

Lead Auditor for Governmental Write-Up Project

(Appendix 3)

This project refers to the services of a Lead Auditor in facilitating a local municipality audit assignment. Throughout this report, excerpts to demonstrate the obtained skills to process a client write-up will be portrayed in this appendix through presenting the general purpose financial statements and the notes of summary of significance accounting polices and other miscellaneous information for the Comprehensive Annual Financial Report (CAFR).

CITY OF DREAMS, PARADISE
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 1999

The Accounting Firm, CPA, P. C.
Certified Public Accountants
Dreams, Paradise

I. INTRODUCTORY SECTION

CITY OF DREAMS, PARADISE

ROSTER OF CITY OFFICIALS

June 30, 1999

Mayor – Person A. People

Mayor Pro-Tem – Person B. People

City Manager - Person C. People

Finance Director and City Clerk - Person D. People

Deputy City Clerk - Person E. People

CITY COUNCIL MEMBERS

Person F. People
Person G. People
Person H. People
Person I. People
Person B. People
Person J. People
Person A. People

OTHER CITY OFFICIALS

City Attorney – Person K. People

City Judge - Person L. People

CITY OF DREAMS, PARADISE
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June 30, 1999

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II. FINANCIAL SECTION

October 10, 2000

Independent Audit Report

Members of the City Council
City of Dreams
Dreams, Paradise 37643

We have audited the accompanying general-purpose financial statements and the combining, individual fund, and account group financial statements of the City of Dreams, Paradise as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the City of Dreams, Paradise's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Dreams City School System, which statements reflect total assets of \$1,765,192.00 as of June 30, 1999, and total revenues of \$10,239,310.00 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the general-purpose financial statements, in so far as it relates to the amounts included for the Dreams City School System, in the special revenue funds, is based on the report of the other auditors.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 3, a physical inventory of the City's fixed assets was not available for the year ended June 30, 1999. The records of the City do not provide for a self-balancing group of accounts for all general fixed assets, and accordingly, a statement of general fixed assets is presented with estimates from past years for information purposes only. Also, the enterprise funds' fixed asset records are incomplete.

In our opinion, except for the effect on the financial statements of the deficiency of incomplete fixed assets as described in the preceding paragraph, based on our audit and the report of other auditors, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of City of Dreams, Paradise, at June 30, 1999, 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. Also, in our opinion, except for the effect of the deficiency of incomplete fixed assets as described in the preceding paragraph, the combining, individual fund, and account group financial statements referred to above (other than the Dreams City School System, whose financial statements were audited by other auditors whose report expressed an unqualified opinion) present fairly, in all material respects, the financial position of each of the individual funds and account groups of City of Dreams, Paradise at June 30, 1999, and the results of operations of such funds and the cash flows of individual 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 a report dated October 10, 2000, on our consideration of City of Dreams' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, excluding the Dreams City School System.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining, individual fund and account group financial statements. The information listed as supporting schedules and statistical data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Dreams, Paradise. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the general purpose, combining, individual fund and account group financial statements and the audit of the Dreams City School System by other auditors and, in our opinion, except for the effects on fixed assets as discussed in the third paragraph above, such information is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

Certified Public Accountants

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF DREAMS, PARADISE
COMBINED BALANCE SHEET- ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

Assets	Governmental Funds		Proprietary Funds		Fund Type	Fiduciary Account Groups		Totals		(Memorandum Only) Primary Government
	General	Special Revenue	Capital Projects	Enterprise		Internal Service	Trust and Agency	General Fixed Assets	General Long Term Debt	
Cash	673,515.68	1,781,134.69	26,924.40	1,327,376.75	291,981.42	7,006.36				4,107,939.30
Investment at Cost	3,406,690.65	13,588.53	712,220.02	6,334,476.58		29,294.92				10,496,270.70
Receivables (Net of Allowances for Uncollectibles):										
Taxes	392,461.38									392,461.38
Accounts	1,736.18	3,215.00		2,721,671.10	1,760.49					2,728,382.77
Advance to Golf Course	250,000.00									250,000.00
Accrued Interest Receivable	12,535.42									12,535.42
Due From Other Funds	1,317,179.01	101,232.98		37,858.50	102,384.98					1,558,655.47
Due From Other Governments	171,451.98	260,865.00	121,906.34	28,340.79	3,445.56					586,009.67
Inventory at Cost	19,397.75	8,683.00		653,705.34	30,626.46					712,412.55
Prepaid Expenses	2,946.23	1,747.00		17,758.94						22,452.17
Restricted Assets:										
Cash and Investments at Cost	3,838,338.11		906,890.37	150.00						4,745,378.48
Other Assets				73,641.67						73,641.67
Plant, Property and Equipment - Net of Accumulated Depreciation				49,045,924.78	619,558.95		35,787,106.04			85,452,589.77
Amount to be Provided for Retirement of General Long-Term Debt									4,958,069.71	4,958,069.71
Total Assets	10,086,252.39	2,170,466.20	1,767,941.13	60,240,904.45	1,049,757.86	36,301.28	35,787,106.04	4,958,069.71	116,096,799.06	
Liabilities										
Cash in Bank (Overdraft)			339,101.41		57,422.15					396,523.56
Accounts Payable	1,633.41	6,806.00	20,963.25	2,283,410.77	200.36	617.26				2,313,631.05
Compensated Absences				1,051,578.43	10,940.02				329,813.71	1,392,332.16
Matured Bonds	1,500.00									1,500.00
Matured Bond Interest	2,283.25									2,283.25
Other Liabilities	5,000.00			281,298.09	75.68				14,656.00	301,029.77
Deferred Revenues	359,761.99			156,121.78						515,883.77
Due to Other Governments	17,674.85	4,357.50				3,643.17				25,675.52
Due to Other Funds	115,838.36	30,358.15		1,074,089.32	336,899.07	1,470.57				1,558,655.47
Customer Deposits				1,445,309.52						1,445,309.52
Notes Payable				4,381,890.90	558,553.00				293,600.00	5,234,043.90
Advance from General Fund				250,000.00						250,000.00
General Obligation Bonds Payable									4,320,000.00	4,320,000.00
Revenue Bonds Payable				6,301,229.98						6,301,229.98
Total Liabilities	503,691.86	41,521.65	360,064.66	17,224,928.79	964,090.28	5,731.00		4,958,069.71	24,058,097.95	

