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Financial Statements with Independent Auditors' Report, 1998

City of Festus

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CITY OF FESTUS, MISSOURI

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

September 30, 1998

B-S-W
Brown & Smith & White, P.C.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the City of Festus, Missouri (the City) as of and for the year ended September 30, 1998. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Festus, Missouri as of September 30, 1998, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 5, 1999 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

April 5, 1999

Brown Smith Wallace, L.L.C.



Brown • Smith • Wallace, L.L.C.

Advisors and Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City) as of and for the year ended September 30, 1998 and have issued our report thereon dated April 5, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated April 7, 1999.

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

Brown Smith Wallace, L.L.C.

April 5, 1999

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

September 30, 1998

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Proprietary</u>
	General	Special Revenue	Agency Fund	Airport
ASSETS				
Cash and investments	\$ 404,528	\$1,211,529	\$ -	\$ -
Receivables (net of allowance for uncollectible accounts)				
Taxes	334,902	144,971	-	-
Special assessments	607	37,433	-	-
Service charges	39,358	-	-	-
Federal and state assistance programs	13,929	297,369	-	-
Other	12,003	8,774	-	7,213
Interest	812	2,847	-	-
Inventory of supplies	1,514	-	-	-
Prepaid expenses	59,356	20,171	-	716
Due from other funds	330,624	14,243	-	29,946
Restricted cash and investments	27,444	-	-	-
Investments - deferred compensation plan	-	-	93,447	-
Capital improvements sales tax receivable	-	439,785	-	-
Interest in joint venture	-	-	-	-
Property, plant and equipment, net of accumulated depreciation	-	-	-	81,884
Construction in progress	-	-	-	-
Investment in general fixed assets	-	-	-	-
Amounts to be provided for retirement of long-term debt	-	-	-	-
TOTAL ASSETS	\$1,225,077	\$2,177,122	\$93,447	\$119,759

The accompanying notes are an integral part of this statement.

Fund Types			Account Groups		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
Water and Sewer	Total Enterprise Funds	Internal Service	General Fixed Assets	General Long-term Debt	Primary Government		Reporting Entity
\$ 21,060	\$ 21,060	\$ -	\$ -	\$ -	\$1,637,117	\$ -	\$1,637,117
-	-	-	-	-	479,873	-	479,873
-	-	-	-	-	38,040	-	38,040
143,785	143,785	-	-	-	183,143	-	183,143
-	-	-	-	-	311,298	-	311,298
4,947	12,160	-	-	-	32,937	-	32,937
3,702	3,702	-	-	-	7,361	-	7,361
43,502	43,502	-	-	-	45,016	-	45,016
12,249	12,965	1,254	-	-	93,746	-	93,746
53,085	83,031	-	-	-	427,898	-	427,898
656,116	656,116	-	-	-	683,560	35,034	718,594
-	-	-	-	-	93,447	-	93,447
-	-	-	-	-	439,785	-	439,785
829,207	829,207	-	-	-	829,207	-	829,207
3,099,034	3,180,918	158	9,291,682	-	12,472,758	-	12,472,758
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	885,892	885,892	-	885,892
140,400	140,400	-	-	-	140,400	-	140,400
\$5,007,087	\$5,126,846	\$1,412	\$9,291,682	\$885,892	\$18,801,478	\$35,034	\$18,836,512

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

September 30, 1998

	<u>Governmental</u> <u>Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>	<u>Proprietary</u>
	General	Special Revenue	Agency Fund	Airport
LIABILITIES				
Accounts payable	\$ 49,106	\$ 51,530	\$ -	\$ 952
Accrued payroll and compensated absence payable	181,464	44,014	-	874
Accrued payroll taxes	14,773	5,221	-	-
Obligation under capital lease	-	-	-	-
Special assessment bonds with governmental commitment	-	-	-	-
Accrued interest	2,852	607	-	-
Customer deposits	-	-	-	-
Due to other funds	46,635	353,849	-	9,728
Deferred revenue	15,448	429,291	-	-
Use tax refund	66,737	33,369	-	-
Other liabilities	98,551	120,125	93,447	-
Revenue bonds payable, net of discount	-	-	-	-
Notes payable	-	-	-	-
Total liabilities	475,566	1,038,006	93,447	11,554
FUND EQUITY AND OTHER CREDITS				
Contributed capital	-	-	-	134,423
Investment in general fixed assets	-	-	-	-
Retained earnings (deficit)				
Reserved for revenue bonds	-	-	-	-
Unreserved	-	-	-	(26,218)
Fund balances				
Reserved for inventory of supplies	-	-	-	-
Reserved for prepaid expenses	-	-	-	-
Reserved for encumbrances	317,000	-	-	-
Unreserved	432,511	1,139,116	-	-
Total fund equity and other credits	749,511	1,139,116	-	108,205
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$1,225,077	\$2,177,122	\$93,447	\$119,759

The accompanying notes are an integral part of this statement.

