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1-1-1994

## Financial Statements with Independent Auditors' Report, 1993

City of Festus

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CITY OF FESTUS, MISSOURI  
FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT

September 30, 1993

**Brown  
Smith  
Wallace  
Librach &  
Gordon**

*Certified Public Accountants  
Consultants and Advisors*

City of Festus, Missouri

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**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Members of the City Council  
of the City of 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, 1993, as listed in the table of contents. 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. 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, 1993, 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.

*Brown, Smith, Wallace, Librach & Gordon*

St. Louis, Missouri  
December 22, 1993

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**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

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, 1993, and have issued our report thereon dated December 22, 1993.

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, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Applications

Cash Receipts  
Purchasing and Receiving  
Cash Disbursements  
Payroll  
Property and Equipment  
Notes and Bonds Payable  
Financial Statements and Reports

Controls Used in Administering Compliance With Laws and Regulations

State Statutes  
Budgeting  
Political Activity  
Civil Rights  
Cash Management  
Federal Financial Reports  
Allowable Costs/Cost Principles  
Drug-Free Workplace Act  
Administrative Requirements

For all of the internal control structure categories listed above, 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.

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.

1. Control of Checks

In prior years, recommendations have been made concerning the inadequacy of controls to account for void and manual check numbers. During our audit, we noted that void and manual check numbers were not accounted for on a current basis. In addition, we noted that the blank check stock is stored in an unsecured area. The absence of proper controls for checks increases the risk of unauthorized use of the City's cash.

Recommendation:

We recommend that blank checks be kept in a secure place, and a custodian be appointed to control access to the checks. The custodian should be independent of the check writing process, and should maintain a record of all check numbers, unused and used, including voided, spoiled and manual checks.

2. Review of Accounting Transactions

We noted that City management does not perform a periodic review of accounting transactions to ensure they have been recorded properly. Consequently, we noted many accounting errors and misclassifications which were undetected until the time of our audit. Transactions must be properly recorded to ensure the accounting records adequately reflect the City's financial position.

Recommendation:

We recommend all accounting entries be reviewed for accuracy and propriety on a monthly basis by a designated member of City management.

3. Accounting for Payroll Withholdings

We noted that periodic reconciliations of payroll withholding accounts are not prepared. Such reconciliations are necessary to ensure amounts remitted are equal to amounts withheld, and to ensure remittances are made on a timely basis. We also noted one instance in which payroll withholding taxes were remitted prior to the date they were withheld.

Recommendation:

We recommend that reconciliations of withholding accounts be prepared on a regular basis by a designated individual. The reconciliations should compare balances between the general ledger, accounts payable subsidiary ledger and payroll subsidiary ledger. Additionally, remittances should not be made until the amounts have been withheld.

4. Proprietary Funds - Accounting for Long-term Debt, Fixed Assets and Depreciation

We noted the following improper accounting procedures in the Proprietary Funds:

A) Long-term Debt

- New acquisitions of long-term debt are not recorded on the City's balance sheet.
- Repayments of long-term debt principal are recorded as expense rather than as a reduction of debt.

B) Fixed Assets

- Acquisitions of fixed assets are expensed, rather than capitalized, regardless of cost.
- Depreciation expense is not recorded.

Recommendation:

In order to ensure proper accounting for Proprietary Fund fixed assets, long-term debt and expenses, we recommend the following:

- A) A long-term debt liability account should be established to record each long-term debt item and the related repayments of these debts.
- B) Fixed asset acquisitions which meet the requirements of the City's capitalization policy should be recorded as assets on the City's balance sheet and annual depreciation calculated as appropriate.



## 5. Controls Over Cash Receipts

We noted the following areas in which cash receipts controls were inadequate:

- A) The individual who prepares the bank reconciliations has access to cash receipts and to the cash receipts accounting records.
- B) A cash receipts listing is not prepared to control cash received in the mail.

The absence of adequate controls for cash receipts may increase the risk of misuse or loss of cash.

### Recommendation:

We recommend the following controls be established to help safeguard cash:

- A) The City should ensure that individuals having access to cash receipts are independent of the cash accounting and reconciliation process.
- B) A daily listing of cash received in the mail should be prepared by an individual who is independent of the accounting for cash receipts.

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 the City comply with Sections of its Ordinance No. 2126 related to the Combined Waterworks and Sewerage System Refunding and Improvement Revenue Bonds - Series 1990. We continue to note noncompliance with the following Sections of the Ordinance:

Section 501 - The following separate funds shall be established in the City's treasury:

- Construction Fund
- Debt Service Fund
- Debt Service Reserve Fund

Section 701 - All revenues derived and collected by the City from the operation of the System shall be kept separate and apart from all other moneys, revenues, funds and accounts of the City, and shall not be commingled with any other moneys, revenues, funds and accounts of the City.

Recommendation:

We recommend the City comply with Ordinance No. 126 by establishing the required funds in its treasury, and segregating System revenues from other City cash as directed.

2. Fixed Assets Inventory

The City does not maintain an inventory of fixed assets to support the balance in the General Fixed Assets Account. As a result, when an asset is sold or retired, the original cost of the asset may not be determinable, and an appropriate reduction of the fixed asset account balance cannot be made.

Recommendation:

We recommend the City perform a physical inventory of fixed assets and compile a listing of these assets, including original costs where possible. If original costs cannot be determined, estimates of costs should be used. Items should be added to or deleted from the listing as appropriate to reflect acquisitions and disposals of assets.

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 22, 1993.

This report is intended for the information of management, members of the City Council, and the Federal Emergency Management Agency. However, this report is a matter of public record and its distribution is not limited.

*Brown, Smith, Wallace, Librach & Gordon*

St. Louis, Missouri  
December 22, 1993

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**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

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, 1993, and have issued our report thereon dated December 22, 1993.

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 indicate that, with respect to the items tested, the City complied, in all material respects, with the provisions referred to 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 provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of City of Festus in a separate letter dated December 22, 1993.

Members of  
American Institute of Certified Public Accountants  
Missouri Society of Certified Public Accountants  
Associated Accounting Firms International

This report is intended for the information of management, members of the City Council, and the Federal Emergency Management Agency. However, this report is a matter of public record and its distribution is not limited.