(Continued)

CITY OF DREAMS, PARADISE
COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

Fund Equity	Governmental Funds		Proprietary	Fund Type	Fiduciary Account Groups		Totals		(Memorandum Only) Primary Government
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long Term Debt	
Contributed Capital				4,714,317.78	9,379.77				4,723,697.55
Investment in General Fixed Assets							35,787,106.04		35,787,106.04
Retained Earnings:									
Reserved for Debt Service				866,780.00					866,780.00
Unreserved				37,434,877.88	76,287.81				37,511,165.69
Fund Balance:									
Reserved for Retirement	449,222.22								449,222.22
Reserved for School Expenditures		110,387.00							110,387.00
Reserved for Federal Projects		32,995.00							32,995.00
Reserved for Encumbrances	127,605.38	88,962.34							216,567.72
Reserved for Equipment		2,657.36							2,657.36
Unreserved:									
Designated for Other Specific Purposes	3,391,431.71	49,899.00	1,407,876.47						4,849,207.18
Undesignated	<u>5,614,301.22</u>	<u>1,844,043.85</u>				<u>30,570.28</u>			<u>7,488,915.35</u>
Total Fund Equity	<u>9,582,560.53</u>	<u>2,128,944.55</u>	<u>1,407,876.47</u>	<u>43,015,975.66</u>	<u>85,667.58</u>	<u>30,570.28</u>	<u>35,787,106.04</u>		<u>92,038,701.11</u>
Total Liabilities and Fund Balances	<u>10,086,252.39</u>	<u>2,170,466.20</u>	<u>1,767,941.13</u>	<u>60,240,904.45</u>	<u>1,049,757.86</u>	<u>36,301.28</u>	<u>35,787,106.04</u>	<u>4,958,069.71</u>	<u>116,096,799.06</u>

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

CITY OF DREAMS, PARADISE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND EQUITY - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Governmental Funds</u>		<u>Fund Type</u>	<u>Totals</u>	<u>Fiduciary</u>	<u>(Memorandum Only)</u> <u>Primary Government</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>Trust and Agency</u>	
Revenues:						
Taxes	6,926,299.22	2,240,139.00				9,166,438.22
Licenses and Permits	58,957.28					58,957.28
Intergovernmental	1,815,440.74	7,397,420.00	155,916.71	130,472.01		9,499,249.46
Charges for Services	1,197,440.65	772,849.53				1,970,290.18
Fines and Forfeits	88,339.29	30,767.90				119,107.19
Private Contributions		97,427.00				97,427.00
Miscellaneous	215,752.20	7,412.17			609.50	223,773.87
Interest Earned	404,714.31	34,055.12	88,575.49	1,655.49		529,000.41
Total Revenues	<u>10,706,943.69</u>	<u>10,580,070.72</u>	<u>244,492.20</u>	<u>132,737.00</u>		<u>21,664,243.61</u>
Expenditures:						
General Government	1,017,381.05	632,208.03				1,649,589.08
Public Safety	2,704,531.42					2,704,531.42
Public Works	921,144.54			132,084.19		1,053,228.73
Health and Welfare	114,222.67					114,222.67
Building Code Enforcement	153,372.31					153,372.31
Community Development Administration	228,967.53					228,967.53
Culture and Recreation	655,418.13					655,418.13
Special Appropriations	160,148.00					160,148.00
Education		11,576,927.00				11,576,927.00
Capital Outlay	787,987.77	1,182,337.23	469,323.21			2,439,648.21
Debt Service:						
Principal Retirement	371,408.36					371,408.36
Interest and Fiscal Charges	251,117.69	79.53				251,197.22
Refunds to State	_____	6,692.00	_____	_____		6,692.00
Total Expenditures	<u>7,365,699.47</u>	<u>13,398,243.79</u>	<u>469,323.21</u>	<u>132,084.19</u>		<u>21,365,350.66</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,341,244.22</u>	<u>(2,818,173.07)</u>	<u>(224,831.01)</u>	<u>652.81</u>		<u>(298,892.95)</u>
Other Financing Sources (Uses):						
Operating Transfers In	39,769.47	3,259,269.33	41,000.00			3,340,038.80
Operating Transfers Out	(2,893,117.33)	(41,470.47)	(542,276.00)			(3,476,863.80)
Sale of Assets	46,502.48	_____	_____			46,502.48
Total Other Increases (Decreases)	<u>(2,806,845.38)</u>	<u>3,217,798.86</u>	<u>(501,276.00)</u>	_____		<u>(90,322.52)</u>
Excess (Deficiency) of Revenues and Other Increases Over Expenditures and Other Uses	534,398.84	399,625.79	(726,107.01)	652.81		208,570.43
Adjusted Fund Balance, July 1	9,051,575.29	1,729,318.76	2,395,669.50	29,917.47		13,206,481.02
Residual Equity Transfers	(3,413.60)	_____	(261,686.02)	_____		(265,099.62)
Fund Balance, June 30	<u>9,582,560.53</u>	<u>2,128,944.55</u>	<u>1,407,876.47</u>	<u>30,570.28</u>		<u>13,149,951.83</u>