Water and Sewer	Fund Types		Accounts Groups		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
	Total Enterprise Funds	Internal Service	General Fixed Assets	General Long-term Debt	Primary Government		Reporting Entity
\$ 29,114	\$ 30,066	\$ 884	\$ -	\$ -	\$ 131,586	\$ -	\$ 131,586
38,749	39,623	3,478	-	-	268,579	-	268,579
3,814	3,814	294	-	-	24,102	-	24,102
150,000	150,000	-	-	865,666	1,015,666	-	1,015,666
-	-	-	-	20,000	20,000	-	20,000
51,015	51,015	-	-	-	54,474	-	54,474
161,439	161,439	-	-	-	161,439	-	161,429
-	9,728	17,686	-	-	427,898	-	427,898
-	-	-	-	-	444,739	-	444,739
-	-	-	-	-	100,106	-	100,106
1,335	1,335	-	-	-	313,458	-	313,458
3,403,600	3,403,600	-	-	-	3,403,600	-	3,403,600
-	-	-	-	226	226	-	226
3,839,066	3,850,620	22,342	-	885,892	6,365,873	-	6,365,873
635,400	769,823	-	-	-	769,823	-	769,823
-	-	-	9,291,682	-	9,291,682	-	9,291,682
346,000	346,000	-	-	-	346,000	-	346,000
186,621	160,403	(20,930)	-	-	139,473	-	139,473
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	317,000	-	317,000
-	-	-	-	-	1,571,627	35,034	1,606,661
1,168,021	1,276,226	(20,930)	9,291,682	-	12,435,605	35,034	12,470,639
\$5,007,087	\$5,126,846	\$ 1,412	\$9,291,682	\$885,892	\$18,801,478	\$35,034	\$18,836,512

CITY OF FESTUS, MISSOURI

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

Year ended September 30, 1998

	General Fund	Special Revenue Fund
Revenues:		
Property taxes		
Real estate	\$ 76,515	\$ 170,308
Personal property	23,059	51,327
Replacement tax	5,809	12,929
Other taxes		
Franchise - utilities and railroads	489,579	7,211
Sales taxes	1,700,195	1,434,730
Intangible taxes	122	270
Intergovernmental revenues		
State gasoline taxes	247,506	-
State library aid	-	3,745
Federal, state and local program advances and reimbursements	33,373	716,465
Special sewer assessments	-	30,901
Licenses and permits	137,449	-
Fines and penalties	127,466	24,218
Interest	32,323	44,969
Miscellaneous	46,158	48,331
Service charges - trash collection	373,858	-
Total revenues	3,293,412	2,545,404

The accompanying notes are an integral part of this statement.

Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Reporting Entity
\$ 246,823	\$ -	\$ 246,823
74,386	-	74,386
18,738	-	18,738
496,790	-	496,790
3,134,925	-	3,134,925
392	-	392
247,506	-	247,506
3,745	-	3,745
749,838	-	749,838
30,901	-	-
137,449	-	168,350
151,684	-	151,684
77,292	2,488	79,780
94,489	-	94,489
373,858	-	373,858
5,838,816	2,488	5,841,304

CITY OF FESTUS, MISSOURI

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

Year ended September 30, 1998

	General Fund	Special Revenue Fund
Expenditures:		
Current		
General government	486,626	720,323
Public safety	1,930,156	131,635
Streets and sewers	17,848	967,032
Health and sanitation	-	66,899
Library	-	142,024
Parks	-	364,284
Non-departmental	556,337	-
Principal debt service	191,000	48,292
Interest debt service	37,739	10,229
Total expenditures	3,219,706	2,450,718
Revenues over (under) expenditures	73,706	94,686
Other financing sources (uses):		
Operating transfers in	-	294,034
Operating transfers out	(75,893)	(235,563)
Revenues over (under) expenditures and other financing sources (uses)	(2,187)	153,157
Total fund equity and other credits, beginning of year	751,698	985,959
TOTAL FUND EQUITY AND OTHER CREDITS, END OF YEAR	\$ 749,511	\$1,139,116

The accompanying notes are an integral part of this statement.

Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Reporting Entity
1,206,949	-	1,206,949
2,061,791	-	2,061,791
984,880	-	984,880
66,899	-	66,899
142,024	-	142,024
364,284	-	364,284
556,337	-	556,337
239,292	-	239,292
47,968	-	47,968
5,670,424	-	5,670,424
168,392	2,488	170,880
294,034 (311,456)	- -	294,034 (311,456)
150,970	2,488	153,458
1,737,657	32,546	1,770,203
\$1,888,627	\$35,034	\$1,923,661

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

Year ended September 30, 1998

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues - budget basis:			
Property taxes			
Real estate	\$ 77,000	\$ 76,515	\$ (485)
Personal property	21,500	23,059	1,559
Replacement tax	4,046	5,809	1,763
Other taxes			
Franchise - utilities and railroads	460,894	489,579	28,685
Sales taxes	1,586,000	1,700,195	114,195
Intangible taxes	-	122	122
Intergovernmental revenues			
State gasoline taxes	230,000	247,506	17,506
State library aid	-	-	-
Federal, state and local program advances and reimbursements	80,000	39,261	(40,739)
Special sewer assessments	-	-	-
Licenses and permits	147,000	137,449	(9,551)
Fines and penalties	191,800	127,466	(64,334)
Interest	25,000	32,323	7,323
Miscellaneous	51,010	46,158	(4,852)
Services charges			
Trash collection	362,000	373,858	11,858
Total revenues - budget basis	3,236,250	3,299,300	63,050
Expenditures - budget basis:			
Current			
General government	485,171	503,173	(18,002)
Public safety	1,905,521	1,946,703	(41,182)
Streets and sewers	7,800	17,848	(10,048)
Health and sanitation	-	-	-
Library	-	-	-
Parks	-	-	-
Non-departmental Program expenses	486,375	589,432	(103,057)
Principal debt service	191,075	191,000	75
Interest debt service	37,795	37,739	56
Total expenditures - budget basis	3,113,737	3,285,895	(172,158)

The accompanying notes are an integral part of this statement.

Special Revenue Fund			Totals - (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 170,140	\$ 170,308	\$ 168	\$ 247,140	\$ 246,823	\$ (317)
47,770	51,327	3,557	69,270	74,386	5,116
8,555	12,929	4,374	12,601	18,738	6,137
8,030	7,211	(819)	468,924	496,790	27,866
1,325,000	1,489,980	164,980	2,911,000	3,190,175	279,175
4,305	270	(4,035)	4,305	392	(3,913)
-	-	-	230,000	247,506	17,506
3,200	3,745	545	3,200	3,745	545
802,825	419,096	(383,729)	882,825	458,357	(424,468)
25,000	49,880	24,880	25,000	49,880	24,880
-	-	-	147,000	137,449	(9,551)
20,675	24,218	3,543	212,475	151,684	(60,791)
24,250	44,969	20,719	49,250	77,292	28,042
369,870	61,907	(307,963)	420,880	108,065	(312,815)
-	-	-	362,000	373,858	11,858
2,809,620	2,335,840	(473,780)	6,045,870	5,635,140	(410,730)
895,875	642,727	253,148	1,381,046	1,145,900	235,146
131,650	131,635	15	2,037,171	2,078,338	(41,167)
1,567,749	977,576	590,173	1,575,549	995,424	580,125
66,968	66,899	69	66,968	66,899	69
155,591	142,024	13,567	155,591	142,024	13,567
316,300	364,284	(47,984)	316,300	364,284	(47,984)
-	-	-	486,375	589,432	(103,057)
-	-	-	-	-	-
56,482	48,292	8,190	247,557	239,292	8,265
10,885	10,229	656	48,680	47,968	712
3,201,500	2,383,666	817,834	6,315,237	5,669,561	645,676

CITY OF FESTUS, MISSOURI

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

Year ended September 30, 1998

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues over (under) over expenditures - budget basis	122,513	13,405	(109,108)
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(75,893)	(75,893)	-
Proceeds from capital lease obligation	-	-	-
Revenues over (under) expenditures and other financing sources (uses) - budget basis	<u>\$46,620</u>	(62,488)	<u>\$(109,108)</u>
Net adjustments - GAAP basis of accounting		60,301	
Revenues over (under) expenditures and other financing sources (uses) - GAAP basis		(2,187)	
Total fund equity and other credits at beginning of year		751,698	
Total fund equity and other credits at end of year		\$749,511	

The accompanying notes are an integral part of this statement.

