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1-1-2008

## Annual Financial Report, 2007

City of Herculaneum

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**CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2007**

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**Daniel Jones  
& Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
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**FINANCIAL SECTION**





**Daniel Jones  
& Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF  
MISSOURI SOCIETY OF CPA'S  
AMERICAN INSTITUTE OF CPA'S

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and  
Board of Aldermen  
City of Herculaneum, Missouri

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Herculaneum, Missouri, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Herculaneum's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

As described in Note I, the City of Herculaneum, Missouri, prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Herculaneum, Missouri as of June 30, 2007, and the respective changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note I.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2008, on our consideration of the City of Herculaneum, Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying required supplementary information, management's discussion and analysis and budgetary comparisons on pages 3 through 5 and 26 through 37 are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Herculaneum, Missouri's basic financial statements. The Management's Discussion and Analysis and the accompanying supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States and Local Governments and is not a required part of the basic financial statements of the City. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Daniel Jones & Associates*

DANIEL JONES & ASSOCIATES, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

February 18, 2008



**City of Herculaneum – Jefferson County, Missouri**  
**Management’s Discussion and Analysis**  
**Year Ended June 30, 2007**  
**(Unaudited)**

The discussion and analysis of the City of Herculaneum’s financial performance provides and overall review of the City’s financial activities for the year ended June 30, 2007. Readers should review the basic financial statements and their supporting notes to enhance their understanding of the City’s financial performance.

The financial statements have been prepared on a modified cash basis of accounting other than account principles generally accepted in the U.S. Modified cash basis accounting is a comprehensive basis of accounting that recognizes revenue when received, rather than when earned and presents expenses when paid versus when incurred.

**Financial Highlights**

The beginning fund balance for the City was \$8,374,763 of which \$7,123,384 was restricted to the sewer capital projects fund and \$475,027 was restricted to Park/Tower, Water Capital Improvement, Public Safety, CART, and road Tax Funds.

The ending fund balance for the City was \$7,530,018 of which \$6,519,133 was restricted to the sewer capital projects fund and \$491,572 was restricted to Park/Tower, Water Capital Improvement, Public Safety, CART, and Road Tax Funds.

The ending unrestricted general fund balance was \$519,313. The City decreased fund balances by \$844,745.

During the current fiscal year, all employees, except the City Administrator, were given a 5% pay raise.

The City spent \$1,837,667 of the revolving fund loan. This was primarily construction costs.

Local revenue accounts for 95% of total revenues collected by the City. The major sources of local revenue are local personal property and real estate taxes, a 1 cent general revenue tax, a ½ cent capital projects sewer tax, and miscellaneous revenue from water sales, sewer fees, license & permit fees and interest revenue.

The City has an outstanding debt of \$3,806,025 for the Jefferson County Water plant they share with the City of Festus for the state revolving fund loan.

The City has \$184,545.75 in reserve that represents a protested overpayment by the County for a previous TIF project. The City paid the county \$132,818.99 on February 4, 2008, to settle the overpayment issue.

**City of Herculaneum – Jefferson County, Missouri**  
**Management’s Discussion and Analysis**  
**Year Ended June 30, 2007**  
**(Unaudited)**

During the 2006 fiscal year, the City entered into a three-year lease purchase agreement for three new police cars at \$22,500 per year.

**Fund Financial Statements**

The fund financial statements provide a more detailed look at the City’s most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Herculaneum, like all other governmental entities in Missouri, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes of the City’s budget ordinance. All of the funds of the City of Herculaneum can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds**

Governmental funds are used to account for those functions reported at governmental activities in the government-wide financial statements. Most of the City’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending in the next year. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance City programs. The relationship between government activities and governmental funds is described in a reconciliation that is part of the fund financial statements.

The City of Herculaneum adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorized the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services planned when the budget was adopted.

**Proprietary Funds**

The City of Herculaneum has only one kind of proprietary fund. Enterprise Funds are used to report the same functions presented as a business-type activities in the government-wide financial statements. The City of Herculaneum uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

**City of Herculaneum – Jefferson County, Missouri**  
**Management’s Discussion and Analysis**  
**Year Ended June 30, 2007**  
**(Unaudited)**

**Economic Factors and Next Year’s Budgets and Rates**

The following key economic indicators reflect the growth and prosperity of the City.

- The city is incurring significant growth through expansion and annexation, in both residential and commercial establishments. This is primarily due to the City’s location on a major interstate near St. Louis, Missouri. This will generate additional revenues for the City, but will also increase the demands on the City’s infrastructure.
- Through the construction of a new sewer treatment plant, the City is able to provide for anticipated future growth.

**Requests for Information**

This report is designed to provide an overview of the City’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Stephanie Noce, City Clerk at City of Herculaneum, #1 Parkwood Court, Herculaneum, Missouri 63048.

**FINANCIAL STATEMENTS**



CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
AS OF JUNE 30, 2007

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents (See Note II)	\$ 1,741,991	\$ 880,616	\$ 2,622,607
Investments	5,310,263	-	5,310,263
Restricted Cash	512,459	-	512,459
Minority Interest in JCWA	-	403,792	403,792
Due from other funds	(19,502)	19,502	-
Total Assets	7,545,211	1,303,910	8,849,121
<b>Liabilities</b>			
Payroll liabilities	4,798	3,548	8,346
Deposits payable	10,395	102,293	112,688
Due to other funds	-	-	-
Other noncurrent liabilities	-	3,776,980	3,776,980
Total Liabilities	15,193	3,882,821	3,898,014
<b>Net Assets</b>			
Restricted for:			
Public Safety	40,758	-	40,758
Special Training Fund	16,148	-	16,148
Water Capital Projects	455,553	-	455,553
Unrestricted Net Asset	7,017,559	(2,578,911)	4,438,648
Total Net Assets	\$ 7,530,018	\$ (2,578,911)	\$ 4,951,107