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

CITY OF DREAMS, PARADISE
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (GAAP BASIS)**
ALL GOVERNMENTAL FUND TYPES
 For the Year Ended June 30, 1999

	General Fund			Special Revenue Fund Types		Variance - Favorable (Unfavorable)
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	
Revenues:						
Taxes	6,260,156.00	6,926,299.22	666,143.22	2,218,175.00	2,240,139.00	21,964.00
Licenses and Permits	58,050.00	58,957.28	907.28			
Intergovernmental	1,747,150.00	1,815,440.74	68,290.74	7,522,503.00	7,397,420.00	(125,083.00)
Charges for Services	1,229,325.00	1,197,440.65	(31,884.35)	775,826.00	772,849.53	(2,976.47)
Fines and Forfeits	85,000.00	88,339.29	3,339.29	30,000.00	30,767.90	767.90
Miscellaneous	189,489.00	215,752.20	26,263.20	14,375.00	7,412.17	(6,962.83)
Interest Earned	404,000.00	404,714.31	714.31	32,000.00	34,055.12	2,055.12
Private Contributions				69,500.00	97,427.00	27,927.00
Total Revenues	<u>9,973,170.00</u>	<u>10,706,943.69</u>	<u>733,773.69</u>	<u>10,662,379.00</u>	<u>10,580,070.72</u>	<u>(82,308.28)</u>
Expenditures:						
General Government	1,064,703.00	1,017,381.05	47,321.95	725,573.00	632,208.03	93,364.97
Public Safety	2,804,488.00	2,704,531.42	99,956.58			
Public Works	976,894.00	921,144.54	55,749.46			
Health and Welfare	121,426.00	114,222.67	7,203.33			
Building Code Enforcement	173,055.00	153,372.31	19,682.69			
Community Development						
Administration	234,516.00	228,967.53	5,548.47			
Culture and Recreation	674,766.00	655,418.13	19,347.87			
Special Appropriations	160,148.00	160,148.00				
Debt Service	785,267.00	622,526.05	162,740.95	100.00	79.53	20.47
Education				11,999,646.00	11,576,927.00	422,719.00
Refunds to State					6,692.00	(6,692.00)
Capital Outlay	869,790.00	787,987.77	81,802.23	673,012.00	1,182,337.23	(509,325.23)
Total Expenditures	<u>7,865,053.00</u>	<u>7,365,699.47</u>	<u>499,353.53</u>	<u>13,398,331.00</u>	<u>13,398,243.79</u>	<u>87.21</u>
Excess (Deficiency) Revenues over Expenditures	<u>2,108,117.00</u>	<u>3,341,244.22</u>	<u>1,233,127.22</u>	<u>(2,735,952.00)</u>	<u>(2,818,173.07)</u>	<u>(82,221.07)</u>
Other Financing Sources (Uses):						
Operating Transfers In	785,000.00	39,769.47	(745,230.53)	2,729,639.00	3,259,269.33	529,630.33
Operating Transfers Out	(2,893,117.00)	(2,893,117.33)	(.33)	(48,096.00)	(41,470.47)	6,625.53
Sale of Assets		46,502.48	46,502.48			
Total Other Financing Sources (Uses)	<u>(2,108,117.00)</u>	<u>(2,806,845.38)</u>	<u>(698,728.38)</u>	<u>2,681,543.00</u>	<u>3,217,798.86</u>	<u>536,255.86</u>
Excess (Deficiency) of Revenue and Other Sources Over Expenditures and Other Uses		534,398.84	534,398.84	(54,409.00)	399,625.79	454,034.79
Adjusted Fund Balance July 1, 1998		9,051,575.29	9,051,575.29	1,566,883.00	1,729,318.76	(162,435.76)
Residual Equity Transfers		(3,413.60)	(3,413.60)			
Fund Balance, June 30		<u>9,582,560.53</u>	<u>9,582,560.53</u>	<u>1,512,474.00</u>	<u>2,128,944.55</u>	<u>(616,470.55)</u>

