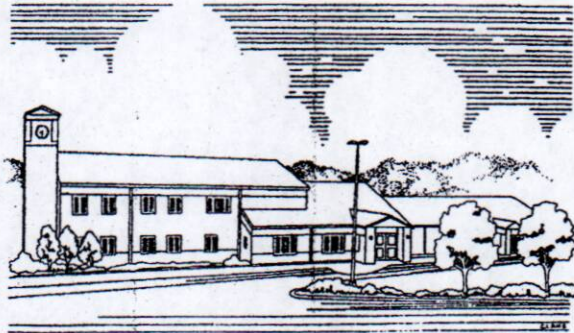




**CITY of ARNOLD
MISSOURI**



**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

*For The Fiscal Year Ended
August 31, 2006*

CITY OF ARNOLD, MISSOURI

**Comprehensive Annual Financial Report
For The Fiscal Year Ended August 31, 2006**

Prepared by the Finance Department
Vivian McKenzie, Finance Director

CITY OF ARNOLD, MISSOURI
FINANCIAL REPORT

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**INTRODUCTORY
SECTION**



City of Arnold

Mark Powell, Mayor

January 25, 2007

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Arnold:

The comprehensive annual financial report of the City of Arnold, Missouri (the City) for the fiscal year ended August 31, 2006, is hereby submitted. This report consists of management's representations concerning the finances of the City of Arnold. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City of Arnold's financial statements were audited by Hochschild, Bloom & Company LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended August 31, 2006, are free of material misstatement. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Arnold's financial statements for the fiscal year ended August 31, 2006, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Arnold's MD&A can be found immediately following the report of the independent auditors.

Profile of the City

The City of Arnold, incorporated in 1972, is located on the eastern border of the State of Missouri, south of the Meramec River at its confluence with the Mississippi River. The central business district of the City of St. Louis is about 17 miles to the north. Interstate Highway 55, U.S. Highway 61-67, and State Highways 141 and 231 provide access to St. Louis City and St. Louis County.

The City of Arnold has operated under the mayor-council-city administrator form of government since 1972. Policy making and legislative authority are vested in a governing council consisting of the mayor and eight council members. The governing council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the city administrator, police chief, and city attorney. The city administrator is responsible for carrying out the policies and ordinances of the governing council and for overseeing the day-to-day operations of the City. The council is elected on a non-partisan basis. Council members serve

City Hall
2101 Jeffco Blvd.
Arnold, MO 63010
636/296-2100

Parks and Recreation
1695 Missouri State Rd.
Arnold, MO 63010
636/282-2380

Public Works
2912 Arnold Tenbrook
Arnold, MO 63010
636/282-2386

two-year staggered terms, with four council members elected every year. The mayor is elected to

The City's recreation center operates as a department of the City, but is reported as a separate governmental fund. The sewer and storm water system services are reported separately as proprietary funds in the City's financial statements.

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The annual budget serves as the foundation for the City's financial control. All departments of the City are required to submit requests for appropriations to the city administrator and finance director. These requests are then used as a starting point for developing a proposed budget. The city administrator and finance director present this proposed budget to the city council for review prior in July. The council is required to hold a public hearing on the proposed budget and to adopt a final budget prior to September 1. The appropriated budget is used by each department (e.g., police). The city administrator has the authority to make transfers of appropriations between line items within individual departments, however, transfers between departments, require approval of the city council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented as part of the financial statements for the governmental funds.

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Local economy

The local economy has been stable in recent years. The current year real estate tax base showed growth of 3% above last year's levels. The City's housing stock, geographic location, and variety of services have kept real estate marketable. Commercial vacancies remain modest while the potential for further retail and industrial development appears highly favorable within the next five years.

The economic condition and outlook of the City of Arnold in the current year real estate tax base showed growth of 3% above last year's levels. The City's housing stock, geographic location, and variety of services have kept real estate marketable. Commercial vacancies remain modest while the potential for further retail and industrial development appears highly favorable within the next five years.

Jefferson County rose from an initial low of 1.9% (1999) to a decade high of 5.6% (2004), only to decline once more to the current rate of 4.4%. In conjunction with local Tax Increment Financing (TIF) projects that are in process, a number of new retail sales and service establishments will open for business, bringing several hundreds jobs to the City over the next few years.

During the past ten years, the unemployment rate for Jefferson County rose from an initial low of 1.9% (1999) to a decade high of 5.6% (2004), only to decline once more to the current rate of 4.4%. In conjunction with local Tax Increment Financing (TIF) projects that are in process, a number of new retail sales and service establishments will open for business, bringing several hundreds jobs to the City over the next few years.

The City's utility taxes. Utility tax receipts are likely to continue to increase at a modest rate. As was the case in fiscal year 2005, general sales tax receipts increased in fiscal year 2006. Due to level retail sales, sales tax receipts are anticipated to remain stable or decrease slightly until the new TIF projects are in place. Little to no growth in sales tax has been a regional trend, and the City has demonstrated its ability to compress government expenditures to accommodate a tight economy or temporary downturn in revenue. It is anticipated this trait will continue.

The City's tax structure relies primarily on sales taxes and is likely to continue to increase at a modest rate. As was the case in fiscal year 2005, general sales tax receipts increased in fiscal year 2006. Due to level retail sales, sales tax receipts are anticipated to remain stable or decrease slightly until the new TIF projects are in place. Little to no growth in sales tax has been a regional trend, and the City has demonstrated its ability to compress government expenditures to accommodate a tight economy or temporary downturn in revenue. It is anticipated this trait will continue.

The City continues to evaluate the City's transportation system. Several major road and bridge projects are currently under construction or were completed this year. Partial funding for these projects will come from Federal Surface Transportation Programs (STP) and Federal Congestion

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Mitigation and Air Quality (CMAQ) programs with the balance being funded through the Jefferson County Capital Improvement Tax.

Long-term financial planning

The City desires to plan for the success of Arnold for decades to come. To encourage growth and stability, the City has actively sought out and supported commercial development. Two TIF development projects have been approved by the city council and are currently under construction, the "Triangle" redevelopment project and the "Arnold Crossroads" redevelopment project.

The Triangle redevelopment area is approximately 40 acres in size, located in the southwest quadrant of Interstate 55 and Highway 141. The Arnold TIF Commission was established to coordinate, along with developer THF Realty, the development of a quality 225,000 square-foot retail shopping center on the property, anchored by a Lowe's Home Improvement Warehouse and a Dierberg's supermarket. Store openings are anticipated to begin in early 2008.

The Arnold Crossroads redevelopment area will include the revitalization and modification of an existing shopping center located in the heart of Arnold. This project, led by Jones Realty, includes plans for a new Drury Hotel with meeting and banquet facilities, new buildings for existing restaurants, new retail stores, and new landscaping and beautification efforts.

Major initiatives

Fiscal year 2006 marked the first full year of operation for the City's 55,000-square-foot Arnold Recreation Center. The state-of-the-art facility boasts an indoor and outdoor water park and pool, a fitness center complete with the newest equipment, a walking/running track and a huge recreation room. Other amenities include party room rentals, fitness/recreation classes and programs, and on-site childcare. The center also works with the Mid East Area Agency on Aging (MEAAA) to provide services to area senior citizens including a daily meal program, activities, and informational programs.

In 2005 and 2006, with voter-approval, the City issued \$9 million of sewer revenue bonds in conjunction with the Missouri State Revolving Loan Fund (SRF) program. Bond proceeds are being used to complete the "MSD Tunnel Project". This project encompasses required improvements to the sewer system that allow the City to connect to a newly constructed tunnel gravity sewer that feeds into a new wastewater treatment plant operated by the St. Louis-based Metropolitan Sewer District (MSD). Any remaining proceeds will be used to finance future capital improvement needs.

In 2006, in response to new, stricter Federal Environmental Protection Agency water quality regulations, the City began start-up operations for the implementation of a new storm water utility system. In previous years, the City conducted a series of public engagement and communications meetings to get community input on how to address chronic storm water problems such as flooding, severe soil erosion, infrastructure improvements, and creek and stream maintenance. Professional consultants were engaged to develop a storm water master plan, create a rationale for a fee rate structure, and identify short- and long-term capital project needs. A new storm water department has been created to address federal requirements, planning and engineering, code enforcement, routine maintenance, street sweeping, and capital construction. Funding for this new enterprise system will come primarily from user fees charged to commercial and residential

customers based upon the quantity of impervious land surface. The estimated annual expenditure budget for the new storm water utility is \$500,000.

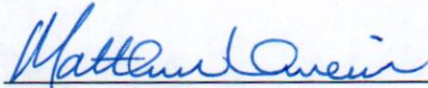
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arnold for its comprehensive annual financial report for the fiscal year ended August 31, 2005. This is the 17th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

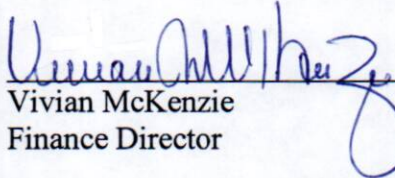
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Arnold's finances.

Respectfully submitted,



Matthew Unrein
City Administrator



Vivian McKenzie
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Arnold
Missouri

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF ARNOLD, MISSOURI
PRINCIPAL OFFICIALS

Mark Powell

Mayor

Council

Randy Crisler

Ward One

Paul Vinson

Ward One

James Edwards

Ward Two

David Venable

Ward Two

Phillip Amato

Ward Three

Joyce Deckman

Ward Three

Alfred Ems

Ward Four

Butch Cooley

Ward Four

Diane Waller

City Clerk

Scott Gowan

Treasurer

Todd Hamby

Judge

Robert Sweeney

City Attorney

Matthew Unrein

City Administrator

Robert Shockey

Chief of Police

Vivian McKenzie

Finance Director

Mary Holden

Community Development Director

Jeff Blue

Public Works Director

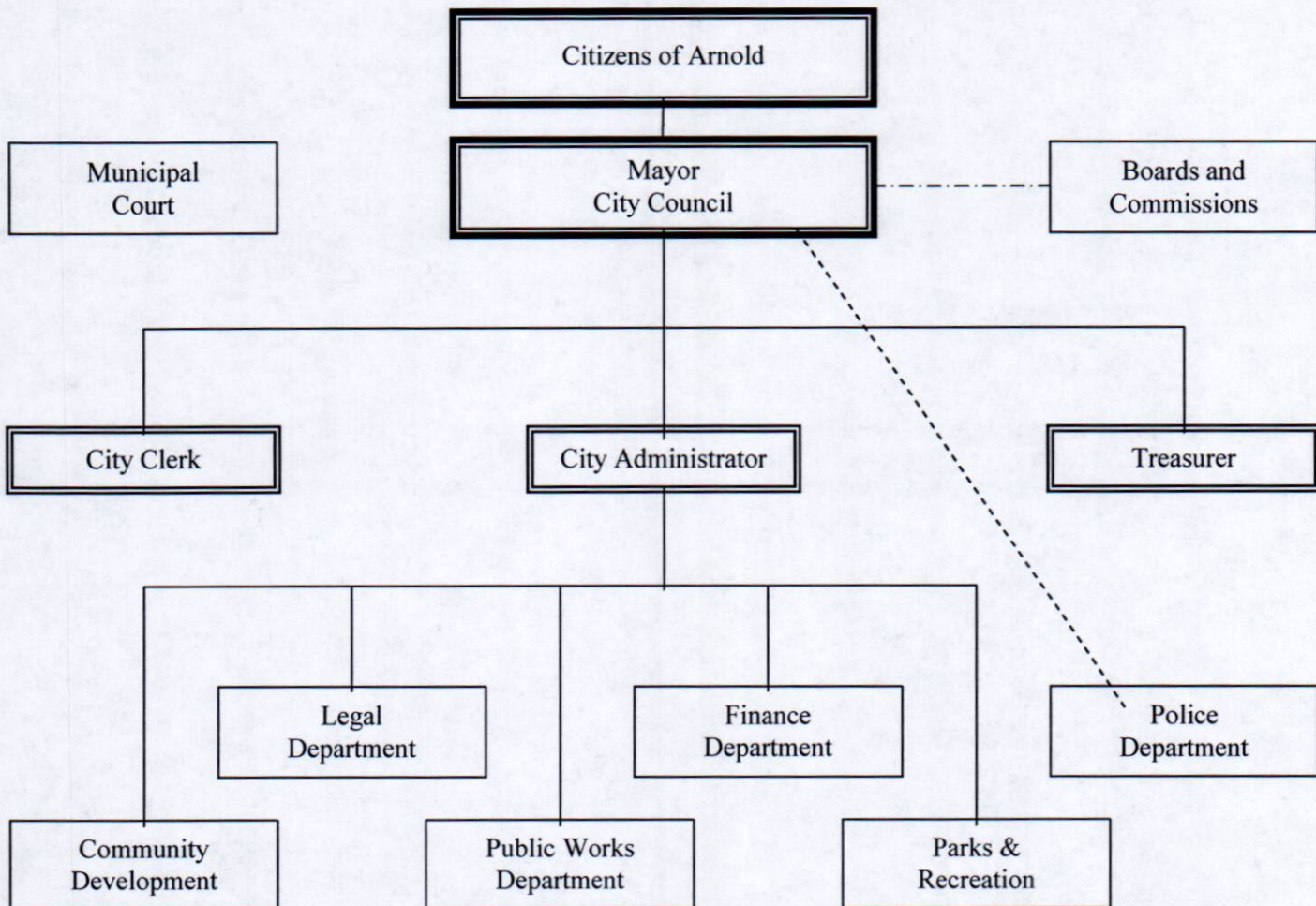
Greg Hall

Director of Administration

Susie Boone

Parks & Recreation Director

Organization Chart



Missouri law governing third class cities provides for direct supervision of the police chief by the Mayor.



**FINANCIAL
SECTION**



Hochschild, Bloom & Company LLP
Certified Public Accountants
Consultants and Advisors

INDEPENDENT AUDITORS' REPORT

November 29, 2006

Honorable Mayor and City Council
CITY OF ARNOLD, 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 ARNOLD, MISSOURI** (the City) as of and for the year ended August 31, 2006, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of August 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial report-

- 16100 Chesterfield Parkway West, Suite 125, Chesterfield, Missouri 63017-4829, 636-532-9525, Fax 636-532-9055
- 1000 Washington Square, P.O. Box 1457, Washington, Missouri 63090-8457, 636-239-4785, Fax 636-239-5448

ing 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 management's discussion and analysis and the required supplemental information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by U.S generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the 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's basic financial statements. The other supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information 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.

We did not audit the data included in the introductory and statistical sections of this report and, therefore, express no opinion thereon.