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Cash Receipts			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
General Government & Administration	\$ 634,746	\$ -	\$ -	\$ 2,020,870	\$ 1,386,124	\$ -	\$ 1,386,124
Public Safety	1,009,487	163,242	32,482	-	(813,763)	-	(813,763)
Streets	1,730,839	-	-	-	(1,730,839)	-	(1,730,839)
Culture and Recreation	18,694	-	-	-	(18,694)	-	(18,694)
Health and Welfare	142,941	133,649	-	-	(9,292)	-	(9,292)
Sewer	1,887,667	-	-	-	(1,887,667)	-	(1,887,667)
<b>Debt Services:</b>							
Principal Paid	-	-	-	-	-	-	-
Interest and Fiscal Charges	291,231	-	-	-	(291,231)	-	(291,231)
<b>Total Government Activities</b>	<b>5,715,605</b>	<b>296,891</b>	<b>32,482</b>	<b>2,020,870</b>	<b>(3,365,362)</b>	<b>-</b>	<b>(3,365,362)</b>
<b>Business-type Activities:</b>							
Water and Sewer	1,443,395	2,727,906	-	-	-	1,284,511	1,284,511
<b>Total Business-type Activities</b>	<b>1,443,395</b>	<b>2,727,906</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,284,511</b>	<b>1,284,511</b>
<b>Total Primary Government</b>	<b>\$ 7,159,000</b>	<b>\$ 3,024,797</b>	<b>\$ 32,482</b>	<b>\$ 2,020,870</b>	<b>\$ (3,365,362)</b>	<b>\$ 1,284,511</b>	<b>\$ (2,080,851)</b>
<b>General Revenues</b>							
Property Tax					389,331	-	389,331
Sales Tax					1,092,032	-	1,092,032
Other Taxes					548,665	-	548,665
Licenses & Permits					98,432	-	98,432
Interest					316,204	707	316,911
Other					484,710	675	485,385
<b>Special Items</b>							
Sale of bonds					-	-	-
Sale of land					-	-	-
Change of accounting method					-	-	-
<b>Total General Revenues</b>					<b>2,929,374</b>	<b>1,382</b>	<b>2,930,756</b>
<b>Increase (Decrease) in Net Assets</b>					<b>(435,988)</b>	<b>1,285,893</b>	<b>849,905</b>
<b>Net Assets, July 1, 2006</b>					<b>8,374,763</b>	<b>(4,359,543)</b>	<b>4,015,220</b>
<b>Prior Period Adjustment (Note VII)</b>					<b>(408,757)</b>	<b>494,739</b>	<b>85,982</b>
<b>Net Assets, June 30, 2007</b>					<b>\$ 7,530,018</b>	<b>\$ (2,578,911)</b>	<b>\$ 4,951,107</b>

The notes to the financial statements are an integral part of this statement.



CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE  
GOVERNMENTAL FUND TYPE - MODIFIED CASH BASIS  
AS OF JUNE 30, 2007

Assets	General Fund	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 509,618	\$ 1,232,373	\$ 1,741,991
Investments	-	5,310,263	5,310,263
Restricted Cash	-	512,459	512,459
Accounts Receivable	-	-	-
Due From Other Funds	24,888	-	24,888
<b>Total Assets</b>	<b>534,506</b>	<b>7,055,095</b>	<b>7,589,601</b>
<b>Liabilities</b>			
Payroll Liabilities	4,798	-	4,798
Other Liabilities	10,395	-	10,395
Due To Other Funds	-	44,390	44,390
<b>Total Liabilities</b>	<b>15,193</b>	<b>44,390</b>	<b>59,583</b>
<b>Fund Balance</b>			
Unreserved	519,313	6,498,246	7,017,559
Reserved for:			
Public Safety	-	40,758	40,758
Special Training Fund	-	16,148	16,148
Water Capital Projects	-	455,553	455,553
<b>Total Fund Balance</b>	<b>519,313</b>	<b>7,010,705</b>	<b>7,530,018</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 534,506</b>	<b>\$ 7,055,095</b>	<b>\$ 7,589,601</b>

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND TYPE - MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 1,398,112	\$ 604,868	\$ 2,002,980
Fees & Fines	401,677	2,390	404,067
Interest	58,716	257,488	316,204
Other	993,003	1,563,363	2,556,366
Total Revenues	2,851,508	2,428,109	5,279,617
<b>Expenditures</b>			
General Government	450,010	-	450,010
Police	777,694	55,817	833,511
Street Department	1,419,829	311,010	1,730,839
Health & Welfare	142,941	-	142,941
Building Commission	184,736	-	184,736
Municipal Court	65,976	-	65,976
Planning Commission	-	-	-
Fire Department	110,000	-	110,000
Park & Cemetary	8,800	-	8,800
Library	9,894	-	9,894
Sewer	-	1,887,667	1,887,667
Debt Services:			
Principal Paid	-	-	-
Interest and Fiscal Charges	-	291,231	291,231
Total Expenditures	3,169,880	2,545,725	5,715,605
Excess (Deficiency) Of Revenues Over Expenditures	(318,372)	(117,616)	(435,988)
 Total Fund Balance, July 1, 2006	 776,152	 7,598,611	 8,374,763
Prior Period Adjustment (Note VII)	61,533	(470,290)	(408,757)
Total Fund Balance, June 30, 2007	\$ 519,313	\$ 7,010,705	\$ 7,530,018

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
COMBINED STATEMENT OF NET ASSETS  
PROPRIETARY FUND TYPE - MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2007

ASSETS	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Current</b>			
Cash and Investments	6,135	874,481	880,616
Restricted Cash and Investments	-	-	-
Prepaid Items	-	-	-
Inventory	-	-	-
<b>Total Current Assets</b>	<u>6,135</u>	<u>874,481</u>	<u>880,616</u>
<b>Noncurrent Assets</b>			
Investment in JCWA	403,792	-	403,792
Due From Other Funds	-	19,502	19,502
Other capital assets, net of accumulated depreciation	-	-	-
<b>Total Noncurrent Assets</b>	<u>403,792</u>	<u>19,502</u>	<u>423,294</u>
<b>Total Assets</b>	<u>409,927</u>	<u>893,983</u>	<u>1,303,910</u>
<b>LIABILITIES</b>			
<b>Current</b>			
Bank Overdrafts	-	-	-
Accounts payable	-	-	-
Payroll and compensated absences payable	-	-	-
Accrued payroll liabilities - other	2,261	1,287	3,548
Accrued interest	-	-	-
Revenue bonds payable and neighborhood improvement district bonds - current	-	-	-
Capital leases - current	-	-	-
Notes payable - current	-	-	-
Deposits payable	102,293	-	102,293
Due to other funds	-	-	-
Other liabilities	3,776,980	-	3,776,980
<b>Total Current</b>	<u>3,881,534</u>	<u>1,287</u>	<u>3,882,821</u>
<b>Long Term</b>			
Revenue bonds payable and neighborhood improvement district bonds, net of bond premiums & discounts	-	-	-
Capital leases	-	-	-
Notes payable	-	-	-
<b>Total Long Term</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>3,881,534</u>	<u>1,287</u>	<u>3,882,821</u>
<b>NET ASSETS</b>			
Unrestricted Net Asset	(3,471,607)	892,696	(2,578,911)
<b>Total Net Assets</b>	<u>(3,471,607)</u>	<u>892,696</u>	<u>(2,578,911)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
NET ASSETS - PROPRIETARY FUND TYPE - MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
OPERATING REVENUES			
Water and Sewer Collections and Fees	1,348,079	1,370,921	2,719,000
Service Charges	8,906	-	8,906
Other	-	-	-
Total Operating Revenues	<u>1,356,985</u>	<u>1,370,921</u>	<u>2,727,906</u>
OPERATING EXPENSES			
Personal services	177,391	125,506	302,897
Materials and supplies	78,874	7,792	86,666
Purchased water	490,560	-	490,560
Utilities and maintenance	31,486	55,000	86,486
Capital outlay	18,461	-	18,461
Other	11,105	261,643	272,748
Total Operating Expenses	<u>807,877</u>	<u>449,941</u>	<u>1,257,818</u>
OPERATING INCOME (LOSS)	549,108	920,980	1,470,088
NONOPERATING REVENUES (EXPENSES)			
Interest income	-	707	707
Miscellaneous income	675	-	675
Interest expense	(111,854)	-	(111,854)
Principal payments	(73,723)	-	(73,723)
Total Nonoperating Revenues (Expenses)	<u>(184,902)</u>	<u>707</u>	<u>(184,195)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	364,206	921,687	1,285,893
Capital contributions	-	-	-
Grant contributions	-	-	-
Transfers in	-	-	-
CHANGE IN NET ASSETS	364,206	921,687	1,285,893
NET ASSETS, JULY 1, 2006	(3,921,795)	(437,748)	(4,359,543)
PRIOR PERIOD ADJUSTMENT (Note VII)	<u>85,982</u>	<u>408,757</u>	<u>494,739</u>
NET ASSETS, JUNE 30, 2007	<u>(3,471,607)</u>	<u>892,696</u>	<u>(2,578,911)</u>