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

CITY OF DREAMS, PARADISE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (GAAP BASIS)
 GOVERNMENTAL FUND TYPES (With Budgets)
 For the Year Ended June 30, 1999

	Capital Projects Funds		Variance - Favorable (Unfavorable)
	Budget	Actual	(Unfavorable)
Revenues:			
Taxes			
Licenses and Permits			
Intergovernmental	380,500.00	155,916.71	(224,583.29)
Charges for Services			
Fines and Forfeits			
Miscellaneous			
Interest Earned		85,500.30	85,500.30
Private Contributions			
Total Revenues	380,500.00	241,417.01	(139,082.99)
Expenditures:			
General Government			
Public Safety			
Public Works			
Health and Welfare			
Building Code Enforcement			
Community Development			
Administration			
Culture and Recreation			
Special Appropriations			
Debt Service			
Education			
Capital Outlay	1,751,500.00	469,323.21	1,282,176.79
Industrial Development			
Total Expenditures	1,751,500.00	469,323.21	1,282,176.79
Excess (Deficiency) Revenues over Expenditures	(1,371,000.00)	(227,906.20)	1,143,093.80
Other Increases (Decreases):			
Operating Transfers In	41,000.00	41,000.00	
Operating Transfers Out	(1,000,000.00)	(542,276.00)	457,724.00
Sale of Assets			
Total Other Increases (Decreases)	(959,000.00)	(501,276.00)	457,724.00
Excess (Deficiency) of Revenue and Other Increases Over Expenditures and Other Uses	(2,330,000.00)	(729,182.20)	1,600,817.80
Adjusted Fund Balance July 1, 1998	2,330,000.00	2,136,779.87	(193,220.13)
Residual Equity Transfers	_____	_____	_____
Fund Balance, June 30	_____	1,407,597.67	1,407,597.67

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

CITY OF DREAMS, PARADISE
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS -
ALL PROPRIETARY FUND TYPES
For the Year Ended June 30, 1999

	<u>Proprietary Fund Types</u>	<u>Totals</u>	
	<u>Enterprise</u>	<u>Internal Service</u>	<u>(Memorandum Only) Primary Government</u>
Operating Revenues:			
Charges for Services	<u>39,326,404.75</u>	<u>588,287.75</u>	<u>39,914,692.50</u>
Operating Expenses:			
Purchases of Power, Water and Other	25,930,127.79	191,330.23	26,121,458.02
Other Operating Expenses	3,523,679.87	12,038.48	3,535,718.35
Maintenance	1,955,664.31	70,511.65	2,026,175.96
Depreciation	2,076,693.33	11,948.08	2,088,641.41
Tax Equivalent	840,389.71		840,389.71
Payroll Taxes	155,944.62		155,944.62
Treatment, Transmission and Utilities	2,230,933.06	17,759.24	2,248,692.30
Administrative	<u>1,069,377.47</u>	<u>184,724.13</u>	<u>1,254,101.60</u>
Total Operating Expenses	<u>37,782,810.16</u>	<u>488,311.81</u>	<u>38,271,121.97</u>
Operating Income	<u>1,543,594.59</u>	<u>99,975.94</u>	<u>1,643,570.53</u>
Other Revenues (Expenses):			
Operating Grants	35,806.29		35,806.29
Operating Transfers In	35,000.00		35,000.00
Interest Revenue	424,461.01	4,825.87	429,286.88
Interest Expense	(672,948.13)	(28,813.54)	(701,761.67)
Other	<u>19,610.57</u>	<u>299.54</u>	<u>19,910.11</u>
Total Non-Operating Revenues (Expenses)	<u>(158,070.26)</u>	<u>(23,688.13)</u>	<u>(181,758.39)</u>
Net Income	1,385,524.33	76,287.81	1,461,812.14
Addition - Depreciation for Assets Acquired with Contributed Capital	<u>166,864.56</u>	<u> </u>	<u>166,864.56</u>
Increase in Retained Earnings	1,552,388.89	76,287.81	1,628,676.70
Adjusted Retained Earnings, July 1	36,749,268.99	(3,413.60)	36,745,855.39
Residual Equity Transfer	<u> </u>	<u>3,413.60</u>	<u>3,413.60</u>
Retained Earnings, June 30	<u>38,301,657.88</u>	<u>76,287.81</u>	<u>38,377,945.69</u>