*Brown, Smith, Wallace, Liboch + Gordon*

St. Louis, Missouri  
December 22, 1993

City of Festus, Missouri  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS

September 30, 1993

ASSETS	Governmental Fund Types	
	General	Special Revenue
Cash and investments	\$ 522,097	\$ 614,408
Receivables (net of allowance for uncollectible accounts)		
Taxes	213,397	79,579
Special assessment	10,814	139,236
Service charges	19,043	-
Federal and state assistance programs	-	143,188
Other	5,037	15,285
Interest	366	185
Inventory of supplies (at cost)	1,514	-
Prepaid expenses	38,336	11,529
Due from other funds	116,085	125,668
Restricted cash and investments	93,288	67,213
Capital improvements sales tax receivable	-	282,215
Interest in joint venture (at cost)	-	-
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	-	-
Unamortized bond issue costs	-	-
Total assets	<u>\$1,019,977</u>	<u>\$1,478,506</u>

The accompanying notes are an integral part of this statement.

<u>Proprietary Fund Types</u>		<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	
\$ 335,442	\$ -	\$ -	\$ -	\$ 1,471,947
-	-	-	-	292,976
-	-	-	-	150,050
140,550	-	-	-	159,593
-	-	-	-	143,188
16,531	-	-	-	36,853
11,746	-	-	-	12,297
43,502	-	-	-	45,016
30,869	-	-	-	80,734
8,052	696	-	-	250,501
594,634	-	-	-	755,135
-	-	-	-	282,215
870,185	-	-	-	870,185
2,985,332	2,838	-	-	2,988,170
-	-	5,439,366	-	5,439,366
-	-	-	1,131,185	1,131,185
-	-	-	85,000	85,000
-	-	-	27,100	27,100
<u>101,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,262</u>
<u>\$5,138,105</u>	<u>\$ 3,534</u>	<u>\$5,439,366</u>	<u>\$1,243,285</u>	<u>\$14,322,773</u>

City of Festus, Missouri

COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS - CONTINUED

September 30, 1993

LIABILITIES AND FUND EQUITY	Governmental Fund Types	
	General	Special Revenue
<b>LIABILITIES</b>		
Accounts payable	\$ 67,727	\$ 43,958
Accrued payroll and compensated absence payable	116,360	43,465
Accrued payroll taxes	8,541	14,949
Obligation under capital lease	-	-
Special assessment bonds with governmental commitment	-	-
Accrued interest	-	792
Customer deposits	814	1,735
Due to other funds	-	177,055
Deferred revenue	40,744	453,844
Other liabilities	121,014	58,537
Revenue bonds payable, net of discount	-	-
Notes payable	-	-
<b>Total liabilities</b>	<b>355,200</b>	<b>794,335</b>
<b>FUND EQUITY AND OTHER CREDITS</b>		
Contributed capital	-	-
Investment in general fixed assets	-	-
Retained earnings		
Reserved for revenue bonds	-	-
Unreserved	-	-
<b>Fund balances</b>		
Reserved for inventory of supplies	1,514	-
Reserved for prepaid expenses	38,336	11,529
Reserved for encumbrances	13,196	1,010
Unreserved	611,731	671,632
<b>Total fund equity and other credits</b>	<b>664,777</b>	<b>684,171</b>
<b>Total liabilities, fund equity and other credits</b>	<b>\$1,019,977</b>	<b>\$1,478,506</b>

The accompanying notes are an integral part of this statement.



<u>Proprietary Fund Types</u>		<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	
\$ 34,273	\$ 1,851	\$ -	\$ -	\$ 147,809
19,053	1,350	-	-	180,228
3,458	359	-	-	27,307
6,874	-	-	1,131,185	1,138,059
-	-	-	85,000	85,000
61,660	-	-	-	62,452
107,580	-	-	-	110,129
60,967	12,479	-	-	250,501
-	-	-	-	494,588
6,975	-	-	-	186,526
3,419,680	-	-	-	3,419,680
-	-	-	27,100	27,100
3,720,520	16,039	-	1,243,285	6,129,379
907,439	-	-	-	907,439
-	-	5,439,366	-	5,439,366
346,000	-	-	-	346,000
164,146	( 12,505)	-	-	151,641
-	-	-	-	1,514
-	-	-	-	49,865
-	-	-	-	14,206
-	-	-	-	1,283,363
<u>1,417,585</u>	<u>( 12,505)</u>	<u>5,439,366</u>	<u>-</u>	<u>8,193,394</u>
<u>\$5,138,105</u>	<u>\$ 3,534</u>	<u>\$5,439,366</u>	<u>\$1,243,285</u>	<u>\$14,322,773</u>

City of Festus, Missouri

COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES -  
ALL GOVERNMENTAL FUND TYPES

Year ended September 30, 1993

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Totals (Memorandum Only)</u>
<b>Revenues</b>			
Property taxes			
Real estate	\$ 159,217	\$ 110,450	\$ 269,667
Personal property	35,916	27,159	63,075
Replacement tax	11,069	8,016	19,085
Special sewer assessments	-	47,179	47,179
Other taxes			
Franchise - utilities and railroads	399,449	8,831	408,280
Sales taxes	1,472,313	650,768	2,123,081
Intangible taxes	6,259	4,533	10,792
Intergovernmental revenues			
State gasoline taxes	156,678	-	156,678
State library aid	-	1,213	1,213
Federal, state and local program advances and reimbursements	24,733	303,404	328,137
Licenses and permits	131,647	-	131,647
Fines and penalties	112,482	22,368	134,850
Interest	15,290	14,779	30,069
Miscellaneous	65,381	40,060	105,441
Services charges			
Dispatching service	-	38,307	38,307
Trash collection	194,627	-	194,627
Total revenues	<u>2,785,061</u>	<u>1,277,067</u>	<u>4,062,128</u>
<b>Expenditures</b>			
Current			
General government	483,032	353,312	836,344
Public safety	1,408,237	2,978	1,411,215
Streets and sewers	151,220	409,490	560,710
Non-departmental	205,918	-	205,918
Health and sanitation	-	50,293	50,293
Library	-	94,184	94,184
Parks	-	177,482	177,482
Principal debt service	110,567	23,256	133,823
Interest debt service	91,194	9,809	101,003
Total expenditures	<u>2,450,168</u>	<u>1,120,804</u>	<u>3,570,972</u>

The accompanying notes are an integral part of this statement.