The notes to the financial statements are an integral part of this statement.



CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
COMBINED STATEMENT OF CHANGES IN CASH FLOWS  
MODIFIED CASH BASIS - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2007

	Business - type Activities - Enterprise Funds		
	Water	Sewer	Totals
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,356,985	\$ 1,370,921	\$ 2,727,906
Payments to suppliers	(737,497)	(112,672)	(850,169)
Payments to employees	(126,078)	(75,583)	(201,661)
Other receipts (payments)	(11,105)	(261,643)	(272,748)
NET CASH USED IN OPERATING ACTIVITIES	482,305	921,023	1,403,328
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grants and other contributions	0	0	0
Transfer in	0	0	0
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	0	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of long-term debt	(73,723)	0	(73,723)
Proceeds from long-term debt	0	0	0
Interest on debt	(111,854)	0	(111,854)
Acquisition and construction of capital assets	(18,461)	0	(18,461)
Proceeds from sales of capital assets	0	0	0
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(204,038)	0	(204,038)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	0	707	707
Miscellaneous income	675	0	675
NET CASH USED BY (USED IN) INVESTING ACTIVITIES	675	707	1,382
NET INCREASE (DECREASE) IN CASH	278,942	921,730	1,200,672
CASH AT BEGINNING OF YEAR	(358,789)	(456,006)	(814,795)
PRIOR PERIOD ADJUSTMENT	85,982	408,757	494,739
CASH AT END OF YEAR	6,135	874,481	880,616
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	549,108	920,980	1,470,088
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Acquisition and construction of capital assets	18,461	0	18,461
(Increase) decrease in:			
Due From Other Funds	0	0	0
Increase (decrease) in:			
Accounts payable	0	0	0
Accrued liabilities	(96,257)	43	(96,214)
Deposits payable	10,993	0	10,993
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	482,305	921,023	1,403,328

The notes to the financial statements are an integral part of these statements

CITY OF HERCULANEUM  
 JEFFERSON COUNTY, MISSOURI  
 RECONCILIATION OF THE CITY FUNDS BALANCE SHEET WITH  
 THE STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
 AS OF JUNE 30, 2007

Amounts reported for governmental activities in the statement of activities are different because

Total Fund Balance - Governmental Funds		\$ 7,530,018
There are no items of reconciliation		<u>-</u>
Total Net Assets - Governmental Activities		\$ 7,530,018
	LESS Net Assets from Statement of Net Assets Difference	<u>(7,530,018)</u> <u>\$ -</u>

The notes to the financial statements are an integral part of this statement.



CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
AS OF JUNE 30, 2007

Total net change in fund balances - governmental funds	\$ (435,988.00)
There are no items of Reconciliation	<u>\$ -</u>
Change in net assets of governmental activities	\$ (435,988.00)
LESS change in net assets govt activities	<u>435,988.00</u>
Difference	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM  
 JEFFERSON COUNTY, MISSOURI  
 STATEMENT OF NET ASSETS  
 FIDUCIARY FUND TYPE - MODIFIED CASH BASIS  
 AS OF JUNE 30, 2007

	AGENCY FUND
	Buchheit TIF Fund
<b>Assets</b>	
Cash and Cash Equivalents	\$ 132,819
Total Assets	132,819
<b>Liabilities</b>	
Due to Jefferson County	132,819
Total Liabilities	132,819
<b>Fund Balance</b>	
Unrestricted	-
Total Fund Balance	-
Total Liabilities and Fund Balance	\$ 132,819

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM  
 JEFFERSON COUNTY, MISSOURI  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FIDUCIARY FUND TYPE - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED JUNE 30, 2007

	AGENCY FUND
	Buchheit
	TIF Fund
Revenues	
Taxes	\$ -
Fees & Fines	-
Interest	-
Other	-
Total Revenues	-
Expenditures	
General Government	-
Police	-
Street Department	-
Health & Welfare	-
Building Commission	-
Municipal Court	-
Planning Commission	-
Fire Department	-
Park & Cemetary	-
Library	-
Debt Services:	
Principal Paid	-
Interest and Fiscal Charges	-
Total Expenditures	-
Excess (Deficiency) Of Revenues Over Expenditures	-
Total Fund Balance, July 1, 2006	-
Total Fund Balance, June 30, 2007	\$ -

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Herculaneum, Missouri, was founded in 1808 and incorporated January 7, 1972. The City operates as a fourth-class city under the Missouri State Statutes. It has a mayor/city administrator/aldermen form of government and provides the following services: legislative, general services, financial and accounting, water and sewer service, community development, streets and roads, police and parks.

The governmental financial statements of The City of Herculaneum, Missouri have been prepared on the modified cash basis of accounting, and the Enterprise Fund financial statements have been prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Reporting Entity**

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. A decision whether to include a potential component unit in the reporting entity would be made by applying criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body'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. The other 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 criteria, the City has included a Tax Increment Financing District in the reporting entity. These districts are created to provide financing services for development of infrastructure and real property which is designated for economic development within the City. District officers are appointed by the City. City employees manage the assets of the district. Also the City Council has significant influence over the approval of expenditures of the district. The district is blended into the City's financial statements and reported in the agency funds. In addition, the City is not aware of any entity which would exercise such oversight which would result in the City being considered a component unit of the entity.

**Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of Net Assets and the Statement of Activities display information about the City, the primary government, as a whole. These statements include the non-fiduciary financial activities of the City. The effect of interfund activity of any internal service fund has been eliminated from these statements. These statements report those activities of the City that are governmental (i.e. generally



CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide Financial Statements (Concluded)**

supported by taxes and intergovernmental revenues). Fiduciary funds are not included in the government-wide financial statements.

The Government-wide statements are prepared using the economic resources measurement focus and modified cash basis of accounting for the governmental fund and the modified cash basis of accounting, for the enterprise (water & sewer) funds. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The Statement of Net Assets presents the financial position of the City's governmental activities at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions (including related investment earnings) that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues.

**Fund Financial Statements**

The City maintains fund accounting in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detailed level. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. The City only has two major funds; the general fund which accounts for the City's general activity and water fund which accounts for the water activity.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The required financial statements for governmental funds are a statement of net assets, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. The required financial statements for the proprietary fund are a statement of net assets, a statement of revenue, expenditures and changes in fund balance and a statement of cash flows.

CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Governmental Funds**

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they are to be used. Current liabilities are assigned to the fund from which they will be paid.

The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's principal governmental funds:

*General Fund:* This fund is the general fund of the City and accounts for all financial resources except those required to be accounted for in another fund.

*CART Fund:* This fund accounts for tax revenues and expenditures that are legally restricted for street expenditures.

*Water Improvement Fund:* This fund accounts for tax revenues and expenditures that are legally restricted for water improvements.

*Special Training Fund:* This fund accounts for fine revenues and expenditures for court and police training.

*911 Fund:* This fund accounts for utility tax revenues and expenditures restricted for 911 improvement services.

*Jefferson County Road Tax Fund:* This fund is a special revenue fund that accounts for revenues of the county sales tax designated for street and road improvements.

*Revolving Fund:* This fund accounts for the revenues and expenditures related to the Series 2005C Bond Issue for sewer capital improvements.

*Capital Improvements Fund:* This fund accounts for the revenues and expenditures for capital improvements.

**Proprietary Funds**

Proprietary funds include enterprise and internal service funds. Enterprise funds account for ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon the determination of change in net assets. Internal service funds are established to account for services furnished by a department of the City to other departments on a cost reimbursement basis. The City operates the following two proprietary funds which are enterprise funds:

*Water Fund:* This enterprise fund is used to account for the City's water operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.



CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Proprietary Funds (Concluded)**

*Sewer Fund:* This enterprise fund is used to account for the City's sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds. The City currently has one fiduciary fund:

*Buchheit TIF Fund:* This fund is used to account for TIF tax revenues held in escrow.

Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements for proprietary funds.

**Measurement Focus / Basis of Accounting**

The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The government-wide financial statements are prepared on the modified cash basis of accounting for the Governmental Funds and Enterprise Funds, which are comprehensive bases of accounting other than generally accepted accounting principles. That basis differs from generally accepted accounting principles in that revenues are recognized when received instead of when earned, payments to vendors are recognized when paid instead of when goods or services are received, and only certain liabilities are recorded i.e. payroll liabilities and refundable deposits.

Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the cash basis when the City receives the revenue.

Nonexchange transactions, in which the City receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On a cash, or modified cash basis, revenue from property taxes (if applicable) would be recognized in the fiscal year for which the taxes were collected. Revenue from grants, entitlements and donations is recognized in the fiscal year in which the funds are received and eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

**Measurement Focus / Basis of Accounting (Concluded)**

Proprietary funds distinguish between operating revenues and expenses from nonoperating items. Operating revenues and expenses normally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Investment income is reported as nonoperating revenue.

**Budgets and Budgetary Accounting**

- 1) In accordance with Chapter 67, RSMo, the City adopts a budget for each fund of the political subdivision.
- 2) Prior to July, the City Clerk, who serves as the budget officer, submits to the Board of Aldermen a proposed budget for the fiscal year beginning on the following July 1. The proposed budget includes estimated revenues and proposed expenditures for all City funds. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
- 3) A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the Board of Aldermen, the budget document is available for public inspection.
- 4) Subsequent to its formal approval of the budget, the Board of Aldermen has the authority to make necessary adjustments to the budget by formal vote of the board. Adjustments made during the year are reflected in the budget information included in the accompanying financial statements.

Budgeted amounts are as finally amended by the Board of Aldermen.

**Water Deposits**

The balance of water deposits held by the City represent a liability which is reflected in the financial statements on the modified cash basis of accounting.

**Cash and Cash Equivalents**

The City considers all liquid investments with original maturities of three months or less to be cash equivalents.

**II. DEPOSITS AND INVESTMENTS**

The City maintains a cash and temporary investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined statement of assets, liabilities and fund balances arising from cash transactions as "Cash and Cash Equivalents and Investments" under each fund's caption.



CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**II. DEPOSITS AND INVESTMENTS (CONTINUED)**

The Deposits held at June 30, 2007 and reported at cost, are as follows:

**BALANCE AT JUNE 30, 2007**

	Maturity Date	Cost
Restricted Deposits and Investments:		
Deposits restricted for Water Capital Projects	N/A	\$ 455,553
Deposits restricted for Public Safety	N/A	40,758
Deposits restricted for Special Training Fund	N/A	16,148
Total restricted Deposits and Investments		\$ 512,459
Unrestricted Deposits and Investments:		
Demand deposits and Petty Cash	N/A	\$ 2,622,607
Fixed Income Securities	12/1/08	3,556,792
Fixed Income Securities	7/1/27	1,542,049
Fixed Income Securities	7/1/27	18,922
Fixed Income Securities	7/1/27	192,500
Total unrestricted Deposits and Investments		\$ 7,932,870
Total Deposits and Investments		\$ 8,445,329

Custodial Credit Risk – Deposits

For a deposit, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a formal investment policy that includes custodial credit risk requirements; however, all deposits are fully collateralized.

Custodial Credit Risk – Investments

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by the party who sold the security to the City or its agent but not in the government's name. The City does not have a policy for custodial credit risk relating to investments; however, all investments are fully collateralized.

Investment Interest Rate Risk

The City has no policy in place to minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investments portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell

CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
 NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2007

**II. DEPOSITS AND INVESTMENTS (CONCLUDED)**

securities on the open market prior to maturity and by investing operating funds primarily in shorter-term securities. Maturities of investments held at June 30, 2007 are provided in the schedule above.

Investment Credit Risk

The City has no policy in place to minimize credit risk, the risk of loss due to the failure of the security issuer or backer.

Concentration of Investment Credit Risk

Concentration of credit risk is required to be disclosed by the City for any single investment that represents 5% or more of total investments (excluding investments issued by or explicitly guaranteed by the U.S. Government, investments in mutual funds, investments in external investment pools and investments in other pooled investments).

The City has no policy in place to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of securities.

At June 30, 2007, 100% of the City's investments were guaranteed by the U.S. Government.