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

CITY OF DREAMS, PARADISE
COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Funds	Totals	
	Enterprise	Internal Service	(Memorandum Only) Primary Government
<u>Cash Flows from Operating Activities:</u>			
Operating Income	1,530,811.45	100,275.48	1,631,086.93
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Provision for Uncollectible Accounts	72,000.00		72,000.00
Depreciation and Amortization	2,223,834.25	11,948.08	2,235,782.33
Change in Assets and Liabilities:			
Decrease (Increase) in:			
Accounts Receivable	(389,626.20)		(389,626.20)
Inventory	405.81	(4,053.92)	(3,648.11)
Prepaid Expenses	823.04		823.04
Other Receivables			
Increase (Decrease) in:			
Accounts Payable	126,060.73	(47,951.43)	78,109.30
Due to /From Other Funds/Governments	181,394.04	33,299.77	214,693.81
Customers Deposits	120,681.24		120,681.24
Other Liabilities	(10,170.16)	3,015.99	(7,154.17)
Total Adjustments	<u>2,325,402.75</u>	<u>(3,741.51)</u>	<u>2,321,661.24</u>
Net Cash Provided by Operating Activities	<u>3,856,214.20</u>	<u>96,533.97</u>	<u>3,952,748.17</u>
<u>Cash Flow from Capital and Related Financing Activities:</u>			
Proceeds from Loans/Notes/Bonds	878,497.00		878,497.00
Acquisition and Construction of Capital Assets	(4,674,634.12)	(136,339.31)	(4,810,973.43)
Principal Paid on Revenue Bonds	(575,104.68)		(575,104.68)
Principal Paid on Notes Payable	(627,296.22)	(130,296.32)	(757,592.54)
Interest Paid on Bonds and Other Liabilities	(341,299.33)	(28,813.54)	(370,112.87)
Capital Contributed by Customers	64,957.15		64,957.15
Grants	447,808.42		447,808.42
Capital Contributions – Local Municipality	261,902.39		261,902.39
Capital Contributions – State Department of Aeronautics	269,881.02		269,881.02
Other	(10,114.63)	.	(10,114.63)
Net Cash Used for Capital and Related Financing Activities	<u>(4,305,403.00)</u>	<u>(295,449.17)</u>	<u>(4,600,852.17)</u>

9
(Continued)

CITY OF DREAMS, PARADISE
COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Proprietary Funds</u>	<u>Totals</u>	<u>(Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Primary Government</u>
<u>Cash Flows from Investing Activities:</u>			
Proceeds from/Purchase of Investment Securities	798,974.67		798,974.67
Interest on Investments	396,220.81	4,825.87	401,046.68
Certificate of Deposit	(347.88)		(347.88)
Driving Range Escrow	(100,000.00)		(100,000.00)
Fiscal Agent Fees	<u>3,079.45</u>		<u>3,079.45</u>
Net Cash Used in Investing Activities	<u>1,097,927.05</u>	<u>4,825.87</u>	<u>1,102,752.92</u>
Net Increase (Decrease) in Cash	648,738.25	(194,089.33)	454,648.92
Cash, July 1	<u>678,638.50</u>	<u>428,648.60</u>	<u>1,107,287.10</u>
Cash, June 30	<u>1,327,376.75</u>	<u>234,559.27</u>	<u>1,561,936.02</u>

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

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Dreams have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities the City has adopted GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. In addition to applying the FASB pronouncements and APB opinions, the proprietary activities apply all FASB Statements and Interpretations issued after November 30, 1989, except for any that conflict or contradict GASB pronouncements or are limited to not-for-profit organizations. The more significant of the City's accounting policies are described below.

A. Reporting Entity

City of Dreams is a municipal corporation governed by a Modified City Manager-Council form of government. As required by generally accepted accounting principles, these financial statements present the primary government. The City of Dreams has no discretely presented component units and no blended component units. Two new special revenue funds were established to account for revenues to be used for the following specific purposes: Police Community Relations and the Dreams Bicentennial Celebration in 1999.

Primary Government – Special Revenue Fund:

The Dreams Board of Education - The Dreams City School System was created and currently operates in accordance with the provisions set forth in the PCA and the City municipal charter. The five school board members are elected at large for four years. The citizens of the City are the primary beneficiaries of the school system. The City's General Fund contributes a sizable appropriation to the General Purpose School Fund. Other school system revenue is provided by state, federal, and other statutory sources. Also, the City is responsible for all applicable indebtedness incurred by the system.

Primary Government – Enterprise Funds:

Dreams Electric System - The Dreams Electric System was established in accordance with the PCA Power Act of 1937 by the City of Dreams. The majority of the plant, equipment, and other resources of the system are located within the corporate boundaries of the City. Electric service is provided to customers both inside and outside the city. The five members of the Dreams Power Board are exclusively appointed for four-year terms by the City council. All revenues generated from customers in the system are used exclusively for the operation, maintenance, and expansion of the system. The City of Dreams is responsible for authorizing all applicable indebtedness incurred by the system.

