sewers	23,378	1,812,129
Health and sanitation	-	55,305
Library	-	143,395
Parks	-	401,581
Non-departmental	481,191	-
Principal debt service	194,531	36,365
Interest debt service	49,516	10,073
Total expenditures	3,094,550	2,559,947
<b>Excess (deficiency) of     revenues over expenditures</b>	345,073	(519,093)
<b>Other financing sources (uses):</b>		
Operating transfers in	-	380,579
Operating transfers out	(263,508)	(150,927)
Proceeds from capital lease obligation	-	478,500
<b>Excess (deficiency) of revenues and     other sources over (under) expenditures</b>	81,565	189,059
<b>Total fund equity and other credits, beginning of year</b>	670,133	796,900
<b>TOTAL FUND EQUITY AND OTHER CREDITS, END OF YEAR</b>	\$ 751,698	\$ 985,959

The accompanying notes are an integral part of this statement.

Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Reporting Entity
561,124	-	561,124
1,885,909	-	1,885,909
1,835,507	-	1,835,507
55,305	-	55,305
143,395	2,255	145,650
401,581	-	401,581
481,191	-	481,191
230,896	-	230,896
59,589	-	59,589
5,654,497	2,255	5,656,752
(174,020)	(578)	(174,598)
380,579	-	380,579
(414,435)	-	(414,435)
478,500	-	478,500
270,624	(578)	270,046
1,467,033	33,124	1,500,157
\$1,737,657	\$32,546	\$1,770,203

**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, 1997

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues - budget basis:</b>			
Property taxes			
Real estate	\$190,500	\$207,740	\$17,240
Personal property	57,000	61,954	4,954
Replacement tax	11,900	11,280	(620)
Other taxes			
Franchise - utilities and railroads	431,200	468,397	37,197
Sales taxes	1,556,000	1,634,338	78,338
Intangible taxes	8,000	1,126	(6,874)
Intergovernmental revenues			
State gasoline taxes	205,000	223,026	18,026
State library aid	-	-	-
Federal, state and local program advances and reimbursements	134,000	80,122	(53,878)
Special sewer assessments	-	-	-
Licenses and permits	145,000	133,626	(11,374)
Fines and penalties	180,800	199,572	18,772
Interest	25,000	29,818	4,818
Miscellaneous	47,600	38,481	(9,119)
Services charges			
Trash collection	320,000	344,288	24,288
<b>Total revenues - budget basis</b>	<b>3,312,000</b>	<b>3,433,768</b>	<b>121,768</b>
<b>Expenditures - budget basis:</b>			
Current			
General government	467,459	460,025	7,434
Public safety	1,921,120	1,896,450	24,670
Streets and sewers	20,787	23,378	(2,591)
Health and sanitation	-	-	-
Library	-	-	-
Parks	-	-	-
Non-departmental	438,000	390,849	47,151
Program expenses	-	-	-
Principal debt service	196,151	194,531	1,620
Interest debt service	49,516	49,516	-
<b>Total expenditures - budget basis</b>	<b>3,093,033</b>	<b>3,014,749</b>	<b>78,284</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)
144,100	150,218	6,118	334,600	357,958	23,358
39,520	44,875	5,355	96,520	106,829	10,309
8,555	8,169	(386)	20,455	19,449	(1,006)
8,030	8,171	141	439,230	476,568	37,338
950,000	1,139,619	189,619	2,506,000	2,773,957	267,957
4,805	816	(3,989)	12,805	1,942	(10,863)
-	-	-	205,000	223,026	18,026
3,200	2,555	(645)	3,200	2,555	(645)
127,875	631,565	503,690	261,875	711,687	449,812
16,000	21,017	5,017	16,000	21,017	5,017
-	-	-	145,000	133,626	(11,374)
20,675	23,946	3,271	201,475	223,518	22,043
13,550	33,629	20,079	38,550	63,447	24,897
521,010	80,604	(440,406)	568,610	119,085	(449,525)
-	-	-	320,000	344,288	24,288
1,857,320	2,145,184	287,864	5,169,320	5,578,952	409,632
82,462	101,099	(18,637)	549,921	561,124	(11,203)
80	-	80	1,921,200	1,896,450	24,750
1,886,160	1,781,201	104,959	1,906,947	1,804,579	102,368
54,652	55,305	(653)	54,652	55,305	(653)
143,627	143,395	232	143,627	143,395	232
401,254	401,581	(327)	401,254	401,581	(327)
-	-	-	438,000	390,849	47,151
-	-	-	-	-	-
33,600	36,365	(2,765)	229,751	230,896	(1,145)
10,150	10,073	77	59,666	59,589	77
2,611,985	2,529,019	82,966	5,705,018	5,543,768	161,250