Nochschild, Bloom & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ARNOLD, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2006

As management of the City of Arnold, Missouri (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2006. Please read this narrative in conjunction with the letter of transmittal, the basic financial statements, and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$83,692,338 (net assets). Of this amount, \$6,980,752 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- Governmental activities and business-type activities had net assets of \$68,529,372 and \$15,162,966, respectively, at fiscal year-end.
- The City's total net assets increased by \$894,325 during the fiscal year, with the combined governmental funds decreasing by \$445,697 and the combined proprietary funds increasing by \$1,340,022. As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,409,041, a decrease of \$1,083,920 in comparison with the prior year. Of this total amount, \$524,049 is *available for spending* at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$384,343 or 3% of total General Fund expenditures.
- The City's total debt, including compensated absences, increased by \$8,781,639 during the current fiscal year to a total of \$28,134,845. The key factor in this increase was the issuance of \$9,000,000 in revenue bonds for the Sewer Fund.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and additional supplemental information in addition to the basic financial statements themselves.

Table A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with broad information about the City's finances, similar to those used by private-sector companies. The two government-wide statements, **Statement of Net Assets** and **Statement of Activities**, report the City's net assets and how they have changed. In the government-wide statements, a distinction is made between governmental-type activities and business-type activities. Governmental-type activities are those normally associated with the operation of a government such as health, highways, public safety, and parks. Business-type activities are those activities of the government that are designed to be self-supporting.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the differences between the two reported as net assets. Increases and decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating. The statement of net assets also provides information on unrestricted and restricted net assets and net assets invested in capital assets, net of related debt.

The **Statement of Activities** presents information on how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of the timing of related cash flows. Thus, revenues and expenses are purported in this statement for some items that will only result in cash flows in future fiscal periods. To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base or the condition of the City's roadway network.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006**

The Governmental activities of the City include general government, public safety (police, courts, justice services), highways and streets, health, parks and recreation (including the Recreation Center) as well as interest and fiscal charges. The business-type activities include the sewer and storm water system services provided by the City.

**Table A-1
Major Features of City of Arnold's Government-wide
and Fund Financial Statements**

	Fund Statements			
	Government-wide Statements	Government Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks and recreation	Activities the City operates similar to private businesses: sewer system and storm water system	Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for City employees
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and charges in fund balances	* Statement of net assets * Statement of revenues, expenses, and changes in net assets	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Fund Financial Statements

A *fund* is an accounting device that the City uses to keep track of specific sources of funding and spending for particular purposes. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City adopts annual appropriated budgets for its General and Recreation Center Funds. Budgetary comparison statements have been provided for each fund to demonstrate compliance with these budgets.

CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006

The basic governmental funds financial statements can be found on pages 15 through 18 of this report.

Proprietary funds. Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information, only with more detail. The City maintains two *Enterprise Funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses Enterprise Funds to account for its sewer and storm water utility systems. The City does not utilize the second type of proprietary fund, the *Internal Service Fund*. These funds are an accounting device used to accumulate and allocate costs internally among the entity's various functions and departments.

The basic proprietary fund financial statements can be found on pages 19 through 21 of this report.

Fiduciary funds. The City is the trustee, or *fiduciary*, for its police employees' pension plan. It is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22 and 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found pages 24 through 46 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplemental information* concerning budgetary presentations of budget to actual amounts. Required supplemental information can be found on pages 47 through 50 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$83,692,338 at the close of the most recent fiscal year. (See Table A-2.)

Table A-2
City of Arnold's Net Assets as of August 31, 2005 and 2006
(In thousands of dollars)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 15,612	20,678	2,836	12,497	18,448	33,175
Capital assets	77,336	77,806	13,500	14,982	90,836	92,788
Total assets	92,948	98,484	16,336	27,479	109,284	125,963
Long-term debt outstanding	17,278	16,960	2,075	11,175	19,353	28,135
Other liabilities	6,695	12,995	438	1,141	7,133	14,136
Total liabilities	23,973	29,955	2,513	12,316	26,486	42,271
Net assets invested in capital assets, net of related debt	60,861	61,593	11,425	12,886	72,286	74,479
Restricted for debt service	2,060	1,390	805	842	2,865	2,232
Unrestricted	6,054	5,546	1,593	1,435	7,647	6,981
Total net assets	\$ 68,975	68,529	13,823	15,163	82,798	83,692

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006**

By far the largest portion of the City's net assets, 89%, reflects its investment in capital assets (e.g., land buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 3%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* totaling \$6,980,752 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. This was also true for the prior fiscal year.

Table A-3
Statement of Activities for the Years Ended August 31, 2005 and 2006
(In thousands of dollars)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Percentage Change</i>
	2005	2006	2005	2006	2005	2006	2005 - 2006
Revenues							
Program revenues:							
Charges for services	\$ 1,726	2,662	1,153	2,554	2,879	5,216	81.17 %
Operating grants	1,005	1,139	-	-	1,005	1,139	13.33
Capital grants	4,928	781	-	-	4,928	781	(84.15)
General revenues:							
Taxes	9,474	9,793	-	-	9,474	9,793	3.37
Investment income	388	243	103	345	491	588	19.76
Miscellaneous	128	364	-	-	128	364	184.38
Total revenues	17,649	14,982	1,256	2,899	18,905	17,881	(5.42)
Expenses							
General government	1,935	3,135	-	-	1,935	3,135	62.02
Public safety	4,824	5,141	-	-	4,824	5,141	6.57
Public works	1,049	2,026	-	-	1,049	2,026	93.14
Highways and streets	2,276	1,406	-	-	2,276	1,406	(38.22)
Parks and recreation	762	1,889	-	-	762	1,889	147.90
Health and sanitation	884	826	-	-	884	826	(6.56)
Sewer system	-	-	1,481	1,870	1,481	1,870	262.66
Storm water system	-	-	-	38	-	38	100.00
Interest on long-term debt	749	656	-	-	749	656	(12.42)
Total expenses	12,479	15,079	1,481	1,908	13,960	16,987	21.68
Excess (deficiency) before transfers	5,170	(97)	(225)	991	4,945	894	(81.92)
Transfers	(105)	(349)	105	349	-	-	-
Increase (decrease) in net asstes	5,065	(446)	(120)	1,340	4,945	894	(81.92)
Net assets - September 1	63,910	68,975	13,943	13,823	77,853	82,798	6.35
Net assets - August 31	\$ 68,975	68,529	13,823	15,163	82,798	83,692	1.08 %

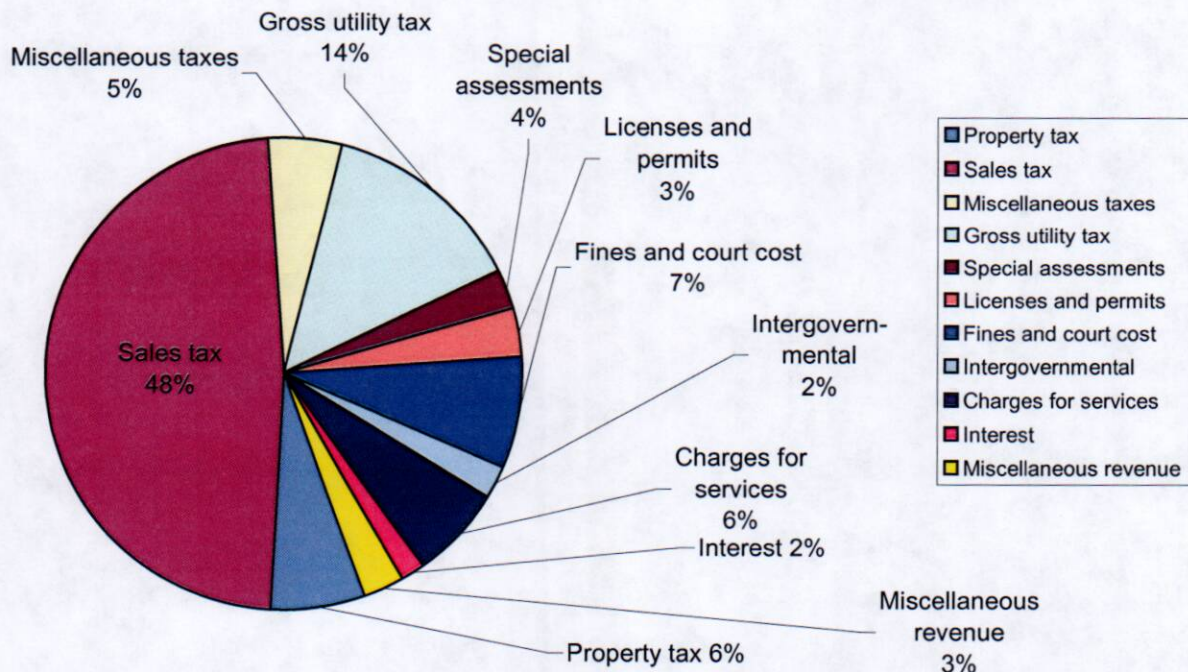
CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006

Governmental activities. Governmental activities decreased the City's net assets by \$445,697. Key elements of this net decrease are as follows:

- Despite a decrease in the property tax rate from \$0.4516 per \$100 of assessed valuation in 2005 to \$0.4379 per \$100 of assessed valuation in 2006, property tax revenues increased by \$86,493 (10%) due to an increase in the assessed valuation of property located within the City.
- Charges in services revenue increased significantly due to the first full year of operation for the recreation center, which reported \$834,055 in service revenues. A correlating increase of \$1,159,722 is reflected in the operating expenditures for park and recreation.
- Grant revenues decreased markedly as the prior year included \$3 million worth of state funding for transportation projects that was not repeated in the current year. Total expenditures in the combined public works and highways and streets departments decreased accordingly.
- Interest income decreased by \$145,151 during the current year. The primary cause of this decline was due to higher than normal investment income in the prior year due to earnings on invested bond proceeds prior to their disbursement for construction costs.
- Expenditures for personnel costs in the General Fund increased by \$361,023 (6%) during the current year. This increase is attributable to the addition of new personnel, increased health insurance premium rates, and increased costs for retirement and pension contributions made by the City on behalf of employees.

Figure A-1

Sources of Revenue - Governmental Funds

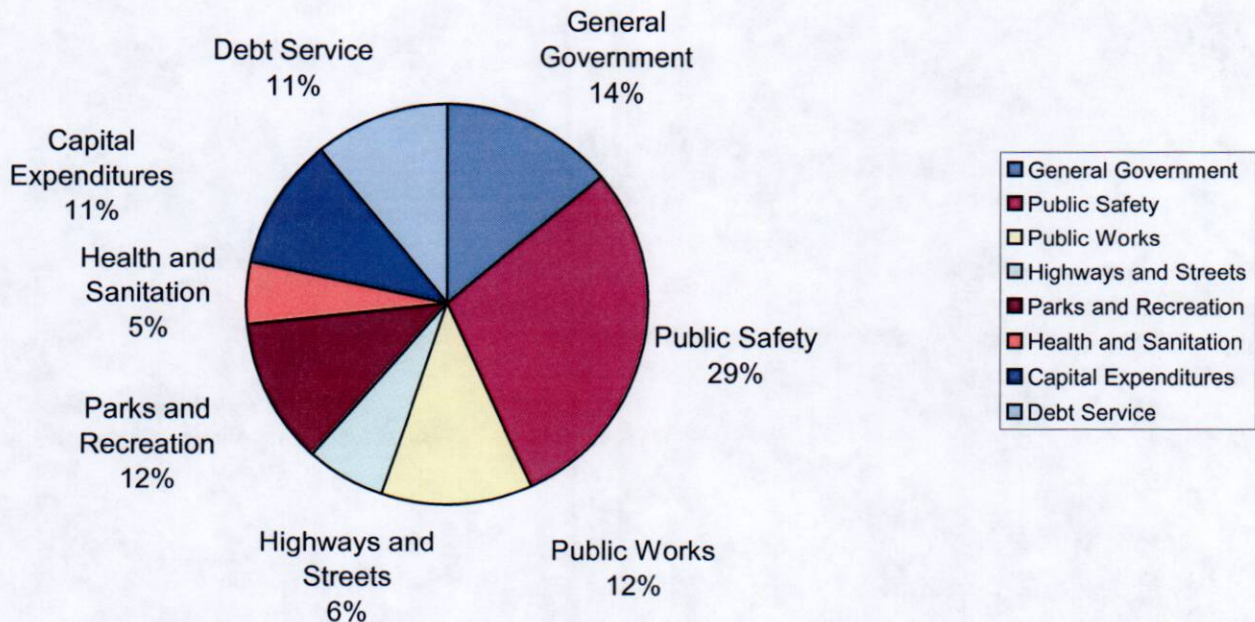


Miscellaneous revenue does not include unusual items such as loan and bond proceeds.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006**

Figure A-2

Expenditures by Function - Governmental Funds



Business-type activities. Business activities increased the City's net assets by \$1,340,022. Key elements of this increase are as follows:

- Charges for sewer services increased by \$1,339,481 during the current year. This amount is more than double the prior year revenue figure due to a sewer fee rate increase introduced in December 2005. For the first time in over 25 years, the City raised the monthly rate for residential sewer service from \$8.50 per month to \$19.50. Based on a rate study, the increased user fee was necessary to provide for the operational needs of the sewer system and to fund major capital improvements for the current and future years.
- The current year includes the introduction of the City's new storm water utility system. Billings for the new system began in August 2006, resulting in \$61,267 in charges for service revenues. Operating expenses of \$37,899 were also incurred in the current year.
- Investment income increased by \$241,405 due to higher investment account balances as a result of the additional sewer user fee revenue and earnings on revenue bond proceeds from the City's two new sewer revenue bond issues.
- Cost of sewer service expenses increased by 18%; principally from an \$87,238 increase in personnel costs. Personnel costs rose due to scheduled salary increases, a doubling of overtime expense from \$7,321 to \$15,122, increased premiums for health insurance benefits, increased retirement contributions expense, and a \$9,721 accrual for unused vacation and sick time costs. Also a notable factor was a \$35,684 (52%) increase in operating supplies expense.
- Due to the issuance of \$9,000,000 in sewer revenue bonds, interest expense increased by 273%.

Table A-4 presents the cost of each of the City's six governmental functions - general government, public safety (police, courts, and justice services), public works, highways and streets, parks and recreation (parks and recreation center) and health and sanitation - as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006**

- The cost of all governmental activities this year was \$15,078,853.
- However, the amount that our taxpayers paid for these activities through City taxes was \$10.5 million. Some of the costs were paid by:
 - Those who directly benefited from the programs, or
 - Other governments and organizations that subsidized certain programs with grants and contributions.