Dreams Municipal Golf Course - The City owns all assets associated with the Dreams Municipal Golf Course. The Golf Course was established for the use and benefit of the citizens of Dreams and surrounding areas. The City, by resolution in accordance with PCA 48-51-201 (29 et. seq.), authorized the Municipal Golf Course Board of Directors to incorporate as a non-profit, public benefit corporation. The Board of Directors manages and operates the day-to-day activities of the Golf Course. Membership on the Board of Directors consists of eight members elected by the membership of the public benefit corporation; three members of the Dreams City Council appointed by the City Council; one member elected by the women's golf association; and the director of the City's Park and Recreation Department. The City Council is ultimately responsible for all indebtedness approved for the golf course. The Board of Directors have the authority to borrow funds subject to the approval of the Dreams City Council. All revenues generated by the Dreams Municipal Golf Course are used exclusively for operation, maintenance and expansion of the golf course facilities.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1 - Summary of Significant Accounting Policies - (continued)

A. Reporting Entity - (continued)

Primary Government – Enterprise Funds – (continued):

Dreams Municipal Airport - The Dreams Municipal Airport Authority was created in accordance with PCA Sec. 42-3-101 through 42-3-103 and Sec. 42-5-101 through 42-5-205. The Dreams Municipal Airport Authority Commissioners are appointed for five year terms by the Dreams City Council. The City is responsible for all airport indebtedness.

Primary Government – Expendable Trust Fund:

East Paradise Railroad Authority - The East Paradise Railroad Authority was established in accordance with Paradise Code Annotated (PCA) 7-56-201 et. seq. and includes representation of members appointed by the City of Dreams and Vacation County, Paradise. The sole purpose of the authority is to provide railroad transportation maintenance and improvements and rail service within the City and the County. The majority of the rail service in Vacation County is located within the municipal corporation boundaries of the City of Dreams.

Related Organizations:

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments.

The following organizations are related organizations, which have not been included in the reporting entity:

Dreams/Vacation County Economic Development Commission - The City Manager of the City is a continuing appointment along with two City Council member appointments made by the City Council. An annual appropriation is made by the City, but the City has no direct or implied responsibility for indebtedness incurred by the Economic Development Commission.

Vacation County Emergency 911 Communications District - The board of the Vacation County Emergency 911 Communications District includes the City police chief, fire chief and one appointment by the City Council for a five-year term. Included in the City annual budget process, a direct appropriation is made for necessary emergency and non-emergency dispatching of public safety and public works functions. The City is not responsible for any direct or indirect debt of the District.

Vacation County Equalization Board - The City only appoints one member for a one-year term. No assistance is provided to this board, and the City has no responsibility for any debts.

Health and Education Facilities Board - All seven members of the Health and Education Facilities Board are appointed by the City Council for six year terms. The Board is a non-profit corporation. No financial assistance is made by the City Council.

Watauga Regional Library Board - The City Council appoints one member for a three-year term.

Vacation County Solid Waste Disposal System Board - The City appoints two members to the Board and the County appoints two members. A fifth member is jointly approved by both the City Council and the Vacation County Commission. Also, the City Manager is an ex-officio member. No appropriation is made by the City to this Board. The City and County have entered into an agreement to jointly and cooperatively operate and maintain a solid waste disposal system for the duration of the life of the Campbell Hollow Solid Waste Sanitary Landfill. The proceeds of the disposal of all land and property purchased jointly will be returned in equal parts to the City and County.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1 - Summary of Significant Accounting Policies - (continued)

A. Reporting Entity - (continued)

Solid Waste Regional Board - The City has one appointment to this Board.

Dreams Housing Authority - Commissioners of the Authority are appointed by the Mayor, but the City does not provide funding, has no obligation for the debt issued by the Authority, and cannot impose its will.

Joint Ventures:

Tri-County Industrial Park - Tri-County Industrial Park is a joint venture between the City of Dreams, City of Party City, City of Hope, Paradise and Sleepy County. The purpose is to promote regional economic development in the quad-city area. The joint venture owns all vacant parcels of land used for industrial and economic development. The City of Dreams' share is 12 1/2%. Any sales of available land result in the City receiving a 12 1/2% distribution of the proceeds. No indebtedness exists at the present time.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental Funds are used to account for the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "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 pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year end except sales tax revenues that are not recognized until received. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the government are not recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1 - Summary of Significant Accounting Policies - (continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation - (continued):

The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The capital projects funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal Service funds account for operations that provide services to other departments or agencies of the government, or to other government, or to other governments, on a cost-reimbursements basis.

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Trust and Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include one expendable trust, East Paradise Railroad Authority Fund and one nonexpendable trust, Earl B. Bolling Memorial Trust Fund. Expendable trust funds are accounted for in essentially the same manner as governmental funds; whereas, nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds.

Account Groups - The general fixed assets account group is used to account for fixed assets not accounted for in proprietary or trust funds. The general long-term debt account group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

City's investment policy authorizes the City to invest in obligations of the U.S. Treasury, U.S. Government agencies and the State Treasurer's Investment Pool. Certificates of Deposit from commercial banks are also recorded as investments.