Special Revenue Fund			Totals - (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
(391,880)	(47,826)	344,054	(269,367)	(34,421)	234,946
302,021 (236,000)	294,034 (235,563)	(7,987) 437	302,021 (311,893)	294,034 (311,456)	(7,987) 437
-	-	-	-	-	-
<u>\$(325,859)</u>	10,645	<u>\$336,504</u>	<u>\$(279,239)</u>	(51,843)	<u>\$227,396</u>
	142,512			202,813	
	153,157			150,970	
	985,959			1,737,657	
	<u>\$1,139,116</u>			<u>\$1,888,627</u>	

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

Year ended September 30, 1998

	Proprietary Fund Types				Totals (Memorandum Only)
	Airport	Water and Sewer	Total Enterprise Funds	Internal Service	
Operating revenues					
Water sales and sewer use charge	\$ -	\$1,427,160	\$1,427,160	\$ -	\$1,427,160
Gas sales	124,524	-	124,524	-	124,524
Hanger rent	21,545	-	21,545	-	21,545
Service charges	-	-	-	47,603	47,603
Other	42,770	-	42,770	-	42,770
Total operating revenues	188,839	1,427,160	1,615,999	47,603	1,663,602
Operating expenses					
Personal services	18,126	373,003	391,129	34,055	425,184
Materials and supplies	5,182	160,803	165,985	32,245	198,230
Heat, light and power	12,635	117,796	130,431	-	130,431
Contractual services	3,444	375,383	378,827	-	378,827
Depreciation and amortization	1,211	181,936	183,147	908	184,055
Other	125,913	153,778	279,691	-	279,691
Total operating expenses	166,511	1,362,699	1,529,210	67,208	1,596,418
Operating income (loss)	22,328	64,461	86,789	(19,605)	67,184
Non-operating income (expenses)					
Interest income	39	27,197	27,236	-	27,236
Interest expense	-	(196,973)	(196,973)	-	(196,973)
Joint venture loss (net) - before adding back depreciation on assets financed by grants from other governments	-	(37,743)	(37,743)	-	(37,743)
Income (loss) before transfers	22,367	(143,058)	(120,691)	(19,605)	(140,296)
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Net income (loss)	22,367	(143,058)	(120,691)	(19,605)	(140,296)
Add depreciation on assets financed by grants from other governments	-	(27,523)	(27,523)	-	(27,523)
Increase (decrease) in retained earnings	22,367	(115,535)	(93,168)	(19,605)	(112,773)
Retained earnings (deficit), beginning of year	(48,585)	648,156	599,571	(1,325)	598,246
Retained earnings (deficit), end of year	\$ (26,218)	\$ 532,621	\$ 506,403	\$ (20,930)	\$ 485,473

The accompanying notes are an integral part of this statement.

CITY OF FESTUS, MISSOURI

COMBINED STATEMENT OF CASH FLOWS -
PROPRIETARY FUND TYPES

Year ended September 30, 1998

	Proprietary Fund Types				Totals (Memorandum Only)
	Airport	Water and Sewer	Total Enterprise Funds	Internal Service	
Cash flows from operating activities:					
Operating income (loss)	\$22,328	\$ 64,461	\$ 86,789	\$(19,605)	\$ 67,184
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,211	181,936	183,147	908	184,055
Loss on sale of assets	-	14,467	14,467	-	14,467
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	(3,623)	133,030	129,407	-	129,407
Decrease in prepaid expenses	114	4,929	5,043	262	5,305
Increase in interfund receivable	(29,946)	(2,685)	(32,631)	-	(32,631)
Increase (decrease) in accounts payable	288	(16,003)	(15,715)	(1,062)	(16,777)
Increase (decrease) in accrued liabilities	(139)	4,112	3,973	1,812	5,785
Increase in customer deposits	-	9,508	9,508	-	9,508
Increase (decrease) in interfund payable	9,728	(151,140)	(141,412)	17,685	(123,727)
Decrease in other liabilities	-	(66)	(66)	-	(66)
Net cash provided by (used in) operating activities	(39)	242,549	242,510	-	242,510
Cash flows from financing activities:					
Proceeds from capital lease	-	150,000	150,000	-	150,000
Interest on debt	-	(196,973)	(196,973)	-	(196,973)
Payments of long-term debt	-	(67,216)	(67,216)	-	(67,216)
Net cash used in financing activities	-	(114,189)	(114,189)	-	(114,189)

The accompanying notes are an integral part of this statement.

CITY OF FESTUS, MISSOURI

COMBINED STATEMENT OF CASH FLOWS -
PROPRIETARY FUND TYPES - CONTINUED

Year ended September 30, 1998

	Proprietary Fund Types				Totals (Memorandum Only)
	Airport	Water and Sewer	Total Enterprise Funds	Internal Service	
Cash flows from investing activities:					
Acquisition and construction of capital assets	-	(152,911)	(152,911)	-	(152,911)
Proceeds from sale of capital assets	-	16,000	16,000	-	16,000
Purchase of investments	-	(1,824,453)	(1,824,453)	-	(1,824,453)
Sale of investments	-	1,970,000	1,970,000	-	1,970,000
Purchase of joint venture assets	-	(150,000)	(150,000)	-	(150,000)
Interest on investments	39	27,197	27,236	-	27,236
Net cash provided by (used in) investing activities	39	(114,167)	(114,128)	-	(114,128)
INCREASE IN CASH	-	14,193	14,193	-	14,193
Cash balance, beginning of year	-	6,867	6,867	-	6,867
Cash balance, end of year	-	21,060	21,060	-	21,060
Restricted cash and investments	-	656,116	656,116	-	656,116
Total cash and investments - restricted and unrestricted	\$ -	\$ 677,176	\$ 677,176	\$ -	\$ 677,176