**Investment Income**

Investment income for the year ended June 30, 2007, consisted of interest income of \$316,911.

**III. CHANGES IN LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

	<b>BONDS PAYABLE</b>
Long-Term Debt – June 30, 2006	\$ 9,823,358
Add-Issued	0
Less-Payments	(17,333)
Long-Term Debt – June 30, 2007	\$ 9,806,025

Bonds and notes payable at June 30, 2007, consist of:

Pro-rata share of Jefferson County Water Authority 2001C revenue bonds, 3% to 5%, monthly debt service payments of 1/12 principal and 1/6 interest due, through July 1, 2023, secured by water purchase agreement with the City.	\$ 332,314
Pro-rata share of Jefferson County Water Authority 2002A revenue bonds, 3% to 5%, monthly debt service payments of 1/12 principal and 1/6 interest due, through January 1, 2023, secured by water purchase agreement with the City.	3,473,711

CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
 NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2007

**III. CHANGES IN LONG-TERM DEBT (CONCLUDED)**

\$6,000,000 Series 2005C revenue bonds, 3.25% to 5.25%, due in varying annual principal payments through July 1, 2025. Interest rate is variable and is due semiannually July 1 and January 1 through July 1, 2025.

6,000,000
<u>\$ 9,806,025</u>

The annual requirements to amortize all debt outstanding as of June 30, 2007, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	341,140	453,217	794,357
2008	368,342	441,130	809,472
2009	395,120	427,881	823,001
2010	429,137	413,031	842,168
2011	453,235	395,559	848,794
2012-2016	2,597,850	1,640,546	4,238,396
2017-2021	3,309,262	935,392	4,244,654
2022-2026	1,911,939	179,338	2,091,277
<u>Totals</u>	<u>\$ 9,806,025</u>	<u>\$ 4,886,094</u>	<u>\$ 14,692,119</u>

**IV. RESTRICTED NET ASSETS – FUND BALANCE**

The restricted net assets in the governmental funds consisted of the following:

Water Improvement Fund	\$ 455,553
Special Training Fund	16,148
911 Fund	40,758
<u>Total Restricted Net Assets</u>	<u>\$ 512,459</u>

**V. LITIGATION**

The City is currently a defendant in current or pending litigation.

Other Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.



CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO ACCOMPANYING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**VI. McNUTT TIF**

On December 10, 2007, the City approved a tax increment financing (TIF) district located on 80 acres northeast of the Interstate 55 and McNutt Road interchange near Buchheit.

**VII. PRIOR PERIOD ADJUSTMENTS**

The City had net prior period adjustments of \$85,982. These adjustments were made to properly record real estate and property taxes to their respective funds in the amount of \$494,739 and to adjust debt payments in the amount of \$(408,757).

**VIII. PROPERTY TAXES**

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.
- Property taxes attach as an enforceable lien on property as of January 1.

**IX. INTERFUND TRANSACTIONS**

In the fund financial statements, the City has the following types of transactions among funds:

*Transfers* – Legally authorized transfers are reported when incurred as transfers in by the recipient fund and as transfers out by the disbursing fund.

Elimination of interfund activity has been made for governmental activities in the government-wide financial statements. Interfund transfers were used to 1) move revenues from the fund that ordinance or budget requires to collect them to the fund that ordinance or budget requires to expend them, 2) use restricted revenues collected in the General Fund to finance capital improvements and other funds in accordance with budgetary authorization, or 3) move revenues in excess of current year expenditures to other funds.

**X. JOINT VENTURE**

Two of the seven members of the Jefferson County Water Authority's governing body are members of the City of Herculaneum administration or City Council and another member is a general representative from Herculaneum. The City makes a portion of the debt service payments for the 2001C and 2002A series bond of the Authority. This arrangement causes the City of Herculaneum to have an economic interest in the Authority's financial well-being. Separate financial statements are prepared for the Authority and may be obtained by contacting the City of Festus.



**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
General Fund - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified	Over (Under)
	Original	Final	Cash Basis Actual	Final Budget
<b>Revenues</b>				
Taxes	\$ 1,337,000	\$ 1,337,000	\$ 1,398,112	\$ 61,112
Fees & Fines	352,710	352,710	401,677	48,967
Interest	40,000	40,000	58,716	18,716
Other	4,382,018	4,382,018	993,003	(3,389,015)
<b>Total Revenues</b>	<b>6,111,728</b>	<b>6,111,728</b>	<b>2,851,508</b>	<b>(3,260,220)</b>
<b>Expenditures</b>				
General Government	456,097	456,097	450,010	(6,087)
Police	913,558	913,558	777,694	(135,864)
Street Department	3,699,846	3,699,846	1,419,829	(2,280,017)
Health & Welfare	141,000	141,000	142,941	1,941
Building Commission	193,257	193,257	184,736	(8,521)
Municipal Court	69,478	69,478	65,976	(3,502)
Planning Commission	1,497	1,497	-	(1,497)
Fire Department	110,000	110,000	110,000	-
Park & Cemetary	9,500	9,500	8,800	(700)
Library	22,255	22,255	9,894	(12,361)
Contingencies	-	-	-	-
Debt Services:				
Principal Paid	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
<b>Total Expenditures</b>	<b>5,616,488</b>	<b>5,616,488</b>	<b>3,169,880</b>	<b>(2,446,608)</b>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<b>495,240</b>	<b>495,240</b>	<b>(318,372)</b>	<b>(813,612)</b>
Total Fund Balance, July 1, 2006			776,152	
Prior Period Adjustment (Note VII)			61,533	
<b>Total Fund Balance, June 30, 2007</b>			<b>\$ 519,313</b>	

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
Water Fund - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified	Over (Under)
	Original	Final	Cash Basis Actual	Final Budget
OPERATING REVENUES				
Water and Sewer Collections and Fees	\$ 650,000	\$ 650,000	\$ 1,348,079	\$ 698,079
Service Charges	5,000	5,000	8,906	3,906
Other	-	-	-	-
Total Operating Revenues	<u>655,000</u>	<u>655,000</u>	<u>1,356,985</u>	<u>701,985</u>
OPERATING EXPENSES				
Personal services	164,630	164,630	177,391	12,761
Materials and supplies	60,550	60,550	78,874	18,324
Purchased water	520,000	520,000	490,560	(29,440)
Utilities and maintenance	32,900	32,900	31,486	(1,414)
Capital outlay	28,214	28,214	18,461	(9,753)
Other	4,500	4,500	11,105	6,605
Total Operating Expenses	<u>810,794</u>	<u>810,794</u>	<u>807,877</u>	<u>(2,917)</u>
OPERATING INCOME (LOSS)	(155,794)	(155,794)	549,108	704,902
NONOPERATING REVENUES (EXPENSES)				
Interest income	-	-	-	-
Miscellaneous income	-	-	675	675
Interest expense	(175,000)	(175,000)	(111,854)	63,146
Principal payments	(75,000)	(75,000)	(73,723)	1,277
Total Nonoperating Revenues (Expenses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>(184,902)</u>	<u>65,098</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(405,794)	(405,794)	364,206	770,000
Capital contributions	-	-	-	-
Grant contributions	-	-	-	-
Transfers in	-	-	-	-
CHANGE IN NET ASSETS	<u>(405,794)</u>	<u>(405,794)</u>	364,206	<u>770,000</u>
NET ASSETS, JULY 1, 2006			(3,921,795)	
PRIOR PERIOD ADJUSTMENT (NOTE VII)			<u>85,982</u>	
NET ASSETS, JUNE 30, 2007			<u>\$ (3,471,607)</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2007