**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, 1997

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Excess (deficiency) of revenues over expenditures - budget basis</b>	218,967	419,019	200,052
<b>Other financing sources (uses):</b>			
Operating transfers in	-	-	-
Operating transfers out	(210,371)	(263,508)	(53,137)
Proceeds from capital lease obligation	-	-	-
<b>Total fund equity and other credits at beginning of year - budget basis</b>	715,656	715,656	-
<b>Total fund equity and other credits at end of year - budget basis</b>	\$724,252	\$871,167	\$146,915

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)
(754,665)	(383,835)	370,830	(535,698)	35,184	570,882
176,449	380,579	204,130	176,449	380,579	204,130
-	(150,927)	(150,927)	(210,371)	(414,435)	(204,064)
-	478,500	478,500	-	478,500	478,500
784,930	784,930	-	1,500,586	1,500,586	-
\$206,714	\$1,109,247	\$902,533	\$930,966	\$1,980,414	\$1,049,448

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

Year ended September 30, 1997

	Proprietary Fund Types				Totals (Memorandum Only)
	Airport	Water and Sewer	Total Enterprise Funds	Internal Service	
<b>Operating revenues</b>					
Water sales and sewer use charge	\$ -	\$1,340,463	\$1,340,463	\$ -	\$1,340,463
Gas sales	99,833	-	99,833	-	99,833
Hanger rent	25,068	-	25,068	-	25,068
Service charges	-	-	-	58,966	58,966
Other	-	162,175	162,175	-	162,175
<b>Total operating revenues</b>	<b>124,901</b>	<b>1,502,638</b>	<b>1,627,539</b>	<b>58,966</b>	<b>1,686,505</b>
<b>Operating expenses</b>					
Personal services	18,953	398,662	417,615	32,078	449,693
Materials and supplies	700	83,630	84,330	26,400	110,730
Heat, light and power	12,798	101,852	114,650	-	114,650
Contractual services	4,541	247,305	251,846	-	251,846
Depreciation and amortization	564	167,106	167,670	1,282	168,952
Other	92,898	163,640	256,538	-	256,538
<b>Total operating expenses</b>	<b>130,454</b>	<b>1,162,195</b>	<b>1,292,649</b>	<b>59,760</b>	<b>1,352,409</b>
<b>Operating income (loss)</b>	<b>(5,553)</b>	<b>340,443</b>	<b>334,890</b>	<b>(794)</b>	<b>334,096</b>
<b>Non-operating income (expenses)</b>					
Interest income	-	57,556	57,556	-	57,556
Interest expense	-	(236,271)	(236,271)	-	(236,271)
Joint venture loss (net) - before adding back depreciation on assets financed by grants from other governments	-	(37,512)	(37,512)	-	(37,512)
<b>Income (loss) before transfers</b>	<b>(5,553)</b>	<b>124,216</b>	<b>118,663</b>	<b>(794)</b>	<b>117,869</b>
Operating transfers in	63,868	-	63,868	-	63,868
Operating transfers out	-	(30,000)	(30,000)	-	(30,000)
<b>Net income (loss)</b>	<b>58,315</b>	<b>94,216</b>	<b>152,531</b>	<b>(794)</b>	<b>151,737</b>
<b>Add depreciation on assets financed by grants from other governments</b>	<b>-</b>	<b>27,523</b>	<b>27,523</b>	<b>-</b>	<b>27,523</b>
<b>Increase (decrease) in retained earnings</b>	<b>58,315</b>	<b>121,739</b>	<b>180,054</b>	<b>(794)</b>	<b>179,260</b>
<b>Retained earnings (deficit), beginning of year</b>	<b>(106,900)</b>	<b>526,417</b>	<b>419,517</b>	<b>(531)</b>	<b>418,986</b>
<b>Retained earnings (deficit), end of year</b>	<b>\$ (48,585)</b>	<b>\$ 648,156</b>	<b>\$ 599,571</b>	<b>\$ (1,325)</b>	<b>\$ 598,246</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, 1997