The accompanying notes are an integral part of this statement.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS

September 30, 1998

Note A - Summary of Significant Accounting Policies

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

Financial Reporting Entity

The City is a municipality governed by an elected eight member council. As required by generally accepted accounting principles, these financial statements present the primary government of the City. The following component unit is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Festus Public Library Foundation, Inc. - The component unit column in the combined financial statements include the financial data of this component unit. It is reported in a separate column to emphasize that it is legally separate from the City. The component unit's governing body is appointed by the City board. The purpose of the component unit is to establish future expansion and repair of the Library building, and to update and add to the collection of books, materials and equipment in the Library. Separate financial statements are not available for this component unit.

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.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note A - Summary of Significant Accounting Policies (Continued)

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

Governmental Fund Types

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

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

Proprietary Fund Types

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

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

Fiduciary Fund Type

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

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.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note A - Summary of Significant Accounting Policies (Continued)

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

Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The City applies to its proprietary activities all applicable GASB pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with GASB pronouncements.

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

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, 1998

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.

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, 1998

Note A - Summary of Significant Accounting Policies (Continued)

Cash Deposits and Investments

Deposits and investments are stated at market value.

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

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

Inventory

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

Interfund

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

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond September 30, 1998 are recorded as prepaid expenses.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note A - Summary of Significant Accounting Policies (Continued)

Restricted Assets

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

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

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

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.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note A - Summary of Significant Accounting Policies (Continued)

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

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

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

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 \$.46 per one hundred dollars of assessed valuation is allocated as follows: \$.14 for general revenue purposes, \$.11 for maintaining and operating the City's park, \$.12 for maintaining and operating a public library and \$.09 for public health purposes.

The City's property tax calendar is as follows:

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

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

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

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note A - Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

Long-Term Obligations

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

Fund Equity

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

Bond Discounts/Issuance Costs

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

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note A - Summary of Significant Accounting Policies (Continued)

Interfund Transactions

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

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

Total Columns on Combined Financial Statements

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

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.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note C - Cash and Investments

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

At September 30, 1998, cash and investments consisted of the following:

	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>
Petty cash	\$ 900	\$ 900	\$ -
Cash in banks	71,179	41,595	29,584
Money market accounts and repurchase agreements	240,985	112,953	128,032
U.S. government securities	<u>2,007,613</u>	<u>1,481,669</u>	<u>525,944</u>
	<u>\$2,320,677</u>	<u>\$1,637,117</u>	<u>\$683,560</u>

Deposits

At September 30, 1998, the carrying amount of the City's deposits was \$246,176 and the bank balance was \$350,529. Of the bank balance, \$100,000 was covered by federal depository insurance and \$250,529 was covered by collateral held by the pledging bank in the City's name.

Investments

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

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note C - Cash and Investments (Continued)

All investments held by the City and its component unit at September 30, 1998, including repurchase agreements, were classified as Category 1 investments and consisted of U.S. government securities. Investments of the City, other than repurchase agreements, are carried at market value. Investments held by the component unit at September 30, 1998 are carried at market, which approximates cost.

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

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

Note D - 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, 1998:

	Balances October 1, <u>1997</u>	<u>Additions</u>	Retire- <u>ments</u>	Balances September 30, <u>1998</u>
Land	\$1,061,057	\$ -	\$ -	\$1,061,057
Buildings and improvements	5,039,864	47,559	19,030	5,068,393
Equipment	<u>3,076,801</u>	<u>85,431</u>	<u>-</u>	<u>3,162,232</u>
Total	<u>\$9,177,722</u>	<u>\$132,990</u>	<u>\$19,030</u>	<u>\$9,291,682</u>

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note D - Fixed Assets (Continued)

The following is a summary of proprietary fund type fixed assets at September 30, 1998:

	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Vehicle Maintenance Fund</u>	<u>Totals</u>
Land	\$ 64,724	\$ 45,600	\$ -	\$ 110,324
Water system	3,359,331	-	-	3,359,331
Sewer system	1,650,836	-	-	1,650,836
Buildings and improvements	100,728	9,753	-	110,481
Tools and equipment	104,697	-	6,408	111,105
Automobiles and trucks	155,444	-	-	155,444
Furniture and fixtures	15,873	-	-	15,873
Airport improvements	-	325,052	-	325,052
Computer	4,967	-	-	4,967
Construction in progress	-	-	-	-
	<u>5,456,600</u>	<u>380,405</u>	<u>6,408</u>	<u>5,843,413</u>
Less accumulated depreciation	<u>(2,357,566)</u>	<u>(298,521)</u>	<u>(6,250)</u>	<u>(2,662,337)</u>
Net fixed assets	<u>\$3,099,034</u>	<u>\$ 81,884</u>	<u>\$ 158</u>	<u>\$3,181,076</u>