**BUDGETS AND BUDGETARY ACCOUNTING**

1. In accordance with Chapter 67, RSMo, the City adopts a budget for each fund of the political subdivision.
2. Prior to July, the City Clerk, who serves as the budget officer, submits to the Board of Aldermen a proposed budget for the fiscal year beginning on the following July 1. The proposed budget includes estimated revenues and proposed expenditures for all City funds. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
3. A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the Board of Aldermen, the budget document is available for public inspection.
4. Subsequent to its formal approval of the budget, the Board of Aldermen has the authority to make necessary adjustments to the budget by formal vote of the board. Adjustments made during the year are reflected in the budget information included in the accompanying financial statements.

Budgeted amounts are as finally amended by the Board of Aldermen.



**SUPPLEMENTARY INFORMATION**

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE  
NONMAJOR GOVERNMENTAL FUND TYPE - MODIFIED CASH BASIS  
AS OF JUNE 30, 2007

Assets	CART Fund	Water Improvements Fund	Special Training Fund	911 Fund	Jefferson County Road Tax Fund	Revolving Fund Sewer	Capital Improvements Fund	Total Nonmajor Governmental Fund
Cash and Cash Equivalents	\$ 3,574				\$ -	\$ 1,208,870	\$ 19,929	\$ 1,232,373
Investments	-	-	-	-	-	5,310,263	-	5,310,263
Restricted Cash	-	\$ 455,553	\$ 16,148	\$ 40,758	-	-	-	512,459
Accounts Receivable	-	-	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>3,574</b>	<b>455,553</b>	<b>16,148</b>	<b>40,758</b>	<b>-</b>	<b>6,519,133</b>	<b>19,929</b>	<b>7,055,095</b>
<b>Liabilities</b>								
Payroll Liabilities	-	-	-	-	-	-	-	-
Due To Other Funds	3,838	-	-	-	40,552	-	-	44,390
<b>Total Liabilities</b>	<b>3,838</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,552</b>	<b>-</b>	<b>-</b>	<b>44,390</b>
<b>Fund Balance</b>								
Unrestricted	(264)	-	-	-	(40,552)	6,519,133	19,929	6,498,246
Restricted	-	455,553	16,148	40,758	-	-	-	512,459
<b>Total Fund Balance</b>	<b>(264)</b>	<b>455,553</b>	<b>16,148</b>	<b>40,758</b>	<b>(40,552)</b>	<b>6,519,133</b>	<b>19,929</b>	<b>7,010,705</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 3,574</b>	<b>\$ 455,553</b>	<b>\$ 16,148</b>	<b>\$ 40,758</b>	<b>\$ -</b>	<b>\$ 6,519,133</b>	<b>\$ 19,929</b>	<b>\$ 7,055,095</b>

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUND TYPE - MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2007

	CART Fund	Water Improvements Fund	Special Training Fund	911 Fund	Jefferson County Road Tax Fund	Revolving Fund Sewer	Capital Improvements Fund	Total Nonmajor Governmental Fund
<b>Revenues</b>								
Taxes	\$ 102,662	\$ -	\$ -	\$ 16,318	\$ 162,923	\$ 303,036	\$ 19,929	\$ 604,868
Fees & Fines	-	-	2,390	-	-	-	-	2,390
Interest	1,176	-	-	4,917	32,509	218,886	-	257,488
Other	18,304	-	6	-	83,771	1,461,282	-	1,563,363
<b>Total Revenues</b>	<b>122,142</b>	<b>-</b>	<b>2,396</b>	<b>21,235</b>	<b>279,203</b>	<b>1,983,204</b>	<b>19,929</b>	<b>2,428,109</b>
<b>Expenditures</b>								
General Government	-	-	-	-	-	-	-	-
Police	45,055	-	1,195	9,567	-	-	-	55,817
Street Department	69,975	-	-	-	241,035	-	-	311,010
Health & Welfare	-	-	-	-	-	-	-	-
Building Commission	-	-	-	-	-	-	-	-
Municipal Court	-	-	-	-	-	-	-	-
Planning Commission	-	-	-	-	-	-	-	-
Fire Department	-	-	-	-	-	-	-	-
Park & Cemetery	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-
Sewer	-	-	-	-	-	1,887,667	-	1,887,667
Debt Services:								
Principal Paid	-	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	291,231	-	291,231
<b>Total Expenditures</b>	<b>115,030</b>	<b>-</b>	<b>1,195</b>	<b>9,567</b>	<b>241,035</b>	<b>2,178,898</b>	<b>-</b>	<b>2,545,725</b>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<b>7,112</b>	<b>-</b>	<b>1,201</b>	<b>11,668</b>	<b>38,168</b>	<b>(195,694)</b>	<b>19,929</b>	<b>(117,616)</b>
<b>Total Fund Balance, July 1, 2006</b>	<b>(7,376)</b>	<b>517,086</b>	<b>14,947</b>	<b>29,090</b>	<b>(78,720)</b>	<b>7,123,584</b>	<b>-</b>	<b>7,598,611</b>
<b>Prior Period Adjustment (Note VII)</b>	<b>-</b>	<b>(61,533)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(408,757)</b>	<b>-</b>	<b>(470,290)</b>
<b>Restated Fund Balance, July 1, 2006</b>	<b>(7,376)</b>	<b>455,553</b>	<b>14,947</b>	<b>29,090</b>	<b>(78,720)</b>	<b>6,714,827</b>	<b>-</b>	<b>7,128,321</b>
<b>Total Fund Balance, June 30, 2007</b>	<b>\$ (264)</b>	<b>\$ 455,553</b>	<b>\$ 16,148</b>	<b>\$ 40,758</b>	<b>\$ (40,552)</b>	<b>\$ 6,519,133</b>	<b>\$ 19,929</b>	<b>\$ 7,010,705</b>