	Proprietary Fund Types				Totals (Memorandum Only)
	Airport	Water and Sewer	Total Enterprise Funds	Internal Service	
<b>Cash flows from operating activities:</b>					
Operating income (loss)	\$(5,553)	\$340,443	\$334,890	\$(794)	\$334,096
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	564	167,106	167,670	1,281	168,951
Change in assets and liabilities:					
Decrease in service charges receivable	-	234	234	-	234
Decrease in accrued interest receivable	-	44,086	44,086	-	44,086
Decrease (increase) in other accounts receivable	530	(29,604)	(29,074)	-	(29,074)
Increase in grants receivable	-	(101,450)	(101,450)	-	(101,450)
Increase in prepaid expenses	(359)	(10,042)	(10,401)	(1,516)	(11,917)
Increase in interfund receivable	-	(50,400)	(50,400)	-	(50,400)
Increase in accounts payable	614	28,999	29,613	1,413	31,026
Increase in accrued liabilities	145	(5,100)	(4,955)	(599)	(5,554)
Increase in customer deposits	-	8,314	8,314	-	8,314
Increase (decrease) in interfund payable	(24,836)	151,140	126,304	(1,363)	124,941
Decrease in other liabilities	-	(37)	(37)	-	(37)
<b>Net cash provided by (used in) operating activities</b>	<b>(28,895)</b>	<b>543,689</b>	<b>514,794</b>	<b>(1,578)</b>	<b>513,216</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, 1997

	Proprietary Fund Types				Totals (Memorandum Only)
	Airport	Water and Sewer	Total Enterprise Funds	Internal Service	
<b>Cash flows from financing activities:</b>					
Interest on debt	-	(231,853)	(231,853)	-	(231,853)
Transfers	63,868	-	63,868	-	63,868
<b>Net cash provided from (used in) financing activities</b>	63,868	(231,853)	(167,985)	-	(167,985)
<b>Cash flows from investing activities:</b>					
Acquisition and construction of capital assets	(34,973)	(399,707)	(434,680)	-	(434,680)
Purchase of investments	-	(2,639,422)	(2,639,422)	-	(2,639,422)
Sale of investments	-	2,574,000	2,574,000	-	2,574,000
Interest on investments	-	57,556	57,556	-	57,556
<b>Net cash used in investing activities</b>	(34,973)	(407,573)	(442,546)	-	(442,546)
<b>INCREASE (DECREASE) IN CASH</b>	-	(95,737)	(95,737)	(1,578)	(97,315)
<b>Cash and restricted cash, beginning of year</b>	-	102,604	102,604	1,578	104,182
<b>Cash and restricted cash, end of year</b>	-	6,867	6,867	-	6,867
<b>Investments and restricted investments</b>	-	801,663	801,663	-	801,663
<b>Total cash and investments - restricted and unrestricted</b>	\$ -	\$808,530	\$808,530	\$ -	\$808,530

The accompanying notes are an integral part of this statement.

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

September 30, 1997

**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 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, 1997

#### 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, 1997

#### 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 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.

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, 1997

#### **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, 1997

#### 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

Inventories of materials and supplies included in the Enterprise Funds, 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, 1997

#### 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, 1997 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 Funds - 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.

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.

# CITY OF FESTUS, MISSOURI

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1997

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

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.

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

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1997

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

##### 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 \$.74 per one hundred dollars of assessed valuation is allocated as follows - \$.41 for general revenue purposes, \$.12 for maintaining and operating the City's park, \$.12 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.

##### 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.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

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

**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.

**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 generally accepted accounting principles. Such data are not comparable to a consolidation and no interfund eliminations were made in its aggregation.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

**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.

At September 30, 1997, cash and investments consisted of the following:

	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>
Petty cash	\$ 900	\$ 900	\$ -
Cash in banks	30,424	27,957	2,467
Money market accounts and repurchase agreements	346,407	145,734	200,673
U.S. government securities	<u>2,236,984</u>	<u>891,984</u>	<u>1,345,000</u>
	<u>\$2,614,715</u>	<u>\$1,066,575</u>	<u>\$1,548,140</u>

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1997

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

##### Deposits

At September 30, 1997, the carrying amount of the City's deposits was \$151,832 and the bank balance was \$180,678. Of the bank balance, \$100,000 was covered by federal depository insurance and \$80,678 was covered by collateral held by the pledging bank in the City's name.

In addition, investments in repurchase agreements totaling \$225,000 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 for 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, 1997, 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 \$2,236,984 and have a total market value of \$2,271,000. Investments held by the component unit at September 30, 1997 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.