Note E - 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, 1998

Note E - 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 \$126,732 for MIRMA's fiscal year ended June 30, 1998 and has paid an assessment totaling \$147,124 for the year ended June 30, 1997.

Note F - Long-term Debt

The following is a summary of the changes in long-term debt for the year ended September 30, 1998:

	<u>Balances October 1, 1997</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Balances September 30, 1998</u>
General Long-term Debt				
Account Group:				
Special assessment bonds payable	\$ 35,000	\$ -	\$ 15,000	\$ 20,000
Capitalized lease obligations	1,152,053	-	286,387	865,666
Note payable	5,151	-	4,925	226
Use tax refund - long term	<u>226,000</u>	<u>-</u>	<u>226,000</u>	<u>-</u>
	1,418,204	-	532,312	885,892
Enterprise Funds:				
Revenue bonds payable	3,520,000	-	70,000	3,450,000
Less unamortized discount on revenue bonds payable	<u>(49,184)</u>	<u>-</u>	<u>(2,784)</u>	<u>(46,400)</u>
	3,470,816	-	67,216	3,403,600
Capitalized lease obligations	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
	<u>3,470,816</u>	<u>150,000</u>	<u>67,216</u>	<u>3,553,600</u>
Total	<u>\$4,889,020</u>	<u>\$150,000</u>	<u>\$599,528</u>	<u>\$4,439,492</u>

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note F - Long-term Debt (Continued)

Bonds

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

Bonds payable at September 30, 1998 are comprised of the individual issues described in the following paragraphs:

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

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

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.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note F - Long-term Debt (Continued)

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

These revenue bonds mature serially through July 2015 and are subject to optional redemption beginning in 2003. Interest is payable semi-annually on January 1 and July 1 at rates ranging from 4.0% to 5.4% per annum.

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

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

- To the Debt Service Fund Account, specified pro rata portions of principal and interest on the bonds becoming due at the next succeeding payment dates, plus agent fees.
- To the Debt Service Reserve Account, resources set aside to make up potential future deficiencies.

Under the rate covenant, the City must maintain and collect rates and charges for its services that will produce revenue sufficient to pay, among other things, current operating costs, principal and interest and provide reasonable and adequate reserves. The City realized a net loss before transfers of \$(115,534) from its waterworks sewerage system for the year ended September 30, 1998.

The covenant also requires that insurance be obtained to cover all system property. The system was insured at September 30, 1998.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note F - Long-term Debt (Continued)

Revenue Bonds and Special Assessment Bonds debt service requirements to maturity as of September 30, 1998 are as follows:

	<u>Revenue bonds</u>	<u>Special assessment bonds</u>	<u>Total</u>
1999	\$ 100,000	\$20,000	\$ 120,000
2000 - 2004	745,000	-	745,000
2005 - 2009	970,000	-	970,000
2010 - 2014	1,270,000	-	1,270,000
2015 - After	<u>365,000</u>	<u>-</u>	<u>365,000</u>
	3,450,000	20,000	3,470,000
Less unamortized discount	<u>(46,400)</u>	<u>-</u>	<u>(46,400)</u>
Net bonds outstanding	<u>\$3,403,600</u>	<u>\$20,000</u>	<u>\$3,423,600</u>

Capital Leases

During fiscal 1988, the City entered into a fifteen-year lease purchase agreement to finance the construction of a new City Hall building. During fiscal 1994, the City refinanced the lease, resulting in a reduction of the interest rate from 7.85% per annum to 5.842% per annum on the unpaid balance over the remainder of the original lease period. The capital lease obligation is repaid from the General Fund in monthly installments. At the end of the lease term, ownership of the leased property will transfer to the City. The building has been recorded in the General Fixed Assets Account Group at a cost of \$1,474,409.

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

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note F - Long-term Debt (Continued)

During fiscal 1998, the City entered into a lease-purchase agreement for ballfield lights. Repayments for the lease are monthly installments over a five year period paid out of the park fund with interest at 5.0% on the unpaid balance. The equipment has been capitalized in the General Fixed Asset Account Group at a cost of \$120,500.