**Table A-4
Net Cost of City of Arnold's Governmental Activities
(In thousands of dollars)**

	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2005	2006	2005 - 2006	2005	2006	2005 - 2006
General government	\$ 1,935	\$ 3,135	62.02 %	\$ 1,240	\$ 2,692	117.10 %
Public safety	4,824	5,141	6.57	3,561	3,686	3.51
Public works	1,049	2,026	93.14	409	1,551	279.22
Highways and streets	2,276	1,406	(38.22)	(2,661)	133	105.00
Parks and recreation	762	1,889	147.90	653	968	48.24
Health and sanitation	884	826	(6.56)	869	811	(6.67)
Interest on long-term debt	749	656	(12.42)	749	656	(12.42)
Total	\$ 12,479	\$ 15,079	20.84 %	\$ 4,820	\$ 10,497	117.78 %

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's General Fund reported an ending fund balance of \$4,019,335. Approximately 61% of this total amount, or \$2,468,163, constitutes legally unreserved fund balance, which is available for spending at the City's discretion. Of this unreserved fund balance, the city council has designated 1) \$1,050,149 for the construction of sewer subdistricts, 2) \$662,183 for street and road projects, 3) \$126,415 is allocated for tourism, 4) \$187,799 is set aside for various other projects and 5) \$384,343 is the undesignated reserve not allocated by city council for other purposes. The remaining fund balance, or \$1,608,446, is reserved to indicate that it is not available for spending because it has already been committed 1) \$1,126,868 to liquidate contracts and purchase orders of the prior period and 2) \$481,578 for prepaid expenditures.

The fund balance of the City's General Fund decreased \$772,994 during the current fiscal year. Key factors in this change were construction costs of the City's recreation center and the City's road projects currently under construction or completed this fiscal year.

The Recreation Center Fund experienced its first full year of operations in the current year. The fund is strictly dedicated to recreation center revenues and expenses. Revenues are generated through a ¼ cent general sales tax and user fees. The Recreation Center Fund reported an ending fund balance of \$1,389,706. Of this balance, \$1,250,000 is reserved for bond escrow funds and \$139,706 is undesignated and available for use in the operation of the recreation center.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006**

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at the end of the fiscal year amounted to \$1,411,176, a decrease of \$182,388. Net assets restricted for debt service increased marginally by \$37,307. The balance of unrestricted net assets for the new Storm Water Fund amounted to \$23,368 at the end of the fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$10,103,512 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- \$9,000,875 in appropriations for the Triangle redevelopment project.
- \$300,464 to the general and administrative department for the cost of sewer subdistrict and neighborhood improvement projects.
- \$212,915 for interest expense related to a line of credit for the Triangle redevelopment project, and \$19,322 in interest expense for capital lease payments for police vehicles.
- \$225,385 for public works street repairs and capital projects.
- \$151,721 for new equipment including a brush chipper, police equipment, park fountain and gazebo, and a building department vehicle.
- \$40,794 for general and administrative salaries and benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of August 31, 2006, amounts to \$92,788,297 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, and bridges. The increase in the City's investment in capital assets for the current fiscal year was 2% (a 1% increase for governmental activities and an 11% increase for business-type activities). (See table A-5).

For more detailed information about the City's capital assets, see Note C in the notes to the financial statements, pages 31 through 33.

Major capital asset events during the current fiscal year included the following:

- Approximately \$1,053,197 was expended for road and street projects.
- Recreation center building construction expenditures of \$670,624 were incurred.
- Funds of \$146,192 were allocated to the purchase of public works and highways and streets equipment.
- The City completed the Fawn Drive and Ridgecrest Drive NID projects at a total cost of \$134,945 and \$306,240, respectively.
- Sewer subdistrict work in progress expenditures amounted to \$343,220.
- \$688,304 was spent for the acquisition of public safety vehicles.
- Project expenses for the MSD tunnel project in the Sewer Fund totaled \$1,610,421.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006**

**Table A-5
City of Arnold's Capital Assets
(Net of depreciation)**

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total Capital Assets</i>	
	2005	2006	2005	2006	2005	2006
	Land	\$ 27,048,828	27,095,487	145,118	145,118	27,193,946
Buildings	16,318,805	16,472,997	49,323	46,498	16,368,128	16,519,495
Treatment plants	-	-	542,424	477,369	542,424	477,369
Machinery and equipment	505,045	432,358	516,866	462,628	1,021,911	894,986
Automobiles and trucks	321,085	800,282	-	-	321,085	800,282
Infrastructure	23,014,540	23,064,179	-	-	23,014,540	23,064,179
Sewer lines	-	-	11,756,266	11,399,946	11,756,266	11,399,946
Construction in progress	10,128,156	9,940,263	490,189	2,451,172	10,618,345	12,391,435
Total	\$ 77,336,459	77,805,566	13,500,186	14,982,731	90,836,645	92,788,297

Long-term debt.

At year-end the City had \$27,731,160 in bonds and notes outstanding - an increase of 46% from last year - as shown in Table A-6. The only governmental activity debt issued in fiscal year 2006 was a \$600,000 lease/purchase obligation for the acquisition of vehicles. For business-type activities, \$9,000,000 in revenue bonds were issued for Sewer Fund infrastructure projects, primarily for the MSD tunnel project as described in the City's Letter of Transmittal. For more detailed information about the City's long-term liabilities, see Note D in the notes to the financial statements, pages 34 through 38.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City is \$28,247,720. The City currently has no general obligation debt outstanding.

**Table A-6
City of Arnold's Outstanding Debt
(In thousands of dollars)**

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Percentage Change</i>
	2005	2006	2005	2006	2005	2006	2005-2006
	Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 16,835	16,556	2,075	11,175	18,910	27,731

Significant Variance Between Budget And Actual

The City shares in capital improvement project (CIP) sales tax dollars generated at the County level, and these revenues are drawn down on a reimbursement basis only. Budgeted CIP revenues were materially more than actual project expenditures,

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006**

resulting in a \$981,603 budget shortfall in the sales tax revenue category. Actual gross receipts taxes, based on phone, gas, and electric utility usage, were \$279,454 higher than anticipated, which allowed for increased spending in the public safety, highways, and streets departments. Certain road projects utilizing state grant monies that were expected to be carried over from the prior year were completed in the prior year, resulting in a budget shortage in intergovernmental revenues, with a corresponding decrease in actual expenditures in the public works expenditure budget. Regarding the Triangle redevelopment project, \$9.1 million worth of land and buildings budgeted for as capital outlay were subsequently deemed to be properly recorded as land held for resale, as the City transferred ownership to these assets to the project developer in December 2006.

SUBSEQUENT EVENT

In October 2006, the city council approved the purchase of a golf course for \$3,250,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate, not seasonally adjusted, for Jefferson County for August 2006 was 4.4%, which is a slight increase from a rate of 4.3% a year ago. This compares favorably to the state's average unemployment rate of 4.9% and the national average rate of 4.7%, all rates not seasonally adjusted.
- The Consumer Price Index indicates that inflation has increased 5.4% over the August 2006 rate for the Midwest region. Inflationary trends for the Midwest region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2007 fiscal year.

The property tax rate set to support the 2007 fiscal year budget remained the same at a rate of \$0.44 per \$100 of assessed value. The local sales tax rate is anticipated to remain at 1¼%, with 1% allocated for General Fund operations and ¼% allocated to the Recreation Center Fund.

Sewer rates are anticipated to remain the same in the new fiscal year, at a monthly residential rate of \$19.50. Storm water fees have been preliminarily set at \$3.00 per month per equivalent residential unit. As the new storm water billing and operational system is implemented, rates will be analyzed to determine if they are appropriate to support operational and capital project needs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 2101 Jeffco Blvd., Arnold, MO 63010.



**BASIC FINANCIAL
STATEMENTS**

CITY OF ARNOLD, MISSOURI

STATEMENT OF NET ASSETS

AUGUST 31, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 4,422,967	1,746,817	6,169,784
Receivables (net of allowances for uncollectibles):			
Taxes	1,704,638	-	1,704,638
Special assessments	1,808,032	-	1,808,032
Service fees	-	483,679	483,679
Intergovernmental	266,911	-	266,911
Miscellaneous	632,691	-	632,691
Internal balances	(196,800)	196,800	-
Prepaid items	481,578	120	481,698
Land held for resale	9,165,567	-	9,165,567
Bond issue costs	344,399	148,576	492,975
Restricted assets:			
Cash and cash equivalents	232,871	8,910	241,781
Capital improvements sales tax receivable	461,322	-	461,322
Investments	1,249,776	9,911,434	11,161,210
Net pension asset	104,614	-	104,614
Capital assets:			
Land and construction in progress	37,035,750	2,596,290	39,632,040
Other capital assets, net of accumulated depreciation	40,769,816	12,386,441	53,156,257
Total Assets	<u>98,484,132</u>	<u>27,479,067</u>	<u>125,963,199</u>
LIABILITIES			
Accounts payable	2,387,782	877,033	3,264,815
Accrued liabilities	90,783	13,883	104,666
Accrued interest payable	240,434	2,795	243,229
Due to Fiduciary Fund	61,782	-	61,782
Unearned revenue	1,048,220	247,737	1,295,957
Short-term debt	9,165,567	-	9,165,567
Noncurrent liabilities:			
Due within one year	601,481	353,833	955,314
Due in more than one year	16,358,711	10,820,820	27,179,531
Total Liabilities	<u>29,954,760</u>	<u>12,316,101</u>	<u>42,270,861</u>
NET ASSETS			
Invested in capital assets, net of related debt	61,593,458	12,886,415	74,479,873
Restricted for debt service	1,250,000	842,007	2,092,007
Restricted for recreation	139,706	-	139,706
Unrestricted	5,546,208	1,434,544	6,980,752
Total Net Assets	<u>\$ 68,529,372</u>	<u>15,162,966</u>	<u>83,692,338</u>

See notes to financial statements

CITY OF ARNOLD, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006

Functions/Programs Primary Government	Net Revenues (Expenses) And Changes In Net Assets						
	Program Revenues			Primary Government			
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 3,135,028	346,148	-	96,590	(2,692,290)	-	(2,692,290)
Public safety	5,141,027	1,379,817	43,710	32,000	(3,685,500)	-	(3,685,500)
Public works	2,025,478	-	134,937	340,150	(1,550,391)	-	(1,550,391)
Highways and streets	1,405,773	-	960,017	312,632	(133,124)	-	(133,124)
Parks and recreation	1,889,036	920,846	-	-	(968,190)	-	(968,190)
Health and sanitation	826,303	14,888	-	-	(811,415)	-	(811,415)
Interest on long-term debt	656,208	-	-	-	(656,208)	-	(656,208)
Total Governmental Activities	15,078,853	2,661,699	1,138,664	781,372	(10,497,118)	-	(10,497,118)
Business-type Activities							
Sewer system	1,869,840	2,492,669	-	-	-	622,829	622,829
Storm water	37,899	61,267	-	-	-	23,368	23,368
Total Business-type Activities	1,907,739	2,553,936	-	-	-	646,197	646,197
Total Primary Government	\$ 16,986,592	5,215,635	1,138,664	781,372	(10,497,118)	646,197	(9,850,921)
General Revenues							
Taxes:							
Property taxes					949,500	-	949,500
Sales taxes					6,771,832	-	6,771,832
Gross receipts taxes					2,044,454	-	2,044,454
Miscellaneous taxes					27,475	-	27,475
Investment income					242,701	344,263	586,964
Gain on sale of assets					143,126	-	143,126
Miscellaneous					221,895	-	221,895
Transfers					(349,562)	349,562	-
Total General Revenues And Transfers					10,051,421	693,825	10,745,246
CHANGE IN NET ASSETS					(445,697)	1,340,022	894,325
NET ASSETS, SEPTEMBER 1					68,975,069	13,822,944	82,798,013
NET ASSETS, AUGUST 31					\$ 68,529,372	15,162,966	83,692,338

See notes to financial statements

CITY OF ARNOLD, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2006

	General	Recreation Center	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,897,860	525,107	4,422,967
Receivables (net of allowances for uncollectibles):			
Taxes	1,493,540	211,098	1,704,638
Special assessments	1,808,032	-	1,808,032
Intergovernmental	266,911	-	266,911
Miscellaneous	632,691	-	632,691
Due from other funds	576,200	-	576,200
Prepaid items	481,578	-	481,578
Land held for resale	9,165,567	-	9,165,567
Restricted assets:			
Cash and cash equivalents	232,647	224	232,871
Capital improvements sales tax receivable	461,322	-	461,322
Investments	-	1,249,776	1,249,776
	\$ 19,016,348	1,986,205	21,002,553
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 2,292,062	95,720	2,387,782
Accrued liabilities	86,781	4,002	90,783
Accrued interest	212,914	-	212,914
Due to other funds	560,391	274,391	834,782
Deferred revenue	2,679,298	222,386	2,901,684
Short-term debt	9,165,567	-	9,165,567
Total Liabilities	14,997,013	596,499	15,593,512
 Fund Balances			
Reserved for:			
Prepaid items	481,578	-	481,578
Encumbrances	1,126,868	-	1,126,868
Recreational center escrow deposit	-	1,250,000	1,250,000
Unreserved:			
Designated for sewer subdistrict projects	1,050,149	-	1,050,149
Designated for street projects	112,183	-	112,183
Designated for road reconstruction	550,000	-	550,000
Designated for drug forfeitures	40,152	-	40,152
Designated for Greenway beautification	60,000	-	60,000
Designated for economic development	78,581	-	78,581
Designated for pride in our City	9,066	-	9,066
Designated for tourism	126,415	-	126,415
Undesignated - General Fund	384,343	-	384,343
Undesignated - Special Revenue Fund	-	139,706	139,706
Total Fund Balances	4,019,335	1,389,706	5,409,041
Total Liabilities And Fund Balances	\$ 19,016,348	1,986,205	21,002,553

See notes to financial statements

CITY OF ARNOLD, MISSOURI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2006

Total Fund Balances - Governmental Funds \$ 5,409,041

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$106,566,409 and the accumulated depreciation is \$28,760,843. 77,805,566

Net pension assets are not financial resources and, therefore, are not reported in the funds. 104,614

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 1,853,464

Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Accrued interest payable	(27,520)
Accrued compensated absences	(403,685)
Capital lease obligations payable outstanding	(749,910)
Leasehold revenue bonds outstanding	(15,370,000)
Unamortized bond premium	(436,597)
Unamortized bond issuance cost	344,399
	<u>344,399</u>