City of Festus, Missouri

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

Year ended September 30, 1993

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Totals (Memorandum Only)</u>
Excess of revenues over expenditures	\$ <u>334,893</u>	\$ <u>156,263</u>	\$ <u>491,156</u>
Other financing sources (uses):			
Operating transfers in	-	120,251	120,251
Operating transfers out	( <u>120,251</u> )	<u>-</u>	( <u>120,251</u> )
	( <u>120,251</u> )	<u>120,251</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	214,642	276,514	491,156
Total fund equity and other credits at beginning of year	<u>450,135</u>	<u>407,657</u>	<u>857,792</u>
Total fund equity and other credits at end of year	\$ <u>664,777</u>	\$ <u>684,171</u>	\$ <u>1,348,948</u>

The accompanying notes are an integral part of this statement.

City of Festus, Missouri

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

Year ended September 30, 1993

	<u>General Fund</u>		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
<b>Revenues</b>			
Property taxes			
Real estate	\$ 171,783	\$ 159,217	\$( 12,566)
Personal property	44,733	35,916	( 8,817)
Replacement tax	11,069	11,069	-
Special sewer assessments	-	-	-
Other taxes			
Franchise - utilities and railroads	395,850	399,449	3,599
Sales taxes	1,309,738	1,472,313	162,575
Intangible taxes	6,259	6,259	-
Intergovernmental revenues			
State gasoline taxes	135,346	156,678	21,332
State library aid	-	-	-
Federal, state and local program advances and reimbursements	24,733	24,733	-
Licenses and permits	133,089	131,647	( 1,442)
Fines and penalties	105,778	112,482	6,704
Interest	14,458	15,290	832
Miscellaneous	70,532	65,381	( 5,151)
Services charges			
Dispatching service	-	-	-
Trash collection	178,879	194,627	15,748
Total revenues	<u>2,602,247</u>	<u>2,785,061</u>	<u>182,814</u>
<b>Expenditures</b>			
Current			
General government	497,221	483,032	14,189
Public safety	1,434,018	1,408,237	25,781
Streets and sewers	153,300	151,220	2,080
Non-departmental	191,245	205,918	( 14,673)
Health and sanitation	-	-	-
Library	-	-	-
Parks	-	-	-
Principal debt service	101,702	110,567	( 8,865)
Interest debt service	89,726	91,194	( 1,468)
Total expenditures	<u>2,467,212</u>	<u>2,450,168</u>	<u>17,044</u>

The accompanying notes are an integral part of this statement.

<u>Special Revenue Fund</u>			<u>Totals - (Memorandum Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 122,628	\$ 110,450	\$ ( 12,178)	\$ 294,411	\$ 269,667	\$ ( 24,744)
30,387	27,159	( 3,228)	75,120	63,075	( 12,045)
7,025	8,016	991	18,094	19,085	991
10,800	47,179	36,379	10,800	47,179	36,379
9,304	8,831	( 473)	405,154	408,280	3,126
781,500	650,768	(130,732)	2,091,238	2,123,081	31,843
3,915	4,533	618	10,174	10,792	618
-	-	-	135,346	156,678	21,332
1,200	1,213	13	1,200	1,213	13
192,748	303,404	110,656	217,481	328,137	110,656
-	-	-	133,089	131,647	( 1,442)
22,255	22,368	113	128,033	134,850	6,817
11,160	14,779	3,619	25,618	30,069	4,451
51,540	40,060	( 11,480)	122,072	105,441	( 16,631)
34,300	38,307	4,007	34,300	38,307	4,007
-	-	-	178,879	194,627	15,748
<u>1,278,762</u>	<u>1,277,067</u>	<u>( 1,695)</u>	<u>3,881,009</u>	<u>4,062,128</u>	<u>181,119</u>
310,000	353,312	( 43,312)	807,221	836,344	( 29,123)
3,000	2,978	22	1,437,018	1,411,215	25,803
940,874	409,490	531,384	1,094,174	560,710	533,464
-	-	-	191,245	205,918	( 14,673)
59,348	50,293	9,055	59,348	50,293	9,055
97,886	94,184	3,702	97,886	94,184	3,702
217,389	177,482	39,907	217,389	177,482	39,907
14,150	23,332	( 9,182)	115,852	133,899	( 18,047)
9,715	9,733	( 18)	99,441	100,927	( 1,486)
<u>1,652,362</u>	<u>1,120,804</u>	<u>531,558</u>	<u>4,119,574</u>	<u>3,570,972</u>	<u>548,602</u>

City of Festus, Missouri  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL -  
 GENERAL AND SPECIAL REVENUE FUND TYPES - CONTINUED

Year ended September 30, 1993

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Excess (deficiency) of revenues over expenditures	\$ <u>135,035</u>	\$ <u>334,893</u>	\$ <u>199,858</u>
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	( <u>120,251</u> )	( <u>120,251</u> )	-
	( <u>120,251</u> )	( <u>120,251</u> )	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	14,784	214,642	199,858
Total fund equity and other credits at beginning of year	<u>75,457</u>	<u>450,135</u>	<u>374,678</u>
Total fund equity and other credits at end of year	\$ <u>90,241</u>	\$ <u>664,777</u>	\$ <u>574,536</u>

The accompanying notes are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Totals - (Memorandum Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ ( 373,600)	\$ 156,263	\$ 529,863	\$ ( 238,565)	\$ 491,156	\$ 729,721
220,251	120,251	( 100,000)	220,251	120,251	( 100,000)
( 13,794)	-	13,794	( 134,045)	( 120,251)	13,794
<u>206,457</u>	<u>120,251</u>	<u>( 86,206)</u>	<u>86,206</u>	<u>-</u>	<u>( 86,206)</u>
( 167,143)	276,514	443,657	( 152,359)	491,156	643,515
<u>203,315</u>	<u>407,657</u>	<u>204,342</u>	<u>278,772</u>	<u>857,792</u>	<u>579,020</u>
\$ <u>36,172</u>	\$ <u>684,171</u>	\$ <u>647,999</u>	\$ <u>126,413</u>	\$ <u>1,348,948</u>	\$ <u>1,222,535</u>