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

Future minimum lease payments under the agreements at September 30, 1998 are as follows:

	<u>Building leases</u>	<u>Equipment leases</u>	<u>Total</u>
Year ending September 30:			
1999	\$239,334	\$ 82,294	\$ 321,628
2000	210,349	58,782	269,131
2001	210,349	58,783	269,132
2002	<u>210,349</u>	<u>58,783</u>	<u>269,132</u>
 Total minimum lease payments	 870,381	 258,642	 1,129,023
 Less amounts representing interest	 <u>92,820</u>	 <u>20,537</u>	 <u>113,357</u>
 Present value of minimum lease payments	 <u>\$777,561</u>	 <u>\$238,105</u>	 <u>\$1,015,666</u>

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note F - 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 beginning October 1, 1993. The note is paid out of the General Fund and is secured by land.

Note G - Deficit Fund Equity

At September 30, 1998, the following funds had deficit fund equity:

	<u>Deficit Fund Equity</u>
Special Revenue Funds:	
Community Development Block Grant Phase II	\$ 176
Emergency (flood)	42,428
Community Development Block Grant	682
Library Fund	113
Proprietary Funds:	
Internal Service	20,930

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

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note H - Interfund Assets/Liabilities

Interfund receivable/payable balances at September 30, 1998, were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$330,624	\$ 46,635
Special Revenue		
City Transportation Tax	-	1,700
Flood	-	339,804
Library	14,243	11,367
Community Development Block Grant	-	792
Community Development Block Grant Phase II	-	186
Enterprise Fund		
Water and Sewer	53,085	-
Airport	29,946	9,728
Internal Service	-	17,686
	<u>\$427,898</u>	<u>\$427,898</u>

Note I - Festus-Crystal City Sewerage Treatment Commission

The City of Festus and the City of Crystal City, Missouri participate in the Festus-Crystal City Sewerage Treatment Commission (the "Commission") which was formed for the purpose of operating and maintaining a sewerage treatment facility for the two cities. Both City councils appoint two members to the Commission. The City of Festus is committed to pay monthly to the Commission an amount equal to 60% of the previous month's costs of operation and maintenance of the shared facility and repairs and replacements of equipment as well as to contribute an additional \$500 per month. Crystal City is committed to pay the remaining 40% of described costs and additional contribution of \$350 per month. Complete financial statements of the Commission can be obtained directly from its administrative offices. The City accounts for its participation in this joint venture under the equity method of accounting to reflect its 60% ownership of the Commission. The City's interest in the joint venture at September 30, 1998 is \$829,207 and its share of the Commission's net loss before adding back depreciation on assets financed

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note I - Festus-Crystal City Sewerage Treatment Commission (Continued)

by grants from other governments is \$37,743. Depreciation on assets financed by grants from other governments, \$27,523, is reflected in the Statement of Revenues, Expenses and Changes in Retained Earnings and is due to depreciation expense for fixed assets maintained by the Commission which were purchased with Commission assets. Depreciation expense is charged against contributed capital. For the year ended September 30, 1998, the City's cost for sewerage treatment services provided by the Commission was \$232,767.

(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, 1998 were both \$1,368,140. Commission management stated that no long-term liabilities were outstanding at September 30, 1998. For the year ended September 30, 1998, total receipts, disbursements and depreciation were \$701,969; \$701,969 and \$62,900, respectively, and total capital contributions were \$10,200, resulting in a net decrease in the Commission's equity of \$52,700.

Note J - 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.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note K - Employee Retirement Benefit Plan

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

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

Funding Status - The City of Festus' full-time employees do not contribute to the pension plan. The political subdivision is required by state statute to contribute at an actuarially determined rate; the current rate is 4.6% (general) and 5.7% (police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note K - Employee Retirement Benefit Plan (Continued)

Annual Pension Cost - For 1998 the political subdivision's annual pension cost of \$97,658 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 1996 and/or 1997 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.0% per year, compounded annually, before retirement and 4.0% per year, compounded annually, after retirement, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.0% per year, depending on age, attributable to seniority/merit, and (d) pre- and post-retirement mortality based on the 1984 Group Annuity Mortality table set back no years for men and 6 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 1998 was 15 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/96	\$79,333	100%	\$0
06/30/97	\$83,509	100%	\$0
06/30/98	\$97,658	100%	\$0

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note K - Employee Retirement Benefit Plan (Continued)

**Required Supplementary Information
Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial Accrued Liability</u>	<u>(b-a) Unfunded Accrued Liability (UAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>[(b-a)/c] UAL as a Percentage of Covered Payroll</u>
02/28/96	\$2,355,226	\$2,117,314	\$(237,912)	111%	\$1,998,670	-
02/28/97	2,675,331	2,329,130	(346,201)	115	2,054,343	-
02/29/98	3,024,092	2,593,055	(431,037)	117	2,015,128	