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



**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

**Note D - Receivables**

Receivables at September 30, 1997 consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Airport</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:					
Taxes	\$249,555	\$ 128,875	\$ -	\$ -	\$ 378,430
Special assessments	6,358	56,412	-	-	62,770
Service charges	37,021	-	-	151,204	188,225
Federal and state assistance programs	13,929	-	-	101,450	115,379
Other	12,003	22,483	3,590	34,392	72,468
Interest	<u>3,723</u>	<u>2,714</u>	<u>-</u>	<u>3,037</u>	<u>9,474</u>
Gross receivables	322,589	210,484	3,590	290,083	826,746
Less allowance for uncollectibles on service charges	<u>(437)</u>	<u>-</u>	<u>-</u>	<u>(4,619)</u>	<u>(5,056)</u>
Net total receivables	<u>\$322,152</u>	<u>\$210,484</u>	<u>\$3,590</u>	<u>\$285,464</u>	<u>\$821,690</u>

**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, 1997:

	<u>Balances October 1, 1996</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Revaluation</u>	<u>Balances September 30, 1997</u>
Land	\$1,061,057	\$ -	\$ -	\$ -	\$1,061,057
Buildings and improvements	2,895,602	419,413	-	1,724,849	5,039,864
Equipment	<u>3,522,814</u>	<u>117,059</u>	<u>-</u>	<u>(563,072)</u>	<u>3,076,801</u>
Total	<u>\$7,479,473</u>	<u>\$536,472</u>	<u>\$ -</u>	<u>\$1,161,777</u>	<u>\$9,177,722</u>

In fiscal year 1997, the City contracted with an independent valuation company to inventory and determine original cost of all fixed assets owned by the City. Based on this inventory an adjustment of \$1,161,777 was made to the general fixed asset account group.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

**Note E - Fixed Assets (Continued)**

The following is a summary of proprietary fund type fixed assets at September 30, 1997:

	<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	3,169,726	-	-	3,169,726
Sewer system	1,630,818	-	-	1,630,818
Buildings and improvements	144,034	9,753	-	153,787
Tools and equipment	71,611	-	6,408	78,019
Automobiles and trucks	155,444	-	-	155,444
Furniture and fixtures	15,873	-	-	15,873
Airport improvements	-	325,052	-	325,052
Computer	4,967	-	-	4,967
Construction in progress	<u>129,227</u>	<u>-</u>	<u>-</u>	<u>129,227</u>
	<u>5,386,424</u>	<u>380,405</u>	<u>6,408</u>	<u>5,773,237</u>
Less accumulated depreciation	<u>(2,236,479)</u>	<u>(297,310)</u>	<u>(5,343)</u>	<u>(2,539,132)</u>
Net fixed assets	<u>\$3,149,945</u>	<u>\$83,095</u>	<u>\$1,065</u>	<u>\$3,234,105</u>

**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 \$147,124 for MIRMA's fiscal year ended June 30, 1997 and has paid an assessment totaling \$90,066 for the year ended June 30, 1996.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

**Note G - Long-term Debt**

The following is a summary of the changes in long-term debt for the year ended September 30, 1997:

	<u>Balances October 1, 1996</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Balances September 30, 1997</u>
General Long-term Debt				
Account Group:				
Special assessment				
bonds payable	\$ 50,000	\$ -	\$ 15,000	\$ 35,000
Capitalized lease				
obligations	917,038	478,500	243,485	1,152,053
Note payable	9,908	-	4,757	5,151
Use tax refund - long term	<u>226,000</u>	<u>-</u>	<u>-</u>	<u>226,000</u>
	<u>1,202,946</u>	<u>478,500</u>	<u>263,242</u>	<u>1,418,204</u>
Enterprise Funds:				
Revenue bonds payable	3,460,000	3,520,000	3,460,000	3,520,000
Less unamortized				
discount on revenue				
bonds payable	<u>(51,968)</u>	<u>-</u>	<u>(2,784)</u>	<u>(49,184)</u>
	<u>3,408,032</u>	<u>3,520,000</u>	<u>3,457,216</u>	<u>3,470,816</u>
<b>Total</b>	<u><b>\$4,610,978</b></u>	<u><b>\$3,998,500</b></u>	<u><b>\$3,720,458</b></u>	<u><b>\$4,889,020</b></u>

**Bonds**

On June 1, 1997, the City issued \$3,520,000 of Combined Waterworks and Sewerage System Refunding Revenue Bonds with interest ranging from 4.0% to 5.4% per annum to refund \$3,460,000 of outstanding 1990 series bonds with annual interest ranging from 6.7% to 8.7%. Proceeds of \$3,445,158 plus other monies contributed by the City in the amount of \$157,458 were used to pay off the principal and interest due on the 1990 series bonds. Remaining proceeds of \$70,322 were used to finance the bond issue. The refunding reduced total debt service payments over the next 18 years by \$700,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$445,500.