Net Assets Of Governmental Activities \$ 68,529,372

CITY OF ARNOLD, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2006

	<u>General</u>	<u>Recreation Center</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 9,686,653	1,066,625	10,753,278
Special assessments	428,599	-	428,599
Licenses and permits	501,547	-	501,547
Fines and court costs	1,060,849	-	1,060,849
Intergovernmental	337,205	-	337,205
Charges for services	102,954	834,055	937,009
Investment income	161,805	80,896	242,701
Miscellaneous	402,413	17,776	420,189
Total Revenues	<u>12,682,025</u>	<u>1,999,352</u>	<u>14,681,377</u>
EXPENDITURES			
Current:			
General government	2,246,139	-	2,246,139
Public safety	4,790,213	-	4,790,213
Public works	1,997,244	-	1,997,244
Highways and streets	1,046,910	-	1,046,910
Parks and recreation	511,169	1,384,064	1,895,233
Health and sanitation	823,634	-	823,634
Capital outlay	1,784,290	18,521	1,802,811
Debt service:			
Principal	618,743	240,000	858,743
Interest	260,303	667,693	927,996
Total Expenditures	<u>14,078,645</u>	<u>2,310,278</u>	<u>16,388,923</u>
REVENUES UNDER EXPENDITURES	<u>(1,396,620)</u>	<u>(310,926)</u>	<u>(1,707,546)</u>
OTHER FINANCING SOURCES			
Issuance of capital lease	600,000	-	600,000
Sale of capital assets	23,626	-	23,626
Total Other Financing Sources	<u>623,626</u>	<u>-</u>	<u>623,626</u>
NET CHANGE IN FUND BALANCES	(772,994)	(310,926)	(1,083,920)
FUND BALANCES, SEPTEMBER 1	<u>4,792,329</u>	<u>1,700,632</u>	<u>6,492,961</u>
FUND BALANCES, AUGUST 31	<u>\$ 4,019,335</u>	<u>1,389,706</u>	<u>5,409,041</u>

See notes to financial statements

CITY OF ARNOLD, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006

Net Change In Fund Balances - Governmental Funds \$ (1,083,920)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays over the capitalization threshold (\$2,544,615) exceeded depreciation (\$2,477,672) in the current period. 66,943

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. 402,164

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (88,449)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued:

Capital lease (600,000)

Repayments:

Capital lease obligations payable 178,744

Leasehold revenue bonds 680,000

Amortization 4,190

Net Adjustment 262,934

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest on bonds 7,295

Net pension asset (51,583)

Accrued compensated absences 38,919 (5,369)

Change In Net Assets Of Governmental Activities \$ (445,697)

See notes to financial statements

CITY OF ARNOLD, MISSOURI
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AUGUST 31, 2006

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Storm Water Fund	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,714,361	32,456	1,746,817
Due from other funds	498,609	-	498,609
Service fees (net of allowances for uncollectibles)	427,986	55,693	483,679
Prepaid items	120	-	120
Total Current Assets	<u>2,641,076</u>	<u>88,149</u>	<u>2,729,225</u>
Noncurrent Asset			
Capital assets:			
Land and construction in progress	2,596,290	-	2,596,290
Other capital assets, net of accumulated depreciation	12,386,441	-	12,386,441
Total Capital Assets	<u>14,982,731</u>	<u>-</u>	<u>14,982,731</u>
Restricted bond cash, cash equivalents, and investments	9,920,344	-	9,920,344
Bond issue costs	148,576	-	148,576
Total Noncurrent Assets	<u>25,051,651</u>	<u>-</u>	<u>25,051,651</u>
Total Assets	<u>27,692,727</u>	<u>88,149</u>	<u>27,780,876</u>
LIABILITIES			
Current Liabilities			
Accounts payable	874,790	2,243	877,033
Accrued liabilities	13,883	-	13,883
Due to other funds	269,904	31,905	301,809
Accrued interest payable	2,795	-	2,795
Unearned revenue	217,104	30,633	247,737
Revenue bonds payable - current	353,833	-	353,833
Total Current Liabilities	<u>1,732,309</u>	<u>64,781</u>	<u>1,797,090</u>
Noncurrent Liabilities			
Revenue bonds payable	9,978,813	-	9,978,813
Notes payable	842,007	-	842,007
Total Noncurrent Liabilities	<u>10,820,820</u>	<u>-</u>	<u>10,820,820</u>
Total Liabilities	<u>12,553,129</u>	<u>64,781</u>	<u>12,617,910</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,886,415	-	12,886,415
Restricted for debt service	842,007	-	842,007
Unrestricted	1,411,176	23,368	1,434,544
Total Net Assets	<u>\$ 15,139,598</u>	<u>23,368</u>	<u>15,162,966</u>

See notes to financial statements

CITY OF ARNOLD, MISSOURI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2006

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Storm Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,492,669	61,267	2,553,936
OPERATING EXPENSES			
Cost of services	866,157	31,899	898,056
Administration	138,000	6,000	144,000
Depreciation and amortization	547,877	-	547,877
Total Operating Expenses	<u>1,552,034</u>	<u>37,899</u>	<u>1,589,933</u>
OPERATING INCOME	<u>940,635</u>	<u>23,368</u>	<u>964,003</u>
NONOPERATING REVENUE (EXPENSE)			
Investment income	344,263	-	344,263
Interest expense	(317,806)	-	(317,806)
Total Nonoperating Revenue (Expense)	<u>26,457</u>	<u>-</u>	<u>26,457</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	967,092	23,368	990,460
CAPITAL CONTRIBUTIONS - SEWER LINES	<u>349,562</u>	<u>-</u>	<u>349,562</u>
CHANGE IN NET ASSETS	1,316,654	23,368	1,340,022
NET ASSETS, SEPTEMBER 1	<u>13,822,944</u>	<u>-</u>	<u>13,822,944</u>
NET ASSETS, AUGUST 31	<u><u>\$ 15,139,598</u></u>	<u><u>23,368</u></u>	<u><u>15,162,966</u></u>

See notes to financial statements

CITY OF ARNOLD, MISSOURI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2006

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Storm Water Fund	Total
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,231,647	36,207	2,267,854
Payments to suppliers	(333,782)	(35,656)	(369,438)
Payments to employees	(126,319)	-	(126,319)
Net Cash Provided By Operating Activities	<u>1,771,546</u>	<u>551</u>	<u>1,772,097</u>
Cash flows provided by noncapital financing activities:			
Due to other funds	<u>222,655</u>	<u>31,905</u>	<u>254,560</u>
Cash flows from capital and related financing activities:			
Purchase of equipment	(1,670,222)	-	(1,670,222)
Principal payments on notes payable	(75,600)	-	(75,600)
Principal payments on bonds	(164,942)	-	(164,942)
Proceeds from bonds	9,073,336	-	9,073,336
Proceeds from notes payable	112,907	-	112,907
Interest expense	(315,352)	-	(315,352)
Net Cash Provided By Capital And Related Financing Activities	<u>6,960,127</u>	<u>-</u>	<u>6,960,127</u>
Cash flows from investing activities:			
Investment income	344,263	-	344,263
Proceeds from sale of investments	1,518,031	-	1,518,031
Purchase of investments	(9,911,434)	-	(9,911,434)
Net Cash Used In Investing Activities	<u>(8,049,140)</u>	<u>-</u>	<u>(8,049,140)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	905,188	32,456	937,644
CASH AND CASH EQUIVALENTS, SEPTEMBER 1	<u>818,083</u>	<u>-</u>	<u>818,083</u>
CASH AND CASH EQUIVALENTS, AUGUST 31 (including \$8,910 for the Sewer Fund reported in restricted accounts)	<u>\$ 1,723,271</u>	<u>32,456</u>	<u>1,755,727</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 940,635	23,368	964,003
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	547,877	-	547,877
(Increase) decrease in:			
Receivables	(385,399)	(55,693)	(441,092)
Increase (decrease) in:			
Accounts payable	532,375	2,243	534,618
Accrued liabilities	11,681	-	11,681
Unearned revenues	124,377	30,633	155,010
Total Adjustments	<u>830,911</u>	<u>(22,817)</u>	<u>808,094</u>
Net Cash Provided By Operating Activities	<u>\$ 1,771,546</u>	<u>551</u>	<u>1,772,097</u>
Noncash operating, financing, and investing activities:			
Contributions of capital assets from government	<u>\$ 349,562</u>	<u>-</u>	<u>349,562</u>
Par value of debt issued	\$ 9,000,000	-	9,000,000
Premium recorded	230,722	-	230,722
Cost of issuance	(157,386)	-	(157,386)
Net Cash Received	<u>\$ 9,073,336</u>	<u>-</u>	<u>9,073,336</u>

See notes to financial statements

CITY OF ARNOLD, MISSOURI
STATEMENT OF FIDUCIARY NET ASSETS -
PENSION TRUST FUND
AUGUST 31, 2006

ASSETS

Deposit administration contracts	\$ 4,850,422
Due from other funds	<u>61,782</u>
Total Assets	<u>4,912,204</u>

NET ASSETS

Held in trust for pension benefits	<u>\$ 4,912,204</u>
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CITY OF ARNOLD, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PENSION TRUST FUND
FOR THE YEAR ENDED AUGUST 31, 2006

ADDITIONS

Contributions:

Employer contributions	\$ 329,595
Employee contributions	188,791
Total Contributions	<u>518,386</u>

Investment income:

Net appreciation in fair value of investments, interest, and dividends	400,501
Less - Investment expense	<u>(71,596)</u>
Net Investment Income	<u>328,905</u>
Total Additions	<u>847,291</u>

DEDUCTIONS

Retirement benefits	1,367,512
Return of contributions	<u>61,344</u>
Total Deductions	<u>1,428,856</u>

CHANGE IN NET ASSETS

(581,565)

NET ASSETS HELD IN TRUST FOR PENSION
 BENEFITS, SEPTEMBER 1

5,493,769

NET ASSETS HELD IN TRUST FOR PENSION
BENEFITS, AUGUST 31

\$ 4,912,204

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the **CITY OF ARNOLD, MISSOURI** (the City) in the preparation of the accompanying financial statements are summarized below:

1. Reporting Entity

The financial statements of the City present the financial activities of the City and any component units. The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The City is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's Board or because the component unit will provide a financial benefit or impose a financial burden on the City. The City does not have any component units.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due (i.e., matured).

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current fixed period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

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

Recreation Center Fund -- This fund is used exclusively for the revenues of and expense from the operations of the recreation center. The fund includes the $\frac{1}{4}\%$ parks and recreation center sales tax which is deposited into this fund and used for bi-annual bond payments.

The City reports the following major proprietary funds:

Sewer Fund -- This fund is used to account for operations of the City's sewer department.

Storm Water Fund -- This fund is used to account for operations of the City's storm water department.

Additionally, the City reports the following fund type:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Pension Trust Fund -- This fund is used to account for assets held in a trustee capacity for the City's eligible employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Fund, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contribution; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Enterprise Fund are charges for services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Cash, Cash Equivalents, and Investments

For cash flow statement purposes, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. State statutes authorize the City to invest in obligations of the U.S. Treasury, federal agencies, commercial paper, corporate bonds, and repurchase agreements. The Pension Trust Fund is also authorized to invest in corporate common or preferred stocks, bonds and mortgages,

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Cash, Cash Equivalents, and Investments (Continued)

real or personal property, and other evidence of indebtedness or ownership, but excluding any debt of the City itself and individual insurance policies. Investments are stated at fair value.

5. Deposit Administration Contracts

Deposit administration contracts are pooled funds maintained by Metropolitan Life Insurance Company and are carried at contract value. Contract value consist of contributions made under the contract plus investment income, less funds used to pay benefits, and investment expenses.

6. Allowance for Doubtful Accounts

The allowance for uncollectible receivables is as follows:

	<u>August 31</u> <u>2006</u>
General Fund	\$18,448
Enterprise Fund	<u>7,055</u>
	<u>\$25,503</u>

7. Due To/From Other Funds

Current portions of long-term interfund loans receivable (reported in "due from" asset accounts) are considered "available spendable resources" and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statements as "internal balances".

8. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid items. Prepaid items are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Restricted Assets

Certain funds generated by the sewer system are classified as restricted assets on the balance sheet because their use is limited by the sewer system revenue bond ordinances.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Restricted Assets (Continued)

The bond account is used only for the payment of principal and interest on the revenue bonds. The depreciation and replacement account is to be expended only for repairs or replacements to the sewer system. The bond reserve account is to be used only to pay bonds at maturity or interest as it accrues when and to the extent other funds are not available for this purpose.

Certain General Fund monies are classified as restricted assets on the balance sheet because their use is limited by covenants of the capital lease agreement. The reserve account is to be used solely for the purpose of making lease payments on the applicable due dates when and to the extent other funds are not available for this purpose. The lease payment account is used only for the payment of the principal and interest on the lease obligation.

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

10. Capital Assets

Capital assets, which include property, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation is being computed on the straight-line method, using asset lives as follows:

Assets	Years
Buildings, treatment plant, and other improvements	10 - 30
Automotive equipment	3 - 5
Machinery and equipment	3 - 15
Sewer lines	50
Infrastructure	30

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Accrued Vacation

City employees generally earn vacation at the rate of .83 working days per month or 10 days per year. Regular full-time employees having completed 6 years of service earned vacation leave at the rate of 1.25 days per month or 15 days per year. Regular full-time employees having completed 15 years of service earned vacation leave at the rate of 1.67 working days per month or 20 days per year. Regular full-time employees who are separated from service are compensated for vacation accrued up to the date of separation. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

12. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

13. Fund Equity

In the fund financial statements, governmental fund reports reservations of fund balance for amounts that are not available for subsequent year appropriations or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources.

14. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Since appropriations lapse at year-end, the subsequent fiscal year's budget specifically provides for reappropriation of outstanding encumbrances to honor the prior commitments. Encumbrances do not constitute current year expenditures or liabilities.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS

1. Deposits

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's bank deposits are required by state law to be secured by the deposit of certain securities specified at RSMo 30.270 with the City or trustee institution. The value of the securities must amount to the total of the City's cash not insured by the Federal Deposit Insurance Corporation.

As of August 31, 2006, the City's bank balances were entirely secured or collateralized with securities held by the City or by its agent in the City's name.

2. Investments

As of August 31, 2006, the City had the following investments:

<u>Investments</u>	<u>Fair Market Value</u>	<u>No Maturity</u>	<u>Less Than One Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More Than 10 Years</u>	<u>Credit Risk</u>
Primary Government							
Repurchase agreement	\$ 1,014,000	-	1,014,000	-	-	-	AAA
Guaranteed investment contract	9,911,434	-	-	9,069,427	729,100	112,907	Not rated
Government securities:							
Federal Home Loan Mortgage Corporation	1,875,916	-	1,875,916	-	-	-	AAA
Federal Home Loan Bank	309,166	-	309,166	-	-	-	AAA
Money market funds	<u>73,957</u>	<u>73,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	Not rated
Grand Total Investments	<u>\$13,184,473</u>	<u>73,957</u>	<u>3,199,082</u>	<u>9,069,427</u>	<u>729,100</u>	<u>112,907</u>	

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

2. Investments (Continued)

Investments Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have a written investment policy covering credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a written investment policy covering interest rate risk.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not have a written investment policy covering concentration of credit risk.