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

Note L - Contingent Liabilities

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

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

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note M - Budgetary Data

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

The effects upon the 1998 financial statements from the different bases of revenue and expenditure recognition are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Revenues, GAAP basis -		
September 30, 1998	\$3,293,412	\$2,248,035
(Increase) Decrease in receivables, net	5,888	32,555
Increase (decrease) in deferred revenue	-	<u>55,250</u>
Revenues-budgetary basis -		
September 30, 1998	<u>3,299,300</u>	<u>2,335,840</u>
Expenditures, GAAP basis-		
September 30, 1998	3,219,706	2,450,718
Increase (decrease) in prepaid expenses	(10,609)	(3,570)
(Increase) Decrease in accounts payable	88,085	16,693
(Increase) Decrease in accrued payroll	(25,602)	(2,564)
(Increase) Decrease in accrued payroll taxes	(3,206)	(90)
(Increase) Decrease in accrued interest	-	75
(Increase) Decrease in use tax refund liability	29,263	14,631
(Increase) Decrease in other liabilities	<u>(11,742)</u>	<u>(92,227)</u>
Expenditures-budgetary basis -		
September 30, 1997	<u>3,285,895</u>	<u>2,383,666</u>
Excess (deficiency) of revenues over expenditures on budgetary basis -		
September 30, 1998	\$ <u>13,405</u>	\$ <u>(47,826)</u>

CITY OF FESTUS, MISSOURI

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 1998

Note N - Use Tax Refund Liability

On March 27, 1996 the Supreme Court of Missouri deemed the 1.5 percent local use tax as unconstitutional. The City began collecting the 1.5 percent local use tax during fiscal year end 1992. The City has recorded all of these funds as revenue in the prior and current years. The City is currently repaying these funds by having the State withhold \$12,135 per month from subsequent sales tax remittances. The City's liability is \$100,106, of which all will be paid in fiscal year 1999.

Note O - Deferred Compensation Plan

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

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

FEDERAL FINANCIAL ASSISTANCE



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

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

We have audited the general-purpose financial statements of the City of Festus, Missouri (the City), as of September 30, 1998 and for the year then ended, and have issued our report thereon dated April 5, 1999. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

April 5, 1999

Brown Smith Wallace, L.L.C.

CITY OF FESTUS, MISSOURI
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Year ended September 30, 1998

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Revenue Recognized</u>
<u>Federal Emergency Management Agency (1)</u>		
Passed through Missouri State Emergency Management Agency Demolition	83.516	\$685,204
<u>Other Federal Assistance</u>		
Department of Justice	16.711	42,964
(1)Major program		



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

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

Compliance

We have audited the compliance of the City of Festus, Missouri (the City) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1998. The City's major programs are identified in the accompanying summary of audit results. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express in opinion of the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1998.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Brown Smith Wallace, L.L.C.

April 5, 1999

CITY OF FESTUS, MISSOURI

SUMMARY OF AUDIT RESULTS

September 30, 1998

1. The auditors' report expresses an unqualified opinion on the general-purpose financial statements of the City of Festus.
2. No instances of noncompliance material to the financial statements of the City of Festus were disclosed during the audit.
3. The auditors' report on compliance for the major federal award programs for the City of Festus expresses an unqualified opinion.
4. The programs tested as major programs included: Federal Emergency Management Agency.
5. The threshold for distinguishing Types A and B programs was \$300,000.
6. City of Festus was determined to be low-risk auditee.

B·S·W

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INDEPENDENT AUDITORS' REPORT ON YEAR 2000 REQUIRED SUPPLEMENTARY INFORMATION

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

We have audited the general-purpose financial statements of the City of Festus, Missouri as of and for the year ended September 30, 1998, and have issued our report thereon dated April 5, 1999. Our audit was conducted for the purpose of forming an opinion on the basic general-purpose financial statements taken as a whole.

The Year 2000 supplementary information on page 46 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that City of Festus is or will become year 2000 compliant, that the year 2000 remediation efforts of the City of Festus will be successful in whole or in part, or that parties with which City of Festus does business are or will become year 2000 compliant.

Brown Smith Wallace, L.L.C.

April 5, 1999

CITY OF FESTUS, MISSOURI

Year ended September 30, 1998
(See Accompanying Independent Auditors' Report on
Supplemental Information)

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

The City has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 Issue and that are critical to conducting the City's operations.

Based on the inventory, the City is in the remediation stage in that the City is proceeding to determine whether it will purchase Year 2000 compliant systems or will modify existing systems to make them Year 2000 compliant.

Testing and validation of the systems will need to be completed after the remediation stage is completed.

Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the January 1, 2000 and thereafter. Management of the City cannot assure that the City is or will be year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.