Investments are stated at cost or amortized cost. All interest earned on investments is recorded in the fund of the investment.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1 - Summary of Significant Accounting Policies - (continued)

C. Assets, Liabilities and Equity - (continued)

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectible. The property tax receivable allowance is equal to 6.0 percent of outstanding property taxes at June 30, 1999. Estimated uncollectible taxes were based on the prior years collection experience.

Property taxes are levied as of August 1 on property values assessed on the same date. The billings are considered past due on January 1 at which time the applicable property is subject to lien and penalties and interest are assessed. For the fiscal year ending June 30, 1999, the 1998 calendar - year property tax rate was \$2.61 per \$100.00 of assessed value.

3. Inventories and Prepaid Items

Inventories in the General and Water & Sewer Funds are valued at cost using the first-in/first-out (FIFO) method. Existing inventories in the Garage Fund are revalued to current prices as additional items are purchased and include a ten to twenty-five percent mark-up. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items. Balances for governmental funds include postage, insurance, finance charges, and travel advances.

4. Restricted Assets

Certain assets of the General Fund are classified as restricted by management. Management has restricted the cash and investments for future payment of bonds, retirement costs and industrial development.

Also, the Water and Sewer Enterprise has assets restricted for future payment of bonds.

5. Fixed Assets

Fixed assets used in governmental fund types of the City are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1 - Summary of Significant Accounting Policies - (continued)

C. Assets, Liabilities and Equity - (continued)

5. Fixed Assets (continued)

Property, plant, and equipment in the proprietary funds of the City are recorded at cost. Property, plant, and equipment donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and internal service funds of the City using the straight line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	25-40
Building Improvements	30-40
System Infrastructure	10-40
Vehicles	5-10
Office Equipment and Furniture	5-20
Other Equipment	5-10
Software	3-5

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay 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. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

7. Long-term Obligations

The City reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance cost, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 1 - Summary of Significant Accounting Policies - (continued)

C. Assets, Liabilities and Equity - (continued)

8. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings for enterprise funds are recorded to segregate a portion for debt service. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds. Tap fees in excess of related costs were recorded as contributed capital. The portion of the fee not exceeding cost of installation is reported as revenue.

9. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

D. Budgetary Reporting

The City Council authorizes an annual operating budget ordinance for expenditures and related estimated revenues for the general fund, all special revenue funds, and capital projects funds. The City's financial operations are subject to the comprehensive appropriated budget. Budget amendments are authorized during the year. The Statements of Budget to Actual include the final amended budget amounts.

The budgetary basis only differs from Generally Accepted Accounting Principles concerning the reporting of property tax collections. The budget is prepared using the actual cash collections expected. The actual amounts reported by the modified accrual basis are immaterially different from the cash basis used for the budget.

Publication Note: Other significant notes have been deleted for this portfolio presentation purposes.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 15 - Other Information

A. Segment Information - Enterprise Funds

The City maintains four enterprise funds. The Water and Sewer Fund accounts for the provision of basic utility services to all citizens. The Dreams Electric System accounts for the distribution system that provides electric service. Also, the Municipal Airport and Golf Course provide services to the citizens of the City.

Selected segment information for the year ended June 30, 1999 was as follows:

	<u>Water and Sewer Fund .</u>	<u>Dreams Electric System .</u>	<u>Municipal Airport .</u>	<u>Municipal Golf Course .</u>	<u>Total .</u>
Operating Revenues	4,235,736	34,158,364	267,932	664,372	39,326,404
Depreciation and Amortization Expense	858,294	1,193,819	69,583	102,139	2,223,835
Operating Income or (Loss)	(299,684)	1,815,638	(62,393)	90,034	1,543,595
Operating Grants, Entitlements, and Shared Revenues		35,806			35,806
Operating Transfers			35,000		35,000
Net Income	(258,046)	1,626,353	(42,156)	59,374	1,385,525
Current Capital Contributions	64,957		531,783		596,740
Property, Plant, and Equipment:					
Additions	1,521,898	2,717,759	27,092	67,980	4,334,729
Deletions	4,875	677,235		80,616	762,726
Net Working Capital	4,381,367	479,152	162,787	(57,254)	4,966,052
Total Assets	22,912,998	34,247,794	1,470,038	1,610,075	60,240,905
Bonds and Other Long-Term Liabilities:					
Payable from Operating Revenue	4,735,474	5,580,351	203,060	665,416	11,184,301
Total Equity	<u>16,663,115</u>	<u>24,532,790</u>	<u>1,208,827</u>	<u>611,244</u>	<u>43,015,976</u>

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 15 - Other Information – (continued)

B. 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 all full-time government employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirements, death, or 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 participant or beneficiary) solely the property of the City subject only to the claims of the City's general creditors. Participant's 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 value of the plan as of June 30, 1999 was \$958,559.21.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes it is unlikely that it will use the assets to satisfy the general creditors in the future.