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
CART Fund - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified	Over (Under)
	Original	Final	Cash Basis Actual	Final Budget
<b>Revenues</b>				
Taxes	\$ 97,000	\$ 97,000	\$ 102,662	\$ 5,662
Fees & Fines	-	-	-	-
Interest	-	-	1,176	1,176
Other	-	-	18,304	18,304
<b>Total Revenues</b>	<u>97,000</u>	<u>97,000</u>	<u>122,142</u>	<u>25,142</u>
<b>Expenditures</b>				
General Government	-	-	-	-
Police	47,000	47,000	45,055	(1,945)
Street Department	70,000	70,000	69,975	(25)
Health & Welfare	-	-	-	-
Building Commission	-	-	-	-
Municipal Court	-	-	-	-
Planning Commission	-	-	-	-
Fire Department	-	-	-	-
Park & Cemetery	-	-	-	-
Library	-	-	-	-
Debt Services:				
Principal Paid	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
<b>Total Expenditures</b>	<u>117,000</u>	<u>117,000</u>	<u>115,030</u>	<u>(1,970)</u>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<u>(20,000)</u>	<u>(20,000)</u>	7,112	<u>27,112</u>
<b>Total Fund Balance, July 1, 2006</b>			<u>(7,376)</u>	
<b>Total Fund Balance, June 30, 2007</b>			<u>\$ (264)</u>	



CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
Water Improvement Fund - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified Cash Basis Actual	Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 66,000	\$ 66,000	-	\$ (66,000)
Fees & Fines	-	-	-	-
Interest	-	-	-	-
Other	-	-	-	-
Total Revenues	66,000	66,000	-	(66,000)
Expenditures				
General Government	-	-	-	-
Police	-	-	-	-
Street Department	-	-	-	-
Health & Welfare	-	-	-	-
Building Commission	-	-	-	-
Municipal Court	-	-	-	-
Planning Commission	-	-	-	-
Fire Department	-	-	-	-
Park & Cemetary	-	-	-	-
Library	-	-	-	-
Debt Services:				
Principal Paid	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) Of Revenues Over Expenditures	66,000	66,000	-	(66,000)
Total Fund Balance, July 1, 2006			517,086	
Prior Period Adjustment (Note VII)			(61,533)	
Total Fund Balance, June 30, 2007			\$ 455,553	

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
Special Training Fund - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified Cash Basis Actual	Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Fees & Fines	1,000	1,000	2,390	1,390
Interest	-	-	-	-
Other	-	-	6	6
Total Revenues	<u>1,000</u>	<u>1,000</u>	<u>2,396</u>	<u>1,396</u>
Expenditures				
General Government	-	-	-	-
Police	-	-	1,195	1,195
Street Department	-	-	-	-
Health & Welfare	-	-	-	-
Building Commission	-	-	-	-
Municipal Court	-	-	-	-
Planning Commission	-	-	-	-
Fire Department	-	-	-	-
Park & Cemetary	-	-	-	-
Library	-	-	-	-
Debt Services:				
Principal Paid	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>1,195</u>	<u>1,195</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>1,000</u>	<u>1,000</u>	1,201	<u>201</u>
Total Fund Balance, July 1, 2006			<u>14,947</u>	
Total Fund Balance, June 30, 2007			<u>\$ 16,148</u>	

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
911 Fund - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified Cash Basis Actual	Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 15,000	\$ 15,000	\$ 16,318	\$ 1,318
Fees & Fines	-	-	-	-
Interest	-	-	4,917	4,917
Other	-	-	-	-
Total Revenues	<u>15,000</u>	<u>15,000</u>	<u>21,235</u>	<u>6,235</u>
Expenditures				
General Government	-	-	-	-
Police	-	-	9,567	9,567
Street Department	-	-	-	-
Health & Welfare	-	-	-	-
Building Commission	-	-	-	-
Municipal Court	-	-	-	-
Planning Commission	-	-	-	-
Fire Department	-	-	-	-
Park & Cemetary	-	-	-	-
Library	-	-	-	-
Debt Services:				
Principal Paid	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>9,567</u>	<u>9,567</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>15,000</u>	<u>15,000</u>	11,668	<u>(3,332)</u>
Total Fund Balance, July 1, 2006			<u>29,090</u>	
Total Fund Balance, June 30, 2007			<u>\$ 40,758</u>	

CITY OF HERCULANEUM  
 JEFFERSON COUNTY, MISSOURI  
 Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
 Jefferson County Road Tax Fund - Modified Cash Basis  
 For the Year Ended June 30, 2007

	Budgeted Amounts		Modified	Over (Under)
	Original	Final	Cash Basis Actual	Final Budget
<b>Revenues</b>				
Taxes	\$ 165,000	\$ 165,000	\$ 162,923	\$ (2,077)
Fees & Fines	-	-	-	-
Interest	-	-	32,509	32,509
Other	-	-	83,771	83,771
<b>Total Revenues</b>	<u>165,000</u>	<u>165,000</u>	<u>279,203</u>	<u>114,203</u>
<b>Expenditures</b>				
General Government	-	-	-	-
Police	-	-	-	-
Street Department	653,020	653,020	241,035	(411,985)
Health & Welfare	-	-	-	-
Building Commission	-	-	-	-
Municipal Court	-	-	-	-
Planning Commission	-	-	-	-
Fire Department	-	-	-	-
Park & Cemetary	-	-	-	-
Library	-	-	-	-
Debt Services:				
Principal Paid	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
<b>Total Expenditures</b>	<u>653,020</u>	<u>653,020</u>	<u>241,035</u>	<u>(411,985)</u>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<u>(488,020)</u>	<u>(488,020)</u>	<u>38,168</u>	<u>526,188</u>
Total Fund Balance, July 1, 2006			<u>(78,720)</u>	
Total Fund Balance, June 30, 2007			<u>\$ (40,552)</u>	



CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
Revolving Fund Sewer - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified	Over (Under)
	Original	Final	Cash Basis Actual	Final Budget
<b>Revenues</b>				
Taxes	\$ 298,000	\$ 298,000	\$ 303,036	\$ 5,036
Fees & Fines	-	-	-	-
Interest	-	-	218,886	218,886
Other	-	-	1,461,282	1,461,282
<b>Total Revenues</b>	<b>298,000</b>	<b>298,000</b>	<b>1,983,204</b>	<b>1,685,204</b>
<b>Expenditures</b>				
General Government	-	-	-	-
Police	-	-	-	-
Street Department	-	-	-	-
Health & Welfare	-	-	-	-
Building Commission	-	-	-	-
Municipal Court	-	-	-	-
Planning Commission	-	-	-	-
Fire Department	-	-	-	-
Park & Cemetary	-	-	-	-
Library	-	-	-	-
Sewer Construction	5,650,359	5,650,359	1,887,667	(3,762,692)
Debt Services:				
Principal Paid	204,600	204,600	-	(204,600)
Interest and Fiscal Charges	42,938	42,938	291,231	248,293
<b>Total Expenditures</b>	<b>5,897,897</b>	<b>5,897,897</b>	<b>2,178,898</b>	<b>(3,718,999)</b>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<b>(5,599,897)</b>	<b>(5,599,897)</b>	<b>(195,694)</b>	<b>5,404,203</b>
Total Fund Balance, July 1, 2006			7,123,584	
Prior Period Adjustment (Note VII)			(408,757)	
<b>Total Fund Balance, June 30, 2007</b>			<b>\$ 6,519,133</b>	