NOTE C - CAPITAL ASSETS

The City has reported all capital assets including infrastructure in the government-wide statement of net assets.

Capital asset activity was as follows:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE C - CAPITAL ASSETS (Continued)

	For The Year Ended August 31, 2006			
	<u>Balance</u> <u>August 31</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u> <u>And</u> <u>Transfers</u>	<u>Balance</u> <u>August 31</u> <u>2006</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$27,048,828	46,659	-	27,095,487
Construction in progress	<u>10,128,156</u>	<u>1,099,472</u>	<u>1,287,365</u>	<u>9,940,263</u>
Total Capital Assets Not Being Depreciated	<u>37,176,984</u>	<u>1,146,131</u>	<u>1,287,365</u>	<u>37,035,750</u>
Capital assets being depreciated:				
Buildings and other improvements	17,763,567	747,213	-	18,510,780
Automotive equipment	1,875,366	759,239	905,709	1,728,896
Machinery and equipment	1,522,098	140,122	27,989	1,634,231
Infrastructure	<u>46,215,313</u>	<u>1,441,439</u>	<u>-</u>	<u>47,656,752</u>
Total Capital Assets Being Depreciated	<u>67,376,344</u>	<u>3,088,013</u>	<u>933,698</u>	<u>69,530,659</u>
Less - Accumulated depreciation for:				
Building and other improvements	1,444,762	593,021	-	2,037,783
Automotive equipment	1,554,281	280,042	905,709	928,614
Machinery and equipment	1,017,053	212,809	27,989	1,201,873
Infrastructure	<u>23,200,773</u>	<u>1,391,800</u>	<u>-</u>	<u>24,592,573</u>
Total Accumulated Depreciation	<u>27,216,869</u>	<u>2,477,672</u>	<u>933,698</u>	<u>28,760,843</u>
Total Capital Assets Being Depreciated, Net	<u>40,159,475</u>	<u>610,341</u>	<u>-</u>	<u>40,769,816</u>
 Governmental Activities Capital Assets, Net	 <u>\$77,336,459</u>	 <u>1,756,472</u>	 <u>1,287,365</u>	 <u>77,805,566</u>

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE C - CAPITAL ASSETS (Continued)

	For The Year Ended August 31, 2006			
	Balance August 31 2005	Additions	Deletions And Transfers	Balance August 31 2006
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 145,118	-	-	145,118
Construction in progress	490,189	1,960,983	-	2,451,172
Total Capital Assets Not Being Depreciated	635,307	1,960,983	-	2,596,290
Capital assets being depreciated:				
Buildings	56,484	-	-	56,484
Treatment plants	2,168,329	-	-	2,168,329
Machinery and equipment	1,082,784	58,802	-	1,141,586
Sewer lines	17,816,007	-	-	17,816,007
Total Capital Assets Being Depreciated	21,123,604	58,802	-	21,182,406
Less - Accumulated depreciation for:				
Buildings	7,161	2,825	-	9,986
Treatment plants	1,625,905	65,055	-	1,690,960
Machinery and equipment	565,918	113,040	-	678,958
Sewer lines	6,059,741	356,320	-	6,416,061
Total Accumulated Depreciation	8,258,725	537,240	-	8,795,965
Total Capital Assets Being Depreciated, Net	12,864,879	(478,438)	-	12,386,441
 Business-Type Activities				
Capital Assets, Net	\$13,500,186	1,482,545	-	14,982,731

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 649,276
Public safety	301,757
Public works	31,348
Highways and streets	1,455,813
Parks and recreation	36,421
Health and sanitation	3,057
Total Depreciation Expense - Governmental Activities	\$2,477,672
 Business-type activities:	
Sewer	\$537,240

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT

Changes in Long-term Liabilities

Long-term liability activity was as follows:

	<u>For The Year Ended August 31, 2006</u>			<u>Balance</u> <u>August 31</u> <u>2006</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u>
	<u>Balance</u> <u>August 31</u> <u>2005</u>	<u>Additions</u>	<u>Reductions</u>		
Governmental activities:					
Capital lease obligations	\$ 328,654	600,000	178,744	749,910	245,744
Leasehold revenue bonds	16,050,000	-	680,000	15,370,000	275,000
Plus - Premium	456,442	-	19,845	436,597	-
Compensated absences	<u>442,604</u>	<u>49,602</u>	<u>88,521</u>	<u>403,685</u>	<u>80,737</u>
Total Governmen- tal Activities	<u>\$17,277,700</u>	<u>649,602</u>	<u>967,110</u>	<u>16,960,192</u>	<u>601,481</u>
Business-type activities:					
Revenue bonds payable	\$1,285,775	9,000,000	164,942	10,120,833	353,833
Less - Discounts	(14,969)	-	(1,828)	(13,141)	-
Plus - Premiums	-	230,722	5,768	224,954	-
Notes payable	<u>804,700</u>	<u>112,907</u>	<u>75,600</u>	<u>842,007</u>	<u>-</u>
Total Business- type Activities	<u>\$2,075,506</u>	<u>9,343,629</u>	<u>244,482</u>	<u>11,174,653</u>	<u>353,833</u>

Compensated absences is generally liquidated by the General Fund.

Leasehold Revenue Bonds

In May 2003, the City issued \$16,000,000 in leasehold revenue bonds (Series 2003) which represent proportionate interest in base rentals to be paid by the City pursuant to an annually renewable lease/purchase agreement dated May 1, 2003 between the City and UMB Bank, N.A. Company of Missouri (the trustee/lessor). The trustee has agreed to execute and deliver the bonds pursuant to a declaration and indenture of trust to finance the City's acquisition and construction of the recreation center. The base rentals constitute rent for the facility pursuant to the lease. The leasehold revenue bonds bear interest ranging from 2% to 5%.

Leasehold revenue bonds debt service requirements to maturity are as follows:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

<u>For The Years</u> <u>Ended August 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 275,000	660,489	935,489
2008	305,000	654,989	959,989
2009	335,000	648,508	983,508
2010	365,000	640,551	1,005,551
2011	400,000	630,514	1,030,514
2012 - 2016	2,610,000	2,944,728	5,554,728
2017 - 2021	3,925,000	2,344,760	6,269,760
2022 - 2026	5,745,000	1,207,188	6,952,188
2027	<u>1,410,000</u>	<u>67,688</u>	<u>1,477,688</u>
Total	<u>\$15,370,000</u>	<u>9,799,415</u>	<u>25,169,415</u>

Capital Lease Obligations

During 2005, the City entered into a lease agreement as lessee for financing the acquisition of equipment and vehicles.

During 2006, the City entered into a lease agreement as lessee for financing the acquisition of vehicles.

The assets acquired through capital leases are as follows:

	<u>Governmental</u> <u>Activities</u> <u>August 31</u> <u>2006</u>
Assets:	
Automotive equipment	\$ 876,717
Machinery and equipment	<u>198,007</u>
	1,074,724
Less - Accumulated depreciation	<u>259,187</u>
	<u>\$ 815,537</u>

The future minimum capital lease obligations and the net present value of these minimum lease payments as of August 31, 2006 were as follows:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

<u>For The Years</u> <u>Ended August 31</u>	<u>Governmental Activities</u>		
	<u>Equipment</u> <u>And Vehicles</u>	<u>Vehicles</u>	<u>Total</u>
2007	\$106,934	162,003	268,937
2008	106,934	162,003	268,937
2009	53,467	162,003	215,470
2010	-	40,501	40,501
Total Minimum Lease Payments	267,335	526,510	793,845
Less - Amount representing interest	<u>11,535</u>	<u>32,400</u>	<u>43,935</u>
Present Value Of Minimum Lease Payments	<u>\$255,800</u>	<u>494,110</u>	<u>749,910</u>

Revenue Bonds Payable

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt services. The original amount outstanding at the end of the current fiscal year related to bonds issued in prior years was \$10,120,833. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Sewerage system - Series 1992	4.25 - 6.55%	\$ 591,250
Sewerage system - Series 1993	3.40 - 5.40	582,917
Sewerage system - Series 2005	3.25 - 5.25	6,090,833
Sewerage system - Series 2006	3.60 - 5.25	<u>2,855,833</u>
		<u>\$10,120,833</u>

The revenue bonds dated June 1, 1992 maturing after January 1, 2002 may be called for redemption and payment prior to maturity in whole or in part on each June 1 and December 1 commencing June 1, 2002, at redemption prices set forth below (expressed as percentages of principal amount) plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
June 1, 2002 and December 1, 2002	102%
June 1, 2003 and December 1, 2003	101
June 1, 2005 and thereafter	100

The revenue bonds dated June 1, 1993 maturing after January 1, 2005 may be called for redemption and payment prior to maturity in whole or in part on each June 1 and December 1 commencing June 1, 2005, at redemption prices set forth below (expressed as percentages of principal amount) plus accrued interest thereon to the date of redemption:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

<u>Redemption Dates</u>	<u>Redemption Price</u>
June 1, 2003 and December 1, 2003	102%
June 1, 2005 and December 1, 2005	101
June 1, 2005 and thereafter	100

The revenue bonds dated November 1, 2005 maturing on July 1, 2016; July 1, 2017; July 2, 2021; and thereafter may be called for redemption and payment prior to maturity in whole or in part on each June 1 and December 1 commencing December 1, 2015, at the redemption price of 100% of the principal amount plus accrued interest thereon to the date of redemption.

The revenue bonds dated April 2006 maturing on July 1, 2020 and thereafter may be called for redemption and payment prior to maturity in whole or in part on each June 1 and December 1 commencing June 1, 2016, at the redemption price of 100% of the principal amount plus accrued interest thereon to the date of redemption.

The bond ordinances required that the City establish rates and charges for its sewer services, such that the revenues derived from the sewage system are sufficient to provide for the payment of principal and interest on the revenue bonds and for the operation and maintenance of the sewage system.

Revenue bond debt service requirements to maturity are as follows:

<u>For The Years</u> <u>Ended August 31</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 353,833	494,739	848,572
2008	479,000	452,404	931,404
2009	492,000	431,856	923,856
2010	516,000	410,411	926,411
2011	530,000	387,965	917,965
2012 - 2016	2,445,000	1,573,254	4,018,254
2017 - 2021	2,385,000	1,054,426	3,439,426
2022 - 2026	<u>2,920,000</u>	<u>421,188</u>	<u>3,341,188</u>
Total	<u>\$10,120,833</u>	<u>5,226,243</u>	<u>15,347,076</u>

Notes Payable	<u>August 31</u> <u>2006</u>
SRF - 1992, no interest	\$317,500
SRF - 1993, no interest	411,600
SRF - 2005, no interest	75,874
SRF - 2006, no interest	<u>37,033</u>
	<u>\$842,007</u>

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

In conjunction with the bonds dated June 1, 1992, a reserve account has been established with a no-interest loan funded with federal capitalization grants and matching funds from the State of Missouri. When fully funded, this loan (reserve account) will be funded in an amount equal to 50% of the outstanding principal amount of such bonds. The reserve account is held in trust. As the principal amount of such bonds is repaid, the amounts held in the reserve account will be reduced such that the reserve account will equal 50% of the remaining principal balance of such bonds.

In conjunction with the bonds dated August 1, 1993; November 1, 2005; and April 1, 2006, reserve accounts have been established with a no-interest loan funded with federal capitalization grants and matching funds from the State of Missouri. When fully funded, these loans (reserve accounts) will be funded in an amount equal to 70% of the outstanding principal amount of such bonds. The reserve accounts are held in trust. As the principal amount of such bonds is repaid, the amounts held in the reserve account will be reduced such that the reserve account will equal 70% of the remaining principal balance of such bonds.

The City is in compliance with significant requirements regarding deposits and debt service payments.

NOTE E - SHORT-TERM DEBT

Lines of Credit

During fiscal 2006, the City obtained two lines of credit to finance acquisition of residential properties within the Triangle redevelopment area. The activity is as follows:

	For The Year Ended August 31, 2006				
	Origination Date	Maturity Date	Interest Rate	Credit Line	Balance
Line of credit	11/17/2005	8/31/2006	5.49%	\$6,000,000	\$5,762,585
Line of credit	06/04/2006	8/31/2006	6.32	5,000,000	<u>3,402,982</u>
Total					<u>\$9,165,567</u>

On September 1, 2006, the lines of credit were paid off by an \$11,000,000 line of credit maturing December 31, 2006 with an interest rate of 6.38%. This line of credit will be paid off when the City resells the land.

Changes in short-term debt were as follows:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE E - SHORT-TERM DEBT (Continued)

	For The Year Ended August 31, 2006			Balance August 31 2006
	Balance August 31 2005	Additions	Reductions	
	Lines of credit	\$ -	9,165,567	

NOTE F - EMPLOYEE RETIREMENT SYSTEMS AND PLANS

The City maintains a single-employer, defined benefit pension plan (City of Arnold, Missouri Police Pension Plan) which covers all members of the organized police force and participates in the state-wide Missouri Local Government Retirement System, an agent multiple-employer, defined benefit pension plan which covers all of the City's full-time employees except for members of the police force.

1. City of Arnold, Missouri Police Pension Plan

Plan Description and Provisions

The Plan is a single-employer, defined benefit pension plan that covers all of the City's full-time police employees. The Plan was created and is governed by City ordinance. The payroll for employees covered by the Plan for the year ended August 31, 2006, which is the date of the latest actuarial valuation available, was \$2,080,320 and the City's total payroll was \$5,343,361.

The Plan does not issue a separate stand-alone financial report. The financial information is included as a Trust Fund in the City's basic financial statements. Information about the Plan is provided in a summary plan description.

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Membership in the Plan is comprised of the following:

Group	August 31 2006
Retirees and beneficiaries currently receiving benefits	1
Vested terminated employees and active employees	50

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE F - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

1. City of Arnold, Missouri Police Pension Plan (Continued)

Employees attaining the age of 55 who have completed five or more years of service are entitled to benefits based upon average earnings and years of service. The Plan also provides early retirement, death, and disability.