City of Festus, Missouri

COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS -  
ALL PROPRIETARY FUND TYPES

Year ended September 30, 1993

	<u>Proprietary Fund Types</u>		<u>Totals</u> (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Operating revenues			
Water sales and sewer use charge	\$ 1,014,530	\$ -	\$ 1,014,530
Gas sales	73,708	-	73,708
Hanger rent	20,798	-	20,798
Service charges	-	28,578	28,578
Miscellaneous	15,086	-	15,086
Other	<u>34,055</u>	<u>6,280</u>	<u>40,335</u>
Total operating revenues	<u>1,158,177</u>	<u>34,858</u>	<u>1,193,035</u>
Operating expenses			
Personal services	246,546	27,972	274,518
Materials and supplies	101,773	15,045	116,818
Heat, light and power	107,438	1,051	108,489
Contractual services	201,513	-	201,513
Depreciation and amortization	154,936	375	155,311
Other	<u>95,166</u>	<u>2,920</u>	<u>98,086</u>
Total operating expenses	<u>907,372</u>	<u>47,363</u>	<u>954,735</u>
Joint venture loss (net) - before adding back depreci- ation on assets financed by grants from other governments	<u>33,539</u>	<u>-</u>	<u>33,539</u>
Operating income (loss)	217,266	( 12,505)	204,761
Non-operating income (expenses)			
Interest income	30,184	-	30,184
Interest expense	<u>( 246,706)</u>	<u>-</u>	<u>( 246,706)</u>
Net income (loss)	744	( 12,505)	( 11,761)
Add depreciation on assets financed by grants from other governments	<u>27,523</u>	<u>-</u>	<u>27,523</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	28,267	( 12,505)	15,762
Retained earnings, beginning of year	<u>481,879</u>	<u>-</u>	<u>481,879</u>
Retained earnings (deficit), end of year	\$ <u>510,146</u>	\$ ( <u>12,505</u> )	\$ <u>497,641</u>

The accompanying notes are an integral part of this statement.



City of Festus, Missouri

COMBINED STATEMENT OF CASH FLOWS -  
ALL PROPRIETARY FUND TYPES

Year ended September 30, 1993

	<u>Proprietary Fund Types</u>		<u>Totals</u>
	<u>Enterprise</u>	<u>Internal</u>	<u>(Memorandum</u>
		<u>Service</u>	<u>Only)</u>
Cash flows from operating activities:			
Operating income (loss)	\$ 217,266	\$ ( 12,505)	\$ 204,761
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	142,183	375	142,558
Amortization	12,753	-	12,753
Change in assets and liabilities:			
(Decrease) in special charges receivable	( 29,185)	-	( 29,185)
(Decrease) in accrued interest receivable	( 1,466)	-	( 1,466)
(Decrease) in other accounts receivable	( 15,256)	-	( 15,256)
Increase in inventory	17,191	-	17,191
Increase in prepaid expenses	13,182	-	13,182
Increase in restricted assets	55,534	-	55,534
(Decrease) in interfund receivable	( 3,302)	( 696)	( 3,998)
(Decrease) increase in accounts payable	( 41,125)	1,851	( 39,274)
(Decrease) in interest payable	( 51)	-	( 51)
Increase in accrued payroll	2,673	1,350	4,023
Increase in accrued payroll taxes	879	359	1,238
Increase in customer deposits	15,121	-	15,121
(Decrease) increase in interfund payable	( 4,750)	12,479	7,729
(Decrease) in other liabilities	( 35,850)	-	( 35,850)
Net cash provided by operating activities	<u>345,797</u>	<u>3,213</u>	<u>349,010</u>

The accompanying notes are an integral part of this statement.

City of Festus, Missouri

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

Year ended September 30, 1993

	<u>Proprietary Fund Types</u>		<u>Totals</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>(Memorandum Only)</u>
Cash flows from capital and financing activities:			
Acquisition and construction of capital assets	( 74,662)	( 3,213)	( 77,875)
Principal paid on notes payable and capitalized lease obligations	( 18,937)	-	( 18,937)
Interest on debt	(246,706)	-	(246,706)
Net cash used in capital and financing activities	(340,305)	( 3,213)	(343,518)
Cash flows from investing activities:			
Interest on investments	30,184	-	30,184
Decrease in interest in joint venture	33,539	-	33,539
Net cash provided by investing activities	63,723	-	63,723
INCREASE IN CASH AND INVESTMENTS	69,215	-	69,215
Unrestricted cash and investments at beginning of year	266,227	-	266,227
Unrestricted cash and investments at end of year	\$ 335,442	\$ -	\$ 335,442

The accompanying notes are an integral part of this statement.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS

September 30, 1993

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.

1. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the City's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these three criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Included within the reporting entity:

City of Festus, Missouri Sanitation Water and Sewer Service - The City of Festus, Missouri Sanitation Water and Sewer Service is governed by the Council of the City. The rates for user charges and bond issuance authorizations also are approved by the City's Council and the legal liability for the Water and Sewer Service's debt remains with the City.

Festus Municipal Airport - The City Council serves as the governing board for the Festus Municipal Airport. The Airport's operating budget is formally adopted within the City budget.

Excluded from the reporting entity:

Festus R-6 School District and the Jefferson Junior College District - These potential component units have separate elected boards and provide services to residents of the city. These potential component units are excluded from the reporting entity because the City does not have the ability to exercise influence over their daily operations, approve budgets or provide funding.

2. 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.

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 two categories: governmental and proprietary. Each category, in turn, is divided into separate "fund types".

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 enterprises 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.

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.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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. 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. 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.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4. 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.

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.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. 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.

6. 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.

7. 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.



City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond September 30, 1993 are recorded as prepaid expenses.

9. 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 publicly 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 a separate account for the purpose of segregating funds received for customer security deposits. Funds received in payment of customer deposits are recorded in this account. Refunds of customer deposits are paid from this account. 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

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Restricted Assets (Continued)

proceeds pending a Supreme Court decision on the constitutionality of the statewide tax. The outcome of the case 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.