Bonds payable at September 30, 1997 are comprised of the individual issues described in the following paragraphs:

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

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

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.

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.

Combined Waterworks and Sewerage System Refunding Revenue Bonds, Series 1997:

These revenue bonds mature serially through July 2015 and are subject to optional redemption beginning in 2003. Interest is payable semi-annually on January 1 and July 1 at rates ranging from 4.0% to 5.4% 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 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 Debt Service Reserve Account, resources set aside to make up potential future deficiencies.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

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

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, current operating costs, principal and interest and provide reasonable and adequate reserves. The City realized net income before transfers of \$2,630 from its waterworks sewerage system for the year ended September 30, 1997.

The covenant also requires that insurance be obtained to cover all system property. The system was insured at September 30, 1997.

Revenue Bonds and Special Assessment Bonds debt service requirements to maturity as of September 30, 1997 are as follows:

	Revenue <u>bonds</u>	Special assessment <u>bonds</u>	<u>Total</u>
1998	\$ 70,000	\$15,000	\$ 85,000
1999 - 2003	675,000	20,000	695,000
2004 - 2008	925,000	-	925,000
2009 - 2013	1,205,000	-	1,205,000
2014 - 2015	<u>645,000</u>	<u>-</u>	<u>645,000</u>
	3,520,000	35,000	3,555,000
Less unamortized discount	<u>(49,184)</u>	<u>-</u>	<u>(49,184)</u>
Net bonds outstanding	<u>\$3,470,816</u>	<u>\$35,000</u>	<u>\$3,505,816</u>

**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. 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.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

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

During fiscal 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.

During fiscal 1997, the City entered into a lease-purchase agreement for ballfield lights. Repayments for the lease are monthly installments over a five year period paid out of the park fund with interest at 5.0% on the unpaid balance. The equipment has been capitalized in the General Fixed Asset Account Group at a cost of \$120,500.

During fiscal 1997, the City entered into a lease purchase agreement for the Public Works Building Renovation. Repayments for the lease are monthly installments over a five year period with half of the payment to be paid out of the Special Revenue Fund and half from the Water and Sewer Enterprise Fund with interest at 5.25%. The leasehold improvements have been capitalized in the General Fixed Asset Account Group at a cost of \$358,000.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

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

Future minimum lease payments under the agreements at September 30, 1997 are as follows:

	<u>Building leases</u>	<u>Equipment leases</u>	<u>Total</u>
Year ending September 30:			
1998	\$ 232,537	\$ 106,322	\$ 338,859
1999	239,333	28,225	267,558
2000	239,333	28,225	267,558
2001	239,333	28,225	267,558
2002	<u>152,380</u>	<u>11,760</u>	<u>164,140</u>
 Total minimum lease payments	 1,102,916	 202,757	 1,305,673
 Less amounts representing interest	 <u>134,320</u>	 <u>19,300</u>	 <u>153,620</u>
 Present value of minimum lease payments	 <u>\$ 968,596</u>	 <u>\$ 183,457</u>	 <u>\$ 1,152,053</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, 1997

**Note H - Deficit Fund Equity**

At September 30, 1997, the following funds had deficit fund equity:

	<u>Deficit Fund Equity</u>
Special Revenue Funds:	
Community Development Block Grant Phase II	\$ 176
Emergency (flood) Community Development Block Grant	42,428
Library Fund	682
	1,237
Proprietary Funds:	
Internal Service	1,326

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:		
Federal Forfeitures Monies	\$ 13,520	\$ 11,900
LETF Computer Grant	12,237	0
U. E. Building Rehab Construction Fund	351,336	331,550



**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

**Note J - Interfund Assets/Liabilities**

Interfund receivable/payable balances at September 30, 1997, were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$148,695	\$ -
Special Revenue		
City Transportation Tax	-	1,700
Flood	-	45,277
Community Development Block Grant	-	792
Community Development Block Grant Phase II	-	186
Enterprise Fund		
Water and Sewer	50,400	151,140

**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 directly from its 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, 1997 is \$716,950 and its share of the Commission's net loss before adding back depreciation on assets financed by grants from other governments is \$37,512. 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, 1997, the City's cost for sewerage treatment services provided by the Commission was \$209,203.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

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

(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, 1997 were both 1,420,844. Commission management stated that no long-term liabilities were outstanding at September 30, 1997. For the year ended September 30, 1997, total receipts, disbursements and depreciation were \$358,872; \$348,672 and \$62,520, respectively, and total capital contributions were \$10,200, resulting in a net decrease in the Commission's equity of \$52,320.