City ordinance requires each member to contribute 8½% of gross salary. The ordinance requires the City to contribute the actuarially computed amounts, which together with employee contributions and investment income, will cover the costs of the Plan. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

Funding Status and Progress

Pension Plan		
Valuation For The Actuarial Years Ended August 31	Actuarial Value Of Assets	Covered Payroll
2006	\$4,912,204	\$2,080,320
2005	5,493,770	1,774,321
2004	4,762,934	1,834,589
2003	4,530,291	1,720,460
2002	4,174,590	1,712,714
2001	3,932,302	1,692,864

Schedule Of Employer Contributions			
For The Years Ended August 31	Annual Required Contribution	Actual Contribution	Percentage Contributed
2006	\$393,674	\$329,595	83.7%
2005	264,795	223,088	84.2
2004	220,217	176,103	80.0
2003	216,477	205,471	94.9
2002	194,114	333,911	172.0
2001	248,759	349,958	140.7

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE F - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

1. City of Arnold, Missouri Police Pension Plan (Continued)

Aggregate actuarial cost method	Frozen entry age
Amortization method	Using assumed rate of 8% over 2 to 18 years
Amortization period	Closed
Asset valuation method	At contract value and market value
Actuarial assumptions:	
Investment rate of return	8%
Pre-retirement	8%
Post-retirement	5.4%
Projected salary increases	4.5%
Inflation rate	N/A

Annual Pension Cost

Current year annual pension costs for the Plan are shown in the trend information. Annual required contributions were made by the Plan.

Trend Information

The historical trend information about the Plan is presented herewith to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparison with other Public Employee Retirement Systems (PERS). The information provided is the latest information available.

Pension Plan		
Valuation For The Actuarial Years Ended August 31	Annual Pension Cost	Percentage Contributed
2006	\$381,178	83.7%
2005	250,135	84.2
2004	203,376	80.0
2003	200,068	94.9
2002	189,276	172.0
2001	251,512	140.7

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE F - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

1. City of Arnold, Missouri Police Pension Plan (Continued)

<u>Valuation For The Actuarial Years Ended August 31</u>	<u>Net Pension Asset (Obligation) Beginning Of Year</u>	<u>Interest Net Pension Asset (Obligation)</u>	<u>Annual Required Contribution</u>
2006	\$156,197	\$12,496	\$393,674
2005	183,244	14,660	264,795
2004	210,517	16,841	220,217
2003	205,114	16,409	216,477
2002	60,479	4,838	194,114
2001	(37,967)	(2,753)	248,759

<u>Valuation For The Actuarial Years Ended August 31</u>	<u>Actual Contribution</u>	<u>Net Pension Asset (Obligation) End Of Year</u>
2006	\$329,595	\$104,614
2005	223,088	156,197
2004	176,103	183,244
2003	205,471	210,517
2002	333,911	205,114
2001	349,958	60,479

2. Missouri Local Government Employees Retirement System (LAGERS)

Plan Description

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

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

NOTE F - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

2. Missouri Local Government Employees Retirement System (LAGERS) (Continued)

Funding Policy

The City's full-time employees do not contribute to the pension plan. The City is required by state statute to contribute at an actuarially determined rate; the current rate is 18.2% (general) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the City. The contribution provisions of the City are established by state statute.

Annual Pension Cost

For 2006, the City's annual pension cost of \$404,407 was equal to the required and actual contributions. The required contribution was determined as part of the February 28/29, 2004 and/or 2005 annual actuarial valuation using the entry age actuarial cost method.

The actuarial assumptions included a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually; b) projected salary increases of 4% per year, compounded annually, attributable to inflation; c) additional projected salary increases ranging from 0% to 6% per year, depending on age, attributable to seniority/merit; d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women; and e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at February 28, 2006 was 18 years.

In December 2004, the City changed its benefit factor from 1.5% to 2%.

Three-year trend information follows:

<u>For The Years Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>
2006	\$404,407	100%
2005	311,658	100
2004	244,760	100

Schedule of funding progress follows:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE F - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

2. Missouri Local Government Employees Retirement System (LAGERS) (Continued)

For The Valuation Years Ended February 28/29	Actuarial Value Of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL
2006	\$5,461,396	\$6,931,372	\$1,469,976
2005	4,646,329	6,716,857	2,070,528
2004	4,290,230	4,940,200	649,970

For The Valuation Years Ended February 28/29	Funded Ratio	Annual Covered Payroll	Unfunded AAL As A Percentage Of Covered Payroll
2006	79%	\$2,224,604	66%
2005	69	2,178,352	95
2004	87	2,077,301	31

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS' office in Jefferson City.

NOTE G - INTERFUND ASSETS/LIABILITIES

Individual interfund assets and liabilities are as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>August 31 2006</u>
General Fund	Sewer Fund	\$ 269,904
General Fund	Recreation Center Fund	274,391
General Fund	Storm Water Fund	31,905
Police Pension Trust Fund	General Fund	61,782
Sewer Fund	General Fund	<u>498,609</u>
		<u>\$1,136,591</u>

NOTE G - INTERFUND ASSETS/LIABILITIES (Continued)

Generally these interfund balances are due to timing differences. All interfund balances are expected to be repaid during the fiscal year ending August 31, 2007.

NOTE H - PROPERTY TAXES

Property taxes are recorded as revenue in the fiscal year in which they are levied. Taxes levied and uncollected are carried as an asset of the General Fund. An allowance has been established for the estimated uncollectible property taxes.

The City's property tax calendar is as follows:

- a. Property is assessed by the County on January 1 each year.
- b. The tax levy ordinance is adopted and filed with the county clerk on or before September 1.
- c. Property taxes are due to be collected on or before December 31.
- d. Property taxes attach as an enforceable lien on property as of January 1.

NOTE I - INSURANCE

The City is a member of the Missouri Intergovernmental Risk Management Association (MIRMA), a state-wide governmental self-insurance pool which provides property, liability, and workers' compensation coverages to its participating members in a single comprehensive multiline package. The various lines of coverage are not available individually and the membership is limited to municipalities and municipally owned utilities. The City's policy covers all real and personal property owned by the City except sewer lines. The policy is for replacement cost and expires June 30, 2007.

MIRMA is funded by annual member assessments calculated at a rate per \$100 of annual payroll which applies to all lines of coverage on a composite basis. These funds are used to pay losses within specific risk retention limits shared equally by all members; purchase excess insurance which provides a transfer of catastrophic risk to private insurance carriers; purchase services such as claims administration, loss prevention, and data processing; and pay administrative expenses. Should actual insurance losses exceed MIRMA's estimates, the City could be required to contribute additional funds. Management believes the risk of additional loss is minimal and any additional contributions that may be required would not materially impact the overall operations of the City. The City paid an assessment totaling \$573,216 for MIRMA's fiscal years ended June 30, 2006. Settled claims resulting in these risks have not exceeded coverage in any of the past three years.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE J - INTERFUND ADMINISTRATION FEE

During the year, the Sewer Fund, the Storm Water Fund, and the Recreation Center Fund paid \$138,000, \$6,000, and \$36,000, respectively, to the General Fund for administrative costs incurred by the General Fund relating to the various operations of the Funds. These fees are included in miscellaneous revenue in the General Fund.

NOTE K - CONTINGENCIES AND COMMITMENTS

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

The City is subject to various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have material adverse effect on the financial condition of the City.

At August 31, 2006, the City had commitments for sewer projects in the amount of \$6,943,825.

NOTE L - RESTRICTED NET ASSETS

The government-wide statement of net assets fund balances reports \$139,706 of restricted net assets, which is restricted by enabling legislation.

NOTE M - SUBSEQUENT EVENT

In October 2006, the city council approved the purchase of a golf course for \$3,250,000.

NOTE N - PRIOR PERIOD ADJUSTMENT

The previously stated fund balance and net assets have been restated as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>
Fund balance/net assets, August 31, 2005, as previously reported	\$4,876,582	69,059,322
Restatement for receivables	<u>(84,253)</u>	<u>(84,253)</u>
Fund Balance/Net Assets, August 31, 2005, As Restated	<u>\$4,792,329</u>	<u>68,975,069</u>



**REQUIRED SUPPLEMENTAL
INFORMATION SECTION**

CITY OF ARNOLD, MISSOURI
REQUIRED SUPPLEMENTAL INFORMATION -
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Property	\$ 919,140	919,140	949,500	30,360
Sales	6,608,179	6,608,179	5,960,311	(647,868)
Public utility gross receipts	1,765,000	1,765,000	2,044,454	279,454
Motor fuel	570,000	570,000	565,520	(4,480)
Other	157,000	157,000	166,868	9,868
Total Taxes	<u>10,019,319</u>	<u>10,019,319</u>	<u>9,686,653</u>	<u>(332,666)</u>
Special assessments	<u>325,000</u>	<u>325,000</u>	<u>428,599</u>	<u>103,599</u>
Licenses and permits	<u>537,525</u>	<u>537,525</u>	<u>501,547</u>	<u>(35,978)</u>
Fines and court costs	<u>970,000</u>	<u>970,000</u>	<u>1,060,849</u>	<u>90,849</u>
Intergovernmental	<u>783,775</u>	<u>783,775</u>	<u>337,205</u>	<u>(446,570)</u>
Charges for services	<u>123,900</u>	<u>123,900</u>	<u>102,954</u>	<u>(20,946)</u>
Investment income	<u>115,000</u>	<u>115,000</u>	<u>161,805</u>	<u>46,805</u>
Miscellaneous				
Administration	186,000	186,000	180,000	(6,000)
Other	78,700	78,700	222,413	143,713
Total Miscellaneous	<u>264,700</u>	<u>264,700</u>	<u>402,413</u>	<u>137,713</u>
Total Revenues	<u>13,139,219</u>	<u>13,139,219</u>	<u>12,682,025</u>	<u>(457,194)</u>
EXPENDITURES				
General government				
General and administrative	982,304	1,214,988	1,149,500	(65,488)
Mayor and council	99,358	99,358	94,674	(4,684)
Municipal court	119,443	120,671	137,327	16,656
Administrator	217,122	257,916	202,817	(55,099)
Treasurer	17,312	17,312	16,941	(371)
Finance	209,167	210,395	188,352	(22,043)
Collector of revenue	162,912	162,912	166,428	3,516
Attorney	97,900	97,900	115,855	17,955
Elections	6,800	6,800	5,784	(1,016)
Planning commission	174,218	175,251	168,461	(6,790)
Total General Government	<u>2,086,536</u>	<u>2,363,503</u>	<u>2,246,139</u>	<u>(117,364)</u>

(Continued)

CITY OF ARNOLD, MISSOURI
REQUIRED SUPPLEMENTAL INFORMATION -
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
FOR THE YEAR ENDED AUGUST 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued)				
Public safety				
Police	3,841,684	3,872,918	3,975,434	102,516
Police board	6,509	6,509	963	(5,546)
Dispatching	471,610	471,610	467,251	(4,359)
Building commission	377,040	378,656	346,565	(32,091)
Total Public Safety	<u>4,696,843</u>	<u>4,729,693</u>	<u>4,790,213</u>	<u>60,520</u>
Public works	<u>3,218,446</u>	<u>3,266,404</u>	<u>1,997,244</u>	<u>(1,269,160)</u>
Highways and streets	<u>841,124</u>	<u>1,020,827</u>	<u>1,046,910</u>	<u>26,083</u>
Parks and recreation	<u>542,537</u>	<u>557,512</u>	<u>511,169</u>	<u>(46,343)</u>
Health and sanitation				
Health department	49,872	49,872	43,110	(6,762)
Rabies control	138,118	138,118	125,395	(12,723)
Vector control	22,744	22,744	26,077	3,333
Solid waste	657,419	657,419	629,052	(28,367)
Total Health And Sanitation	<u>868,153</u>	<u>868,153</u>	<u>823,634</u>	<u>(44,519)</u>
Capital outlay	<u>1,636,962</u>	<u>10,955,784</u>	<u>1,784,290</u>	<u>(9,171,494)</u>
Debt service	<u>729,308</u>	<u>961,545</u>	<u>879,046</u>	<u>(82,499)</u>
Total Expenditures	<u>14,619,909</u>	<u>24,723,421</u>	<u>14,078,645</u>	<u>(10,644,776)</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(1,480,690)</u>	<u>(11,584,202)</u>	<u>(1,396,620)</u>	<u>10,187,582</u>
OTHER FINANCING SOURCES				
Issuance of capital lease	620,162	620,162	600,000	(20,162)
Sale of capital assets	1,500	1,500	23,626	22,126
Total Other Financing Sources	<u>621,662</u>	<u>621,662</u>	<u>623,626</u>	<u>1,964</u>
NET CHANGE IN FUND BALANCE	<u>\$ (859,028)</u>	<u>(10,962,540)</u>	<u>(772,994)</u>	<u>10,189,546</u>
FUND BALANCE, SEPTEMBER 1			<u>4,792,329</u>	
FUND BALANCE, AUGUST 31			<u>\$ 4,019,335</u>	

CITY OF ARNOLD, MISSOURI
REQUIRED SUPPLEMENTAL INFORMATION -
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - RECREATION CENTER
FOR THE YEAR ENDED AUGUST 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Sales	\$ 1,037,500	1,037,500	1,066,625	29,125
Charges for services	1,214,500	1,214,500	834,055	(380,445)
Investment income	10,000	10,000	80,896	70,896
Miscellaneous				
Other	-	-	17,776	17,776
Total Revenues	<u>2,262,000</u>	<u>2,262,000</u>	<u>1,999,352</u>	<u>(262,648)</u>
EXPENDITURES				
Recreation center	1,527,354	1,539,325	1,384,064	(155,261)
Capital outlay	15,000	20,495	18,521	(1,974)
Debt service	905,289	905,289	907,693	2,404
Total Expenditures	<u>2,447,643</u>	<u>2,465,109</u>	<u>2,310,278</u>	<u>(154,831)</u>
REVENUES UNDER EXPENDI- TURES	<u>\$ (185,643)</u>	<u>(203,109)</u>	(310,926)	<u>(107,817)</u>
FUND BALANCE, SEPTEMBER 1			<u>1,700,632</u>	
FUND BALANCE, AUGUST 31			<u>\$ 1,389,706</u>	

CITY OF ARNOLD, MISSOURI
REQUIRED SUPPLEMENTAL INFORMATION -
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2006

Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or before July 8, all departments submit requests for appropriations to the City's budget committee so that a budget may be prepared.
- b. During August, the operating budget is presented to the City Council for review. The operating budget includes proposed expenditures for the General, Recreation Center, and Enterprise Funds and the means of financing them.
- c. Public hearing meetings are held to obtain taxpayer comments.
- d. Prior to September 1, the budget is adopted by the City Council.
- e. Budgets are adopted on a basis generally consistent with U.S. generally accepted accounting principles. Expenditures modified for some year-end accruals may not legally exceed budgeted appropriations at the department level.
- f. Budget amendments at the department level must be approved by the City Council. Management may authorize transfers of appropriations within a department.
- g. Appropriations lapse at year-end.