10. 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 Enterprise 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 costs. 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, sewer, sewer system and improvements	5 - 50 years
Machinery and equipment	5 - 12 years

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. 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 \$.70 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 \$.07 for public health purposes.

The City's property tax calendar is as follows:

1. Property is assessed by the county on January 1 each year.
2. The tax levy ordinance is adopted and filed with the county clerk on or before September 1.
3. Property taxes are due to be collected on or before December 31. A lien is placed on any property which has delinquent taxes.

12. 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. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences", no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. 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 Fund are to be repaid from revenues of the Enterprise Fund. Such debt is recorded in the Enterprise Fund.

14. Fund Equity

Contributed capital recorded in the proprietary fund 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.

15. Bond Discounts/Issuance Costs

Bond discounts and issuance costs for the proprietary fund type 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.

16. 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, 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

17. 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 money market 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". Earnings from the pooled cash accounts are allocated monthly to each participating fund based on a formula that takes into consideration each fund's average balance in the pool.

At September 30, 1993, cash and investments consisted of the following:

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE C - CASH AND INVESTMENTS (Continued)

	<u>Total</u>	<u>Unre- stricted</u>	<u>Restricted</u>
Petty cash	\$ 780	\$ 780	\$ -
Cash in banks	57,740	57,505	235
Money market accounts	1,757,119	1,400,162	356,957
Certificates of deposit	51,678	13,500	38,178
U.S. Government and Government Agency Securities	<u>359,765</u>	<u>-</u>	<u>359,765</u>
	<u>\$2,227,082</u>	<u>\$1,471,947</u>	<u>\$ 755,135</u>

Deposits

At year-end, the carrying amount of the City's deposits was \$1,815,639 and the bank balance was \$1,847,027. Of the bank balance \$100,000 was covered by federal depository insurance and \$1,747,027 was covered by collateral held in the pledging bank's trust department in the City's name.

Investments

The City's investments are categorized as either (1) insured or registered or for which the securities are 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 broker or dealer, or by its trust department or agent but not in the City's name.

	<u>Categories</u>			<u>Carrying amount</u>	<u>Market value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Certificates of deposit	\$ 51,678	\$ -	\$ -	\$ 51,678	\$ 51,678
U.S. Government and Government Agency secur- ities	<u>-</u>	<u>359,765</u>	<u>-</u>	<u>359,765</u>	<u>371,511</u>
Totals	<u>\$ 51,678</u>	<u>\$359,765</u>	<u>\$ -</u>	<u>\$411,443</u>	<u>\$423,189</u>

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

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE D - RECEIVABLES

Receivables at September 30, 1993 consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
Receivables:					
Taxes	\$216,397	\$ 81,579	\$ -	\$ -	\$297,976
Special assessments	10,814	139,236	-	-	150,050
Service charges	19,763	-	145,830	-	165,593
Federal and state assistance programs	-	143,188	-	-	143,188
Interest	366	185	11,746	-	12,297
Other	<u>5,037</u>	<u>15,285</u>	<u>28,757</u>	<u>-</u>	<u>49,079</u>
Gross receivables	252,377	379,473	186,333	-	818,183
Less allowance for uncollectibles	<u>3,720</u>	<u>2,000</u>	<u>17,506</u>	<u>-</u>	<u>23,226</u>
Net total receivables	<u>\$248,657</u>	<u>\$377,473</u>	<u>\$168,827</u>	<u>\$ -</u>	<u>\$794,957</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, 1993:

	<u>Balances October 1, 1992</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Balances September 30, 1993</u>
Land	\$ 517,424	\$ 27,100	\$ -	\$ 544,524
Buildings and improvements	2,204,959	24,498	-	2,229,457
Improvements other than buildings	225,125	-	-	225,125
Equipment	<u>2,248,153</u>	<u>200,861</u>	<u>8,754</u>	<u>2,440,260</u>
Total	<u>\$5,195,661</u>	<u>\$252,459</u>	<u>\$8,754</u>	<u>\$5,439,366</u>

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE E - FIXED ASSETS (Continued)

The following is a summary of proprietary fund-type fixed assets at September 30, 1993:

	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Vehicle Maintenance Fund</u>	<u>Totals</u>
Land	\$ 64,725	\$ 45,600	\$ -	\$ 110,325
Water system	2,699,452	-	-	2,699,452
Sewer system	1,487,467	-	-	1,487,467
Buildings and improvements	63,155	9,753	-	72,908
Tools and equipment	74,360	-	3,213	77,573
Automobiles and trucks	115,952	-	-	115,952
Furniture and fixtures	15,873	-	-	15,873
Airport improvements	-	286,892	-	286,892
Construction- in-progress	40,143	-	-	40,143
	<u>4,561,127</u>	<u>342,245</u>	<u>3,213</u>	<u>4,906,585</u>
Less: accumulated depreciation	<u>1,621,395</u>	<u>296,645</u>	<u>375</u>	<u>1,918,415</u>
Net fixed assets	<u>\$2,939,732</u>	<u>\$ 45,600</u>	<u>\$2,838</u>	<u>\$2,988,170</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.



City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE F - RISK MANAGEMENT (Continued)

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 \$141,743 for MIRMA's fiscal year ended June 30, 1993 and has paid an assessment totaling \$93,080 for the year ending June 30, 1994.

NOTE G - LONG-TERM DEBT

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, 1993 \$1,670,000 of the defeased 1988 series bonds were outstanding.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE G - LONG-TERM DEBT (Continued)

The following is a summary of the changes in long-term debt for the year ended September 30, 1993:

	<u>Balances</u> October 1, 1992	<u>Additions</u>	<u>Retire-</u> <u>ments</u>	<u>Balances</u> September 30, 1993
General Long-term Debt Account Group: Special assessment bonds payable	\$ 95,000	\$ -	\$ 10,000	\$ 85,000
Capitalized lease obligations	1,207,425	38,832	115,072	1,131,185
Note payable	<u>8,750</u>	<u>27,100</u>	<u>8,750</u>	<u>27,100</u>
	<u>1,311,175</u>	<u>65,932</u>	<u>133,822</u>	<u>1,243,285</u>
Enterprise Funds: Revenue bonds payable	3,480,000	-	-	3,480,000
Capitalized lease obligations	17,061	-	10,187	6,874
Note payable	<u>8,750</u>	<u>-</u>	<u>8,750</u>	<u>-</u>
	3,505,811	-	18,937	3,486,874
Less unamortized discount on revenue bonds payable	( 63,336)	-	( 3,016)	( 60,320)
	<u>3,442,475</u>	<u>-</u>	<u>15,921</u>	<u>3,426,554</u>
Total	\$ <u>4,753,650</u>	\$ <u>65,932</u>	\$ <u>149,743</u>	\$ <u>4,669,839</u>

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE G - LONG-TERM DEBT (Continued)

Bonds payable at September 30, 1993 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 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.