**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.

**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	\$1,502,638	\$124,901	\$1,627,539
Depreciation and amortization	167,106	-	167,106
Operating income (loss)	340,443	(5,553)	334,890
Net income (loss)	94,216	58,315	152,531
Property, plant and equipment additions	399,707	34,973	434,680
Net working capital	403,411	2,743	406,154
Total assets	5,220,950	87,515	5,308,465
Bonds payable - net of bond discount	3,470,816	-	3,470,816
Total equity	1,311,079	85,838	1,396,917

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

**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.

**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 3.7% (general) and 4.7% (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 1997, the political subdivision's annual pension cost of \$83,509 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 1995 and/or 1996 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 28, 1997 was 15 years.

**CITY OF FESTUS, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 1997

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

**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>
06/30/95	\$71,548	100%	\$0
06/30/96	\$79,333	100%	\$0
06/30/97	\$83,509	100%	\$0

**Required Supplementary Information  
Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial 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>
02/28/95	\$2,117,722	\$1,865,355	\$(252,367)	114%	\$1,732,251	-
02/28/96	2,355,226	2,117,314	(237,912)	111	1,998,670	-
02/29/97	2,675,331	2,329,130	(346,201)	115	2,054,343	-

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, 1997

**Note O - Budgetary Data**

The City's budgetary basis of accounting differs from generally accepted accounting principles (GAAP). 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 1997 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, 1997	\$3,439,623	\$2,040,854
(Increase) Decrease in receivables, net	(2,240)	86,294
Increase (decrease) in deferred revenue	<u>(3,615)</u>	<u>18,036</u>
Revenues-budgetary basis -		
September 30, 1997	<u>3,433,768</u>	<u>2,145,184</u>
Expenditures, GAAP basis-		
September 30, 1997	3,094,550	2,559,947
Increase in prepaid expenses	28,720	10,045
Increase in accounts payable	(87,913)	(40,914)
(Increase) Decrease in accrued payroll	(2,331)	1,392
(Increase) Decrease in accrued payroll taxes	(98)	(511)
Increase in use tax refund liability	-	-
Increase in other liabilities	<u>(18,179)</u>	<u>(940)</u>
Expenditures-budgetary basis -		
September 30, 1997	<u>3,014,749</u>	<u>2,529,019</u>
Excess (deficiency) of revenues over expenditures on budgetary basis -		
September 30, 1997	\$ <u>419,019</u>	\$ <u>(383,835)</u>

## CITY OF FESTUS, MISSOURI

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1997

#### **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.

**FEDERAL FINANCIAL ASSISTANCE**



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

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## 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, 1997 and for the year then ended, and have issued our report thereon dated December 15, 1997. 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 U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 15, 1997



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

Year Ended September 30, 1997

<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 Demolition	83.516	\$122,147	\$90,311	1,825
<u>Housing and Urban Development</u>				
Passed through Missouri Department of Economic Development: Community Development Block Grant Program	14.228	*	8,607	8,607
<u>Federal Aid Urban Program(1)</u>				
Passed through Missouri State Highway and Transportation		684,399	299,300	684,399
<u>Other Federal Assistance</u>				
Drug Enforcement Agency	16.005	*	7,824	12,081
Department of Justice	16,711	*	78,784	78,784
*Final amount not determinable (1)Major program				



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Festus, Missouri (the City) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1997. The City's major programs are identified in the accompanying summary of audit results. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express in opinion of the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audits does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1997.

#### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable of federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal controls components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited 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 over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Honorable Mayor and Members of the City Council of the City of Festus, Missouri. However, this report is matter of public record and its distribution is not limited.

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

December 15, 1997

**CITY OF FESTUS, MISSOURI**  
**SUMMARY OF AUDIT RESULTS**  
**SEPTEMBER 30, 1997**

1. The auditors' report expresses an unqualified opinion on the general-purpose financial statements of the City of Festus.
2. No instances of noncompliance material to the financial statements of the City of Festus were disclosed during the audit.
3. The auditors' report on compliance for the major federal award programs for the City of Festus expresses an unqualified opinion.
4. The programs tested as major programs included: Federal Aid Urban Program.
5. The threshold for distinguishing Types A and B programs was \$300,000.
6. City of Festus was not determined to be low-risk auditee.