**STATISTICAL
SECTION**

CITY OF ARNOLD, MISSOURI
GOVERNMENTAL FUNDS - COMPARATIVE BALANCE SHEETS
AUGUST 31

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 4,422,967	3,761,516
Investments	-	317,260
Receivables (net of allowances for uncollectibles):		
Taxes	1,704,638	2,285,699
Special assessments	1,808,032	1,880,342
Intergovernmental	266,911	500,760
Miscellaneous	632,691	880,908
Due from other funds	576,200	54,456
Prepaid items	481,578	322,655
Land held for resale	9,165,567	-
Restricted assets:		
Cash and cash equivalents	232,871	3,690,005
Capital improvements sales tax receivable	461,322	657,781
Investments	1,249,776	1,250,000
Total Assets	\$ 21,002,553	15,601,382
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 2,387,782	5,572,775
Accrued liabilities	90,783	57,341
Accrued interest	212,914	-
Due to other funds	834,782	459,772
Deferred revenue	2,901,684	3,018,533
Short-term debt	9,165,567	-
Total Liabilities	15,593,512	9,108,421
 Fund Balances		
Reserved for:		
Prepaid items	481,578	322,655
Encumbrances	1,126,868	579,846
Bond escrow deposit	-	126,000
Debt service reserve	-	232,816
Recreational center escrow deposit	1,250,000	1,250,000
Unreserved:		
Designated for sewer subdistrict projects	1,050,149	1,211,095
Designated for street projects	112,183	462,176
Designated for road reconstruction	550,000	550,000
Designated for recreational center	-	163,309
Designated for drug forfeitures	40,152	-
Designated for Greenway beautification	60,000	40,000
Designated for economic development	78,581	44,447
Designated for pride in our City	9,066	-
Designated for technology acquisitions	-	1,484
Designated for tourism	126,415	83,864
Designated for trash reimbursement	-	4,224
Undesignated	524,049	1,421,045
Total Fund Balances	5,409,041	6,492,961
Total Liabilities And Fund Balances	\$ 21,002,553	15,601,382

CITY OF ARNOLD, MISSOURI
GOVERNMENTAL FUNDS - COMPARATIVE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED AUGUST 31

	2006	2005
REVENUES		
Taxes	\$ 10,753,278	10,439,176
Special assessments	428,599	319,133
Licenses and permits	501,547	554,273
Fines and court costs	1,060,849	797,176
Intergovernmental	337,205	3,389,943
Charges for services	937,009	155,656
Investment income	242,701	387,852
Miscellaneous	420,189	329,406
Total Revenues	14,681,377	16,372,615
 EXPENDITURES		
Current:		
General government	2,246,139	1,794,740
Public safety	4,790,213	4,446,103
Public works	1,997,244	5,848,333
Highways and streets	1,046,910	850,141
Parks and recreation	1,895,233	735,511
Health and sanitation	823,634	880,191
Capital outlay	1,802,811	12,115,857
Debt service:		
Principal	858,743	1,374,896
Interest	927,996	756,741
Total Expenditures	16,388,923	28,802,513
 REVENUES UNDER EXPENDITURES	(1,707,546)	(12,429,898)
 OTHER FINANCING SOURCES (USES)		
Issuance of capital lease	600,000	400,000
Sale of capital assets	23,626	314,257
Transfer in	-	1,596,205
Transfer out	-	(1,596,205)
Total Other Financing Sources (Uses)	623,626	714,257
 NET CHANGE IN FUND BALANCES	(1,083,920)	(11,715,641)
 FUND BALANCES, SEPTEMBER 1	6,492,961	18,208,602
 FUND BALANCES, AUGUST 31	\$ 5,409,041	6,492,961

CITY OF ARNOLD, MISSOURI
NET ASSETS BY COMPONENT
LAST FOUR FISCAL YEARS

	August 31			
	2006	2005	2004	2003
Governmental Activities:				
Invested in capital assets, net of related debt	\$61,593,458	60,861,417	44,356,451	36,551,411
Restricted	1,389,706	2,059,448	2,422,228	1,902,327
Unrestricted	5,546,208	6,054,204	17,131,612	22,394,361
 Total Governmental Activities Net Assets	 <u>\$68,529,372</u>	 <u>68,975,069</u>	 <u>63,910,291</u>	 <u>60,848,099</u>
 Business-type Activities:				
Invested in capital assets, net of related debt	\$12,886,415	11,424,680	11,181,445	10,864,269
Restricted	842,007	804,700	1,299,950	300,905
Unrestricted	1,434,544	1,593,564	1,461,173	2,827,318
 Total Business-type Activities Net Assets	 <u>\$15,162,966</u>	 <u>13,822,944</u>	 <u>13,942,568</u>	 <u>13,992,492</u>
 Primary Government:				
Invested in capital assets, net of related debt	\$74,479,873	72,286,097	55,537,896	47,415,680
Restricted	2,231,713	2,864,148	3,722,178	2,203,232
Unrestricted	6,980,752	7,647,768	18,592,785	25,221,679
 Total Primary Government Net Assets	 <u>\$83,692,338</u>	 <u>82,798,013</u>	 <u>77,852,859</u>	 <u>74,840,591</u>

Source: Basic Financial Statements

GASB 34 was implemented in 2003.

CITY OF ARNOLD, MISSOURI
CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS

	For The Years Ended August 31			
	2006	2005	2004	2003
EXPENSES				
Governmental activities:				
General government	\$ 3,135,028	1,935,204	2,092,831	1,760,587
Public safety	5,141,027	4,824,236	4,448,556	4,192,120
Public works	2,025,478	1,049,519	837,772	1,020,872
Highways and streets	1,405,773	2,275,559	845,437	1,191,238
Parks and recreation	1,889,036	761,557	585,666	563,526
Health and sanitation	826,303	883,772	985,793	986,340
Interest on long-term debt	656,208	749,147	779,696	290,267
Total Governmental Activities Expenses	<u>15,078,853</u>	<u>12,478,994</u>	<u>10,575,751</u>	<u>10,004,950</u>
Business-type activities:				
Sewer system	1,869,840	1,480,804	1,526,476	1,459,541
Storm water	37,899	-	-	-
Total Business-type Activities	<u>1,907,739</u>	<u>1,480,804</u>	<u>1,526,476</u>	<u>1,459,541</u>
Total Primary Government Expenses	<u>16,986,592</u>	<u>13,959,798</u>	<u>12,102,227</u>	<u>11,464,491</u>
PROGRAM REVENUES				
Governmental activities:				
Charges for services:				
General government	346,148	378,591	332,215	307,012
Public safety	1,379,817	1,223,932	963,583	801,586
Parks and recreation	920,846	108,730	177,910	93,075
Health and sanitation	14,888	15,144	16,057	14,763
Operating grants and contributions	1,138,664	1,004,539	1,002,252	1,071,808
Capital grants and contributions	781,372	4,928,205	928,132	1,423,045
Total Governmental Activities Program Revenues	<u>4,581,735</u>	<u>7,659,141</u>	<u>3,420,149</u>	<u>3,711,289</u>
Business-type activities:				
Charges for services:				
Sewer system	2,492,669	1,153,188	1,207,243	1,147,048
Storm water	61,267	-	-	-
Total Business-type Activities Program Revenues	<u>2,553,936</u>	<u>1,153,188</u>	<u>1,207,243</u>	<u>1,147,048</u>
Total Primary Government Program Revenues	<u>7,135,671</u>	<u>8,812,329</u>	<u>4,627,392</u>	<u>4,858,337</u>

(Continued)

CITY OF ARNOLD, MISSOURI
CHANGES IN NET ASSETS (Continued)
LAST FOUR FISCAL YEARS

	For The Years Ended August 31			
	2006	2005	2004	2003
NET REVENUES (EXPENSES)				
Governmental activities	(10,497,118)	(4,819,853)	(7,155,602)	(6,293,661)
Business-type activities	646,197	(327,616)	(319,233)	(312,493)
Total Primary Government Net Expenses	<u>(9,850,921)</u>	<u>(5,147,469)</u>	<u>(7,474,835)</u>	<u>(6,606,154)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental activities:				
Taxes:				
Property	949,500	863,007	838,929	818,986
Sales	6,771,832	6,745,540	7,368,939	6,040,919
Gross receipts	2,044,454	1,837,302	1,781,808	1,729,838
Miscellaneous	27,475	27,638	25,835	26,398
Investment income	242,701	387,852	276,247	172,335
Gain on sale of assets	143,126	18,312	-	-
Miscellaneous	221,895	110,114	118,141	188,815
Transfers	(349,562)	(105,134)	(192,105)	(141,868)
Total Governmental Activities General Revenues And Other Changes In Net Assets	<u>10,051,421</u>	<u>9,884,631</u>	<u>10,217,794</u>	<u>8,835,423</u>
Business-type activities:				
Investment income	344,263	102,858	77,204	82,407
Transfers	349,562	105,134	192,105	141,868
Total Business-type Activities General Revenues And Other Changes In Net Assets	<u>693,825</u>	<u>207,992</u>	<u>269,309</u>	<u>224,275</u>
Total Primary Government General Revenues And Other Changes In Net Assets	<u>10,745,246</u>	<u>10,092,623</u>	<u>10,487,103</u>	<u>9,059,698</u>
CHANGES IN NET ASSETS				
Governmental activities	(445,697)	5,064,778	3,062,192	2,541,762
Business-type activities	<u>1,340,022</u>	<u>(119,624)</u>	<u>(49,924)</u>	<u>(88,218)</u>
Total Primary Government	<u>\$ 894,325</u>	<u>4,945,154</u>	<u>3,012,268</u>	<u>2,453,544</u>

Source: Basic Financial Statements

GASB 34 was implemented in 2003.

CITY OF ARNOLD, MISSOURI
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST FOUR FISCAL YEARS

	August 31			
	2006	2005	2004	2003
General Fund:				
Reserved	\$ 1,608,446	1,261,317	13,331,864	4,875,576
Unreserved	2,410,889	3,531,012	4,876,738	17,892,272
Total General Fund	<u>\$ 4,019,335</u>	<u>4,792,329</u>	<u>18,208,602</u>	<u>22,767,848</u>
All other governmental funds:				
Reserved	\$ 1,250,000	1,250,000	-	-
Unreserved, reported in: Special Revenue Fund	139,706	450,632	-	-
Total All Other Govern- mental Funds	<u>\$ 1,389,706</u>	<u>1,700,632</u>	<u>-</u>	<u>-</u>

Source: Basic Financial Statements

GASB 34 was implemented in 2003.

CITY OF ARNOLD, MISSOURI
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST FOUR FISCAL YEARS

	For The Years Ended August 31			
	2006	2005	2004	2003
REVENUES				
Taxes	\$ 10,753,278	10,439,176	10,969,016	9,542,169
Special assessments	428,599	319,133	440,386	475,833
Licenses and permits	501,547	554,273	515,179	444,745
Fines and court costs	1,060,849	797,176	631,699	501,000
Intergovernmental	337,205	3,389,943	711,340	1,107,081
Charges for services	937,009	203,181	156,760	119,825
Investment income	242,701	387,852	276,247	172,335
Miscellaneous	420,189	281,881	310,048	339,681
Total Revenues	<u>14,681,377</u>	<u>16,372,615</u>	<u>14,010,675</u>	<u>12,702,669</u>
EXPENDITURES				
General government	2,246,139	1,794,740	1,976,501	1,910,074
Public safety	4,790,213	4,446,103	4,045,557	3,915,183
Public works	1,997,244	5,848,333	2,770,280	2,705,462
Highways and streets	1,046,910	850,141	787,401	1,143,693
Parks and recreation	1,895,233	735,511	666,321	549,509
Health and sanitation	823,634	880,191	975,528	983,565
Capital outlay	1,802,811	12,115,857	5,449,754	2,338,215
Debt service:				
Principal	858,743	1,374,896	1,111,207	840,243
Interest	927,996	756,741	787,372	264,736
Bond issue costs	-	-	-	391,364
Total Expenditures	<u>16,388,923</u>	<u>28,802,513</u>	<u>18,569,921</u>	<u>15,042,044</u>
REVENUES UNDER EXPENDITURES	<u>(1,707,546)</u>	<u>(12,429,898)</u>	<u>(4,559,246)</u>	<u>(2,339,375)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,596,205	-	-
Transfers out	-	(1,596,205)	-	-
Issuance of capital lease	600,000	400,000	-	-
Sale of capital assets	23,626	314,257	-	-
Issuance of certificates of participation	-	-	-	16,380,000
Premium certificates of participation	-	-	-	496,132
Total Other Financing Sources (Uses)	<u>623,626</u>	<u>714,257</u>	<u>-</u>	<u>16,876,132</u>
NET CHANGES IN FUND BALANCES	<u>\$ (1,083,920)</u>	<u>(11,715,641)</u>	<u>(4,559,246)</u>	<u>14,536,757</u>
 Debt service as a percentage of noncapital	 12.2 %	 12.8	 14.5	 11.8

Source: Basic Financial Statements

CITY OF ARNOLD, MISSOURI
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST FOUR FISCAL YEARS

Function/Program	Program Revenues			
	2006	2005	2004	2003
Governmental activities:				
General government	\$ 442,738	695,161	496,567	839,186
Public safety	1,455,527	1,262,782	1,058,680	1,118,463
Public works	475,087	640,969	265,539	207,638
Highways and streets	1,272,649	4,936,355	1,405,396	1,415,564
Parks and recreation	920,846	108,730	177,910	115,675
Health and sanitation	14,888	15,144	16,057	14,763
Total Governmental Activities	<u>4,581,735</u>	<u>7,659,141</u>	<u>3,420,149</u>	<u>3,711,289</u>
Business-type activities:				
Sewer system	2,492,669	1,153,188	1,207,243	1,147,048
Storm water	61,267	-	-	-
Total Business-type Activities	<u>2,553,936</u>	<u>1,153,188</u>	<u>1,207,243</u>	<u>1,147,048</u>
Total Primary Government	<u><u>\$ 7,135,671</u></u>	<u><u>8,812,329</u></u>	<u><u>4,627,392</u></u>	<u><u>4,858,337</u></u>

GASB 34 was implemented in 2003.