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 at 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:

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE G - LONG-TERM DEBT (Continued)

- 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.

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. 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 covenant also requires that insurance be obtained to cover all system property. The City does not have separate funds or accounts to segregate system earnings and funds from other City funds.

The City realized a net gain of \$35,610 from its waterworks sewerage system for the year ended September 30, 1993. However, the system was not insured at September 30, 1993 because the insurance is not available.

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.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE G - LONG-TERM DEBT (Continued)

Revenue Bonds and Special Assessment Bonds debt service requirements to maturity as of September 30, 1993 are as follows:

	<u>Revenue bonds</u>	<u>Special assessment bonds</u>	<u>Total</u>
1994	\$ -	\$ 10,000	\$ 10,000
1995	-	10,000	10,000
1996	20,000	15,000	35,000
1997 - 2001	380,000	50,000	430,000
2002 - 2006	750,000	-	750,000
2007 - 2011	1,080,000	-	1,080,000
2012 - 2015	<u>1,250,000</u>	<u>-</u>	<u>1,250,000</u>
	3,480,000	85,000	3,565,000
Less: unamor- tized discount	( <u>60,320</u> )	<u>-</u>	( <u>60,320</u> )
Net bonds out- standing	<u>\$3,419,680</u>	<u>\$ 85,000</u>	<u>\$3,504,680</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. 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. The capital lease obligation is repaid from the General Fund in monthly installments with interest at 7.85% per annum on the unpaid balance. 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 1990, the City entered into a lease purchase agreement for equipment. Repayments for the lease are monthly installments shared between a special revenue fund and an enterprise fund over a five year period with interest at 7.5% on the unpaid balance. This equipment has been capitalized in the General Fixed Asset Account Group and in the enterprise fund at a cost of \$20,335 in each.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE G - LONG-TERM DEBT (Continued)

During fiscal 1991, the City entered into a lease purchase agreement for computer hardware and software. Repayments for the lease are monthly installments over a four-year period repaid out of the general fund with interest at 7.5% on the unpaid balance. The equipment has been capitalized in the General Fixed Asset Account Group at a cost of \$85,037.

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.

Future minimum lease payments under the agreement at September 30, 1993 are as follows:

	<u>Building lease</u>	<u>Equipment leases</u>	<u>Total</u>
Year ending September 30:			
1994	\$ 167,503	\$ 47,614	\$ 215,117
1995	167,503	32,136	199,639
1996	167,503	5,928	173,431
1997 - 2001	837,514	-	837,514
2002	<u>125,629</u>	<u>-</u>	<u>125,629</u>
Total minimum lease payments	1,465,652	85,678	1,551,330
Less: amounts representing interest	<u>407,661</u>	<u>5,610</u>	<u>413,271</u>
Present value of minimum lease payments	<u>\$1,057,991</u>	<u>\$ 80,068</u>	<u>\$1,138,059</u>

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE G - LONG-TERM DEBT (Continued)

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 \$448.11 beginning October 1, 1993. The note is paid out of the general fund and is secured by land.

NOTE H - DEFICIT FUND EQUITY

At September 30, 1993, the following funds had deficit fund equity:

Deficit Fund Equity

Special Revenue Funds:	
Library	\$ 5,312
Emergency (flood)	\$49,987
Proprietary Funds:	
Vehicle maintenance	\$12,505

These unreserved deficit fund equities are expected to be absorbed by appropriation of future city revenues or by future federal 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</u>	<u>Appropriations</u>
Special Revenue Fund:		
Emergency (flood)	\$310,448	\$310,000

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE J - INTERFUND ASSETS/LIABILITIES

Due from/to Other Funds balances at September 30, 1993, were as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$116,085	\$ -
Special Revenue Funds -		
Health	1,399	-
Park	3,267	-
City transportation tax	40,035	-
Special sewer	15,250	-
Special assessments	65,717	20,000
Emergency (flood)	-	157,055
Enterprise Funds -		
Water and sewer	8,052	60,967
Internal Service Fund -		
Vehicle maintenance	<u>696</u>	<u>12,479</u>
	<u>\$250,501</u>	<u>\$250,501</u>



City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE K - FESTUS-CRYSTAL CITY SEWERAGE TREATMENT COMMISSION

The City of Festus and 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. 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, 1993 is \$870,185 and its share of the Commission's net loss before adding back depreciation on assets financed by grants from other governments is \$33,539. 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. For the year ended September 30, 1993, the City's cost for sewerage treatment services provided by the Commission was \$138,988.

**(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, 1993 were both \$1,632,211. Commission management stated that no long-term liabilities were outstanding at September 30, 1993. For the year ended September 30, 1993, total receipts, disbursements and depreciation were \$237,605; \$231,646 and \$61,858, respectively, and total capital contributions were \$10,200, resulting in a net decrease in the Commission's equity of \$45,699.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

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	\$1,063,672	\$ 94,505	\$1,158,177
Depreciation and amortization	\$ 154,936	-	\$ 154,936
Operating income (loss)	\$ 225,812	\$( 8,546)	\$ 217,266
Net income (loss)	\$ 8,087	\$( 7,343)	\$ 744
Property, plant and equipment additions	\$ 74,662	\$ -	\$ 74,662
Net working capital	\$ 355,145	\$ 33,068	\$ 388,213
Total assets	\$5,057,238	\$ 80,867	\$5,138,105
Bonds payable - net of bond discount	\$3,419,680	\$ -	\$3,419,680
Total equity	\$1,338,916	\$ 78,669	\$1,417,585

NOTE M - EMPLOYEE RETIREMENT BENEFIT PLAN

Plan Description - The City contributes to the Missouri Local Government Employee Retirement System (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 was created and is governed by State statute. 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.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE M - EMPLOYEE RETIREMENT BENEFIT PLAN (Continued)

All full-time employees are eligible to participate in LAGERS. Employees who retire on or after age 60 (55 for police and fire) with 5 or more years of service are entitled to an allowance for life based upon the benefit program then in effect. The allowance is equal to a benefit factor multiplied by the final average salary multiplied by the number of years of service. LAGERS also provides early retirement, death and disability benefits.