CITY OF HERCULANEUM  
JEFFERSON COUNTY, MISSOURI  
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-GAAP Budget Basis and Actual  
Sewer Fund - Modified Cash Basis  
For the Year Ended June 30, 2007

	Budgeted Amounts		Modified	Over (Under)
	Original	Final	Cash Basis Actual	Final Budget
OPERATING REVENUES				
Water and Sewer Collections and Fees	\$ 377,000	\$ 377,000	\$ 1,370,921	\$ 993,921
Service Charges	-	-	-	-
Other	-	-	-	-
Total Operating Revenues	<u>377,000</u>	<u>377,000</u>	<u>1,370,921</u>	<u>993,921</u>
OPERATING EXPENSES				
Personal services	112,781	112,781	125,506	12,725
Materials and supplies	26,256	26,256	7,792	(18,464)
Purchased water	-	-	-	-
Utilities and maintenance	65,500	65,500	55,000	(10,500)
Capital outlay	3,500	2,467	-	(2,467)
Other	16,000	16,000	261,643	245,643
Total Operating Expenses	<u>224,037</u>	<u>223,004</u>	<u>449,941</u>	<u>226,937</u>
OPERATING INCOME (LOSS)	152,963	153,996	920,980	766,984
NONOPERATING REVENUES (EXPENSES)				
Interest income	-	-	707	707
Miscellaneous income	20,000	20,000	-	(20,000)
Interest expense	-	-	-	-
Principal payments	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>20,000</u>	<u>20,000</u>	<u>707</u>	<u>(19,293)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	172,963	173,996	921,687	747,691
Capital contributions	-	-	-	-
Grant contributions	-	-	-	-
Transfers in	-	-	-	-
CHANGE IN NET ASSETS	<u>172,963</u>	<u>173,996</u>	921,687	<u>747,691</u>
NET ASSETS, JULY 1, 2006			(437,748)	
PRIOR PERIOD ADJUSTMENT (NOTE VII)			<u>408,757</u>	
NET ASSETS, JUNE 30, 2007			<u>\$ 892,696</u>	

**FEDERAL COMPLIANCE SECTION**



# Daniel Jones & Associates

MEMBERS OF  
MISSOURI SOCIETY OF CPA'S  
AMERICAN INSTITUTE OF CPA'S

CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable Mayor and  
Board of Aldermen  
City of Herculaneum, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the City of Herculaneum, Missouri, as of and for the year ended June 30, 2007, which collectively comprise the City of Herculaneum, Missouri's basic financial statements and have issued our report thereon dated February 18, 2008, which was modified because the City prepares its governmental activities financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We did not express an opinion on supplementary information required by the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Herculaneum, Missouri's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's



financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2007-1.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Herculaneum, Missouri's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing*.

The City of Herculaneum's comments to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's comments and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

*Daniel Jones & Associates*

DANIEL JONES & ASSOCIATES, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

February 18, 2008



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**Report on Compliance with Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

Honorable Mayor and  
Board of Aldermen  
City of Herculaneum, Missouri

**Compliance**

We have audited the compliance of the City of Herculaneum, Missouri (the "City") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular No. 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 June 30, 2007.

**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 the requirements that could have a 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Daniel Jones & Associates*

DANIEL JONES & ASSOCIATES, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

February 18, 2008

THE CITY OF HERCULANEUM, MISSOURI  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2007

Federal CFDA Number	Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal Share of Expenditures
14.251	U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Land Use / Blighting Study	B 03 SP MO 0377	\$ 14,022
20.205	FEDERAL HIGHWAY ADMINISTRATION Department of Transportation: Highway Planning and Construction	BRM-5403 (606)	538,012
66.458	OFFICE OF WATER, ENVIRONMENTAL PROTECTION AGENCY Department of Natural Resources: Sewer Construction Grant / Water Protection Program	C295490.01	<u>1,884,285</u>
Total Expenditures of Federal Awards			<u>\$ 2,436,319</u>



CITY OF HERCULANEUM - JEFFERSON COUNTY, MISSOURI  
 COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2007

**I. SUMMARY OF AUDITOR'S RESULTS**

**A. Financial Statements**

1. Type of auditor's report issued: unqualified modified cash basis
2. Internal control over financial reporting:
  - a. Any material weakness(es) identified?  Yes  No
  - b. Any significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported
3. Any noncompliance material to financial statements noted?  Yes  No

**B. Federal Awards**

1. Internal control over major programs:
  - a. Any material weakness(es) identified?  Yes  No
  - b. Any significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported
2. Type of auditor's report issued on compliance for major programs: unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?  Yes  No

4. Identification of major programs:

CFDA Number(s):	Name of Federal Program or Cluster	Amount
20.205	Highway Planning and Construction	\$ 538,012
66.458	Sewer Construction Grant / Water Protection Program	1,884,285

5. Dollar threshold used to distinguish between type A and type B programs: \$ 500,000
6. Auditee qualified as low-risk auditee?  Yes  No

CITY OF HERCULANEUM - JEFFERSON COUNTY, MISSOURI  
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

**II. FINANCIAL STATEMENT FINDINGS**

Finding: 2007-01

Criteria: Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters In An Audit*, which is effective for periods ending on or after December 15, 2006, considers inadequate documentation of the components of internal control to be at least a significant deficiency.

Cause: Due to the short time frame for the implementation of the new SAS requirement, the City of Herculaneum, Missouri did not prepare the required documentation.

Condition: Documentation of the components of internal controls has not been prepared.

Effect: The new SAS 112 considers inadequate documentation of the components of internal control to be at least a significant deficiency. Without documented internal controls, the City may not be able to ensure that controls are in place, communicated and operating effectively.

Recommendation: We recommend that the City develop the required internal control documentation. In addition, we recommend referring to the COSO internal control guidance and tools as a means to begin the process.

Management's Response: Management recognizes the importance of documenting the City's internal controls and has begun to prepare the appropriate documentation.

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

There were no audit findings related to internal control, compliance, questioned costs, or fraud that related to federal awards for the year ended June 30, 2007.

**CITY OF HERCULANEUM – JEFFERSON COUNTY, MISSOURI  
SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

**FINANCIAL STATEMENT FINDINGS**

The audit did not disclose any noncompliance that is material to the financial statements of the City for the year ended June 30, 2006.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no prior year audit findings related to internal control, compliance, questioned costs, or fraud that relate to federal awards for the year ended June 30, 2006.