C. Other Postemployment Benefits

The City provides postretirement health benefits, as per the requirements of a local ordinance, for certain retirees and their dependents. The City's contributions are financed on a pay-as-you-go basis.

Current retirees, or employees that qualified as of July 31, 1994, for full service retirement under guidelines of the Paradise Consolidated Retirement System may continue to participate in the group health insurance program of the City. The City will pay 100% of the monthly premium for coverage of the retiree until age 65. Family coverage is offered at a subsidized rate, subject to change annually.

Employees that did not qualify as of July 31, 1994 for full service retirement, under the guidelines of the Paradise Consolidated Retirement System, but retire from the City may, at their own expense, continue to participate in the health insurance program of the City.

At June 30, 1999 twenty-one (21) retired employees were included on the City's Group Health Insurance Plan with a FY 1998/99 annual cost of \$59,384.64 to the City.

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 15 - Other Information – (continued)

C. Reconciliation of Net Income per Cash Flow Statement

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
Operating Revenue per Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - - Enterprise Funds (page 8)	1,543,594.59	99,975.94	1,643,570.53
Add Non-Operating Revenues Included on Above Schedule in "Other Revenues (Expenses)":			
Miscellaneous Income	18,263.44	299.54	18,562.98
Appropriation – City General Fund	35,000.00		35,000.00
Contributions to Economic Development Commission	(35,000.00)		(35,000.00)
Inventory Adjustment	(28,224.18)		(28,224.18)
Amortization of Issue Costs	<u>(2,822.40)</u>		<u>(2,822.40)</u>
Net Operating Income as Reported on the Combined Statement of Cash Flows	<u>1,530,811.45</u>	<u>100,275.48</u>	<u>1,631,086.93</u>

E. Reconciliation of Total Capital Project Funds to Capital Project Funds with Budgets

The Revenues, Expenditures, and Changes in Fund Equity for the Capital Projects Funds as reported on the Combined Statement of Revenues, Expenditures, and Changes in Fund Equity – All Governmental Fund Types and Expendable Trust Funds (page 5) does not agree with the Budget to Actual amounts for Capital Projects Funds (page 7). The Budget to Actual totals only includes the individual funds for which an annual budget is adopted.

Budgets were adopted for the following Capital Project Funds: Park and Recreation Fund; Special Projects Fund; and General Obligation 1994 Series Bond and 1999 Series Bond Proceeds Fund. The only fund without a budget is the Dreams Municipal Airport Capital Projects Fund.

Reconciliation of totals per the Combined Statement of Revenues, Expenditures and Changes in Fund Equity (page 5) to the Actual Totals reported on the Combined Budget to Actual Statement (page 7) is as follows:

	<u>Actual Totals for Funds With Budgets (page 7)</u>	<u>Amounts for the Airport Fund (page 42)</u>	<u>Total All (page 5)</u>
Revenues:			
Grants	155,916.71		155,916.71
Interest	<u>85,500.30</u>	<u>3,075.19</u>	<u>88,575.49</u>
Total Revenues	241,417.01	3,075.19	244,492.20
Expenditures:			
Capital Outlay	(1,011,599.21)		(1,011,599.21)
Operating Transfers	41,000.00		41,000.00
Adjusted Fund Balance	2,136,779.87	258,889.63	2,395,669.50
Residual Equity Transfer		<u>(261,686.02)</u>	<u>(261,686.02)</u>
Fund Balance, June 30, 1999	<u>1,407,597.67</u>	<u>278.80</u>	<u>1,407,876.47</u>

CITY OF DREAMS, PARADISE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999

Note 16 – Year 2000 Compliance

The City of Dreams, Paradise, is currently working to resolve the potential impact of the Year 2000 (Y2K) on the processing of date-dependent information by the computerized information systems being utilized in all departments of the City. These departments are in the remediation stage of compliance. While a Y2K compliance plan has been developed and is being implemented, there still remain components of the automated environments within those offices that are not Y2K compliant. The Y2K issue is the result of computer programs being written using two digits (rather than four) to define a year. This could result in miscalculations or system failures. These departments have spent \$103,418 during the 1998-99 year to make their application software, operating systems, and computer hardware Y2K compliant. It is estimated that \$1,000,000 will be required to complete the Y2K conversion. As of June 30, 1999, \$498,725 has been spent for Y2K conversion. These costs are not expected to have a material impact on the local government's financial operations. However, if these departments and/or their hardware and software vendors are unable to resolve the outstanding Y2K issues in a timely manner, the Y2K issue could result in a material financial risk. These departments plan to devote the necessary resources to resolve all remaining Y2K issues in a timely manner.

Note 17 – Subsequent Events

The Paradise Department of Revenue performed a Sales and Use Tax audit for the period from January 1, 1996 to July 31, 1999. It was found that the City was deficient in payment of the Sales and Use Tax for the period audited. The amount is immaterial to the City.