The City selected a noncontributory option for its membership thereby requiring the city to contribute the full amount required by statute necessary to finance the coverage of its employees. The contribution level is actuarially determined annually and is expressed as a percentage of covered payroll.

Funding Status and Progress - The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan performed as of February 28, 1993. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 7% per year compounded annually, before retirement, and 4% per year, compounded annually, after retirement, (b) projected salary increases of 4% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 3.4% 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.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE M - EMPLOYEE RETIREMENT BENEFIT PLAN (Continued)

At February 28, 1993, the assets in excess of the pension benefit obligation were \$458,715 determined as follows:

Pension benefit obligation:

Terminated employees not yet receiving benefits	\$ 33,864
Current employees:	
Employer financed - vested	814,243
Employer financed - nonvested	<u>195,489</u>
Total pension benefit obligation	1,043,596
Total assets available for benefits, at cost	<u>1,502,311</u>
Assets in excess of the pension benefit obligation	\$ <u>458,715</u>

The obligation for the retirees and beneficiaries has been transferred to LAGERS as a whole.

Funding Policy - The City is obligated by State statute to make all required contributions to the plan. The required contributions are actuarially determined using the individual entry-age actuarial cost method. The prior service costs are amortized over an initial amortization period of 40 years and the amounts of additional unfunded obligations created due to increases in plan benefits over 30 years. Any refunds of member contributions as elected by the City are amortized over a 15 year period.

The significant actuarial assumptions used to determine the actuarially determined employer contribution requirements are the same as those used to compute the pension benefit obligation.

The City's contribution for 1993 of \$57,821 was made in accordance with actuarially determined requirements computed through an actuarial valuation. This amount consisted of normal cost only, which is 4.2% of covered payroll.

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE M - EMPLOYEE RETIREMENT BENEFIT PLAN (Continued)

The value of vested benefits was not determined in connection with the actuarial valuation of the plan. At February 28, 1993 (the date of the most recent actuarial valuation), the assets (at cost) exceeded the aggregate accrued actuarial liabilities by \$119,879. A copy of the actuarial valuation is forwarded to the City on an annual basis.

Trend Information - For the three years ended February 28, 1991, 1992 and 1993, respectively, available assets were sufficient to fund 161, 144 and 144 percent of the pension benefit obligation. The assets in excess of pension benefit obligation represented 32.9, 26.4 and 30.0 percent of annual covered payroll for 1991, 1992 and 1993, respectively. Expressing assets in excess of pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes.

Ten-year historical trend information presenting the progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1993 comprehensive annual financial report.

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.

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,

City of Festus, Missouri

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1993

NOTE O - BUDGETARY DATA (Continued)

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. For budgetary purposes, payments on the tax anticipation note are classified as expenditures. For budgetary purposes, interfund transfers pursuant to the tax anticipation note are classified as operating transfers in and out while for GAAP purposes, the transfers were accounted for in the funds' interfund accounts.

The effects upon the 1993 financial statements from the different basis of revenue and expenditure recognition are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Revenues, GAAP basis- September 30, 1993	\$ 2,785,061	\$ 1,277,067
(Increase) decrease in receivables, net	( 43,499)	( 271,563)
Increase (decrease) in deferred revenue	<u>19,154</u>	<u>334,107</u>
Revenues-budgetary basis- September 30, 1993	<u>2,760,716</u>	<u>1,339,611</u>
Expenditures, GAAP basis- September 30, 1993	2,450,168	1,120,804
Increase (decrease) in prepaid expenses	( 25,329)	5,701
(Increase) decrease in accounts payable	( 12,457)	( 28,979)
(Increase) decrease in accrued payroll	( 21,722)	( 9,326)
(Increase) decrease in accrued payroll taxes	( 870)	( 11,091)
(Increase) decrease in other liabilities	<u>( 89,515)</u>	<u>( 33,797)</u>
Expenditures-budgetary basis- September 30, 1993	<u>2,300,275</u>	<u>1,043,312</u>
Excess (deficiency) of revenues over expenditures on budgetary basis-September 30, 1993	\$ <u>460,441</u>	\$ <u>296,299</u>

**FEDERAL FINANCIAL ASSISTANCE**

**Brown  
Smith  
Wallace  
Librach &  
Gordon**

Certified Public Accountants  
Consultants and Advisors

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FAX (314) 862-1519

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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

We have audited the general purpose financial statements of the City of Festus, Missouri (the City), as of September 30, 1993 and for the year then ended, and have issued our report thereon dated December 22, 1993. 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, Librach & Gordon*

St. Louis, Missouri  
December 22, 1993

Members of  
American Institute of Certified Public Accountants  
Missouri Society of Certified Public Accountants  
Associated Accounting Firms International



City of Festus, Missouri

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

For the Year Ended September 30, 1993

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Receipts</u>	<u>Disburse- ments</u>
<u>Federal Emergency Management Agency</u>				
Passed through Missouri State Emergency Management Agency Disaster Assistance Program	83.516	*	<u>\$301,620</u>	<u>\$303,549</u>

\*Final amount not determinable

**Brown  
Smith  
Wallace  
Librach &  
Gordon**

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**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

We have audited the general purpose financial statements of the City of Festus, Missouri (the City), for the year ended September 30, 1993, and have issued our report thereon dated December 22, 1993. We have also audited the City's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated December 22, 1993.

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, 1993, 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 22, 1993.

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  
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

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, 1993, the City expended 100% of its total federal financial assistance under its major federal financial assistance program.

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 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 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 22, 1993.

This report is intended for the information of management, members of the City Council, and the Federal Emergency Management Agency. However, this report is a matter of public record and its distribution is not limited.

*Brown, Smith, Wallace, Libeck + Gordon*

St. Louis, Missouri  
December 22, 1993

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**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

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, 1993, and have issued our report thereon dated December 22, 1993.

We have applied procedures to test the City's compliance with the following requirements applicable to its federal financial assistance program, which is identified in the Schedule of Federal Financial Assistance, for the year ended September 30, 1993: political activity, civil rights, cash management, 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 Federal Emergency Management Agency. However, this report is a matter of public record and its distribution is not limited.

*Brown, Smith, Wallace, Librach & Gordon*

St. Louis, Missouri  
December 22, 1993

Members of  
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**INDEPENDENT AUDITORS' 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

We have audited the financial statements of the City of Festus, Missouri (the City), as of and for the year ended September 30, 1993, and have issued our report thereon dated December 22, 1993.

We have also audited the City's compliance with the requirements governing types of services allowed or unallowed; matching, special tests and provisions, claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to each of its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the year ended September 30, 1993. The City's management, 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 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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures did not disclose any instances of noncompliance with the requirements referred to above.

In our opinion, the City complied, in all material respects, with the requirements governing types of services allowed or unallowed; matching; special tests and provisions; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal financial assistance program for the year ended September 30, 1993.

This report is intended for the information of management, members of the City Council, and the Federal Emergency Management Agency. However, this report is a matter of public record and its distribution is not limited.

*Brown, Smith, Wallace, Libach + Gordon*

St. Louis, Missouri  
December 22, 1993

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December 22, 1993

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

In planning and performing our audit of the financial statements of the City of Festus, Missouri for the year ended September 30, 1993, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. A separate report dated December 22, 1993 contains our report on reportable conditions in the City's internal control structure. This letter does not affect our report dated December 22, 1993, on the financial statements of the City of Festus, Missouri.

**1. Vehicle Maintenance Fund - Occupancy Costs**

The fiscal year ended September 30, 1993 was the first year of operation for the City's vehicle maintenance department. During the year, the vehicle maintenance department occupied space in a building owned by the City, but was not charged for occupancy costs. As a result, these costs were not reflected in the Vehicle Maintenance Fund's expenses for the year, nor were they passed along to the departments using the vehicle maintenance service, as would have been appropriate.

**Recommendation:**

We recommend the vehicle maintenance department be charged monthly for its occupancy of any building owned by the City. Occupancy charges should be determined by the City annually based on the carrying cost of the building, and other economic factors as deemed appropriate. Alternatively, the City may wish to consider transferring the book value of the building to the Vehicle Maintenance Fund.



2. Early Distribution of Payroll Checks

We noted that payroll checks are distributed to some employees prior to pay day. This practice could cause the City's payroll bank account to be overdrawn if the checks cleared the bank before funds were transferred to cover them. Also, the City may be exposing itself unnecessarily to legal issues regarding discrimination or "past practice".

Recommendation:

Payroll checks should not be distributed to any employees prior to pay day.

3. Inventory Accounts - General Fund, Park Fund and City Transportation Tax Fund

Balances recorded in the General Fund, Park Fund and City Transportation Tax Fund for inventories are inaccurate because non-inventory items such as fixed assets and certain supplies have been inappropriately included in the year-end physical inventory counts.

Recommendation:

Procedures should be implemented to ensure physical inventory counts include inventory items only, thus ensuring that year-end inventory balances are proper.

4. Loan to City Employees

In March 1993, upon approval of the City council, the City loaned approximately \$3,000 to its employees to purchase equipment for the employees' fitness center. The loan was recorded as a receivable in the General Fund; however, the employees did not sign a promissory note, nor was a schedule established for repayment of the loan. We were advised that the employees had repaid approximately \$500 of the loan as of the date of our audit.

Recommendation:

If it is the City's intention to collect the amount due on the loan, a repayment schedule should be established and enforced between the City and the responsible employees. Alternatively, if the City does not intend to collect the amount due, the City should assume ownership of the equipment in exchange for cancellation of the loan.

5. Petty Cash Fund

The General Fund petty cash balance per books is approximately \$120 less than the actual amount of petty cash on hand.

Recommendation:

An adjustment should be made to the General Fund general ledger to bring the book balance into agreement with the balance of petty cash on hand.

6. Outstanding Checks

The City does not write off outstanding checks until they are approximately two years old or more.

Recommendation:

As a means of ensuring general ledger cash balances more adequately reflect the actual balance of cash in the bank, and to expedite the bank reconciliation process, the City should establish a policy to write checks off after six months, except as precluded by statute.

7. Schedules and Analyses

Some of the year end schedules and account analyses provided to us at the time of our audit contained incorrect or incomplete information, or did not agree in total to the general ledger balances which they supported.

Recommendation:

Schedules and analyses must be prepared accurately if they are to provide management with a useful tool for reviewing general ledger accounts. Accurate schedules will also improve audit efficiency.

**PRIOR YEAR RECOMMENDATIONS**

1. Accounts Receivable - City Services

The City's computer system does not produce an aging report of accounts receivable for City services, (water, sewer, and garbage). The balance of service charges receivable was approximately \$130,000 at September 30, 1992 and approximately \$145,000 at September 30, 1993.

**Prior Year Recommendation:**

We recommend the City examine its computer system to see if an aging report can be produced. This report can assist in timely collections and write offs and in determining a proper allowance for uncollectible amounts.

2. **Debt Compliance**

The City is in violation of the following section of Ordinance No. 2126, "Combined Waterworks and Sewage System Refunding and Improvement Revenue Bonds - Series 1990":

Section 905 - maintain a reasonable amount of fire and extended coverage insurance on the System.

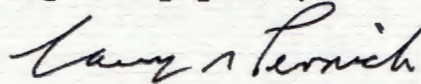
As stated in Section XI of Ordinance No. 2126, failure to comply with any of the provisions of the Ordinance could result in, at the request of the owners of 25% in principal, the bonds then outstanding being due immediately.

**Prior Year Recommendation:**

We recommend the City amend Ordinance No. 2126 to delete Section 905, since this type of insurance coverage apparently cannot be obtained.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Very truly yours,



Larry N. Pevnick, CPA  
Partner

LNP/sm  
MGNT:1