CITY OF ARNOLD, MISSOURI
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

Fiscal Year	Property Taxes	Sales Taxes	Public Utility Gross Receipts Taxes	Motor Fuel Taxes	Other Taxes	Total
2006	\$ 949,500	\$ 7,026,936	\$ 2,044,454	\$ 565,520	\$ 166,868	\$ 10,753,278
2005	863,007	6,995,014	1,837,302	583,207	160,646	10,439,176
2004	838,929	7,618,703	1,781,808	578,703	150,873	10,969,016
2003	818,986	6,286,576	1,729,837	559,479	147,291	9,542,169
2002	784,409	6,159,926	1,724,863	545,538	120,049	9,334,785
2001	710,966	5,982,216	1,867,444	535,295	119,158	9,215,079
2000	670,891	4,373,059	1,513,163	558,156	115,093	7,230,362
1999	622,119	4,008,135	1,516,599	527,420	112,334	6,786,607
1998	606,021	4,648,901	1,474,412	529,326	108,056	7,366,716
1997	567,527	3,459,780	1,435,129	523,123	101,311	6,086,870

CITY OF ARNOLD, MISSOURI
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (1)
LAST TEN FISCAL YEARS

Fiscal Year	Calendar Year	Real Property	Railroads And Utilities	Total		Ratio Of Total Assessed Value To Total Estimated Actual Value
				Assessed Value	Estimated Actual Value	
2006	2005	\$211,786,300	\$5,511,854	\$217,298,154	\$ 943,764,731	23.0 %
2005	2004	188,897,200	5,223,038	194,120,238	835,396,989	23.2
2004	2003	184,774,900	5,254,233	190,029,133	814,846,655	23.3
2003	2002	179,072,600	5,166,281	184,238,881	793,026,020	23.2
2002	2001	176,057,800	5,348,584	181,406,384	781,100,986	23.2
2001	2000	154,909,400	5,075,954	159,985,354	695,836,539	23.0
2000	1999	145,829,500	5,100,237	150,929,737	666,276,086	22.7
1999	1998	132,768,200	5,220,979	137,989,179	615,655,916	22.4
1998	1997	128,157,200	6,731,153	134,888,353	601,446,043	22.4
1997	1996	115,317,000	5,184,266	120,501,266	532,490,250	22.6

(1) Source: Jefferson County Assessor

Property has an assessed value to estimated actual value as follows: commercial real estate 32%, residential real estate 19%, agricultural real estate 12%, and personal property 33-1/3%.

The City does not collect tax on personal property and such data is, therefore, not included.

Data for real property owned by exempt organizations is not included as it is not available.

CITY OF ARNOLD, MISSOURI

PROPERTY TAX RATES - DIRECT AND ALL OVERLAPPING GOVERNMENTS (1)

LAST TEN FISCAL YEARS

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
City of Arnold	0.440	0.440	0.450	0.450	0.450	0.450	0.460	0.470	0.470	0.490
Overlapping Governments:										
State of Missouri	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030
Jefferson County	0.510	0.500	0.520	0.520	0.500	0.500	0.480	0.490	0.740	0.490
Consolidated School No. 6 of Jefferson County	4.460	4.460	4.600	3.530	3.510	3.500	3.580	3.610	3.610	3.780
Rock Community Fire Protection District	0.940	0.940	0.970	0.960	0.940	0.920	0.850	0.800	0.700	0.730
Rock Township Ambulance District	0.130	0.150	0.230	0.220	0.220	0.220	0.230	0.230	0.230	0.240
The Junior College District of Jefferson County	0.350	0.350	0.350	0.350	0.350	0.230	0.230	0.230	0.230	0.230
The Jefferson County Library District	0.180	0.180	0.190	0.190	0.190	0.190	0.190	0.190	0.190	0.200
Surtax-Commercial Only	0.240	0.240	0.240	0.240	-	-	-	-	-	-

(1) Source: Jefferson County Assessor (rates stated per \$100 assessed valuation)

CITY OF ARNOLD, MISSOURI
PRINCIPAL TAXPAYERS (1)
CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2006				1997			
	Taxable Assessed		Percentage Of Total City		Taxable Assessed		Percentage Of Total City	
	Valuation	Rank	Value	%	Valuation	Rank	Value	%
AmerenUE	\$ 4,569,211	1	2.10	%	-	-	-	-
Southwestern Bell Telephone	3,990,064	2	1.84		-	-	-	-
Water Tower LLC	3,847,000	3	1.77		-	-	-	-
Metal Container Corporation	3,618,300	4	1.67		-	-	-	-
Greater Missouri Builders	2,851,300	5	1.31		-	-	-	-
Schnucks	2,732,900	6	1.26		-	-	-	-
Suellentrop Family Partnership LP	2,697,400	7	1.24		-	-	-	-
Home Depot	2,542,600	8	1.17		-	-	-	-
Target	2,496,000	9	1.15		-	-	-	-
Convergy's Corporation	2,103,300	10	0.97		-	-	-	-
	<u>\$ 31,448,075</u>		<u>14.47</u>	<u>%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(1) Source: Jefferson County Assessor

Note: The information for 1997 was not obtainable. These records are not readily accessible from Jefferson County.

CITY OF ARNOLD, MISSOURI
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN FISCAL YEARS

Fiscal Year	Tax Levy Year	Net Tax Levy (2)	Current		Percent Collected As Current	Delinquent		Total Tax Collections	Total		Total Collections As Percent Of Levy		Outstanding Delinquent Taxes		Outstanding Delinquent Taxes As Percent Of Levy
			Tax Collections			Tax Collections	%		Tax Collections	%	Tax Collections	%	Tax Collections	%	
2006	2005	\$ 944,339	\$ 897,486	95.0	\$ 8,619	\$ 906,105	96.0	\$ 57,677	6.11						
2005	2004	859,110	802,501	93.4	15,718	818,219	95.2	23,218	2.70						
2004	2003	834,414	809,603	97.0	14,358	823,961	98.7	24,812	2.97						
2003	2002	814,105	759,996	93.4	59,237	819,233	100.6	36,228	4.45						
2002	2001	780,778	730,130	93.5	51,280	781,410	100.1	16,345	2.09						
2001	2000	708,787	661,782	93.4	46,057	707,839	99.9	16,978	2.40						
2000	1999	670,891	517,177	77.1	155,207	672,384	100.2	13,849	2.06						
1999	1998	622,429	586,577	94.2	35,659	622,236	100.0	18,762	3.01						
1998	1997	603,604	527,829	87.4	82,700	610,529	101.1	16,443	2.72						
1997	1996	565,117	526,297	93.1	40,723	567,020	100.3	17,826	3.15						

(1) Source: Jefferson County Collector's Office

(2) Originally adjusted for strike offs and additions by the Board of Equalization after 1978

CITY OF ARNOLD, MISSOURI
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities				Business-type Activities			Total Primary Government	Percentage Of Personal Income (1)	Per Capita
	Capital Lease Obligations	Certificates Of Participation	Leasehold Revenue Bonds	Revenue Bonds	Revenue Bonds	Notes Payable				
2006	\$ 749,910	\$ -	\$ 15,370,000	\$ 10,120,833	\$ 842,007	\$ 27,082,750	-	% \$ 1,327		
2005	328,654	440,000	15,610,000	1,285,775	804,700	18,469,129	-	905		
2004	48,550	650,000	16,655,000	1,410,275	875,700	19,639,525	5.02	975		
2003	239,757	855,000	17,370,000	1,676,775	942,100	21,083,632	5.41	1,052		
2002	-	1,055,000	1,870,000	1,926,025	1,004,600	5,855,625	1.51	294		
2001	-	1,260,000	2,335,000	2,154,525	1,065,700	6,815,225	1.76	342		
2000	9,828	1,315,000	2,765,000	2,390,500	1,009,356	7,489,684	1.93	375		
1999	32,379	1,450,000	3,160,000	2,541,250	581,943	7,765,572	-	387		
1998	53,542	1,575,000	3,535,000	2,728,750	639,343	8,531,635	-	425		
1997	75,001	1,695,000	-	2,938,000	639,343	5,347,344	-	267		

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Demographics and Economic Statistics Table

CITY OF ARNOLD, MISSOURI
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AUGUST 31, 2006

<u>Name Of Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share Of Overlapping Debt</u>
The Junior College District of Jefferson County	\$ -	12.24 %	\$ -
Consolidated School District No. 6 of Jefferson County	<u>30,000,000</u>	43.58	<u>13,074,000</u>
	30,000,000		13,074,000
City direct debt	<u>16,119,910</u>	100.00 %	<u>16,119,910</u>
Total Direct And Overlapping Debt	<u>\$ 46,119,910</u>		<u>\$ 29,193,910</u>

Source: Information was obtained by contacting the Taxing Jurisdiction and the Jefferson County Collector's Office. The percentage applicable to the City is based on the jurisdiction's assessed value within the boundaries of the City.

CITY OF ARNOLD, MISSOURI
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

	Fiscal Years									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Debt limit	\$ 28,247,720	25,534,112	25,363,969	25,018,687	24,752,032	22,021,812	20,513,362	19,070,814	18,641,631	16,802,102
Net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	<u>\$ 28,247,720</u>	<u>25,534,112</u>	<u>25,363,969</u>	<u>25,018,687</u>	<u>24,752,032</u>	<u>22,021,812</u>	<u>20,513,362</u>	<u>19,070,814</u>	<u>18,641,631</u>	<u>16,802,102</u>

Total Net Debt
Applicable To
The Limit As
Percentage Of
Debt Limit

- % - - - - -

Note: Bonded indebtedness is limited by Sections 95.111 and 95.120 of the Missouri Revised Statutes (1986) to 10% of the assessed value of taxable tangible property.

CITY OF ARNOLD, MISSOURI
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Median Age (2)	Personal Income (1)	Per Capita Income (2)	School Enrollment	Unemployment Rate (3)
2006	20,413	36.7	N/A	N/A	11,459	4.8 %
2005	20,413	36.7	N/A	N/A	11,554	4.3
2004	20,146	34.9	\$ 391,537,510	\$ 19,435	11,019	3.1
2003	20,049	34.9	389,652,315	19,435	11,019	3.1
2002	19,920	34.9	387,145,200	19,435	11,019	3.1
2001	19,956	34.9	387,844,860	19,435	11,019	3.1
2000	19,970	34.9	388,116,950	19,435	11,019	3.1
1999	20,053	N/A	N/A	N/A	9,507	5.2
1998	20,053	N/A	N/A	N/A	9,507	5.2
1997	20,053	N/A	N/A	N/A	9,507	5.2

(1) Source: SETA - Office of Social and Economic Trend Analysis

(2) Source: Census Bureau

(3) Source: Missouri Department of Labor

CITY OF ARNOLD, MISSOURI
PRINCIPAL EMPLOYERS
CURRENT YEAR AND FIVE YEARS AGO

Employer	2006			2000		
	Employees	Rank	Percent Of Total City Employment	Employees	Rank	Percent Of Total City Employment
Convergys's Corporation	1,100	1	5.47 %	700	1	3.48 %
LMC Industries	350	2	1.74	296	4	1.47
Wal-Mart	328	3	1.63	403	2	2.01
Schnuck's	230	4	1.14	361	3	1.80
Sinclair & Rush	205	5	1.02	159	7	0.79
Metal Container Corporation	188	6	0.94	200	5	1.00
Home Depot	150	7	0.75	120	9	0.60
Shop & Save	127	8	0.63	180	6	0.90
Kohl's Department Store	106	9	0.53	125	8	0.62
Geospatial Information Agency	N/A	10	N/A	N/A	10	N/A
	<u>2,784</u>		<u>13.85 %</u>	<u>2,544</u>		<u>12.67 %</u>

Source: The City Clerk's Office.

CITY OF ARNOLD, MISSOURI
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Full-Time Equivalent Employees As Of August 31									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government:										
Legislative services	1	1	1	1	1	1	1	1	1	1
Administrative services	7	6	5	5	5	4	4	4	4	3
Maintenance of municipal property	1	1	1	1	1	-	-	-	-	-
Municipal court	2	1	1	1	1	1	1	1	1	1
Finance	4	3	3	3	3	3	3	3	3	3
Police:										
Officers	48	47	46	44	46	47	47	45	44	40
Administrative services	4	3	4	4	4	4	4	4	4	4
Dispatch	7	8	8	8	7	7	7	8	8	8
Public works:										
Administration	2	2	2	2	2	2	2	2	2	1
Street maintenance	8	8	8	9	11	13	13	12	16	16
Fleet	2	2	2	2	2	-	-	-	-	-
Building department:										
Administration	4	4	3	3	3	3	2	1	1	1
Inspectors	2	3	3	3	3	4	5	3	4	4
Engineers	1	1	1	-	1	1	1	1	1	1
Parks and recreation:										
Administration	3	3	2	2	3	2	2	2	2	2
Maintenance	4	4	4	3	3	3	3	3	3	4
Supervisors	2	2	-	-	-	-	-	-	-	-
Sewer:										
Maintenance	5	5	5	4	4	4	4	5	6	6
Health department:										
Administration	1	1	1	2	2	2	2	2	2	2
Rabies controller	2	2	2	2	2	2	2	2	1	2

CITY OF ARNOLD, MISSOURI
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police-patrol:										
Arrests	2,183	2,393	2,120	1,998	2,061	4,983	1,589	1,511	1,511	1,511
Traffic citations	8,039	12,028	9,764	8,312	8,342	8,283	3,955	4,475	4,475	4,475
Crime reports	15,072	15,999	15,519	14,753	13,803	14,312	14,087	14,313	N/A	N/A
Accident reports	1,009	1,095	1,020	983	1,066	1,146	1,030	889	N/A	N/A
Warrants	2,427	3,128	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Public works:										
Road repair - tons of mix	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Linear feet of storm pipe cleared	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Traffic control signs serviced	19	45	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Weed violations issued - HW	140	138	102	95	627	720	892	341	N/A	N/A
Acres mowed and maintained	25	25	25	25	25	25	25	25	25	25
Trees and shrubs planted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Planning and building:										
Site development/concept plans	67	43	67	57	44	28	36	39	48	42
Rezoning applications	5	4	3	4	4	10	5	5	7	4
Text amendments	3	-	1	-	5	3	9	7	6	12
Building permits issued	622	799	736	701	646	567	640	763	713	700
Building inspections completed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Finance and administration:										
Merchant licenses issued	83	92	89	82	79	89	83	89	81	75
Payroll checks issued	4,151	3,209	3,065	3,069	3,137	N/A	N/A	N/A	N/A	N/A
Accounts payable processed	4,419	4,010	3,975	3,899	3,621	N/A	N/A	N/A	N/A	N/A
Requests for public records	34	8	8	5	9	N/A	N/A	N/A	N/A	N/A

CITY OF ARNOLD, MISSOURI
CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Marked patrol units	29	29	29	29	16	16	16	16	16	16
Public works:										
Miles of streets	80.7	77	77	77	76.6	76.6	76.6	52.9	52.9	52.9
Traffic lights and signals	3	3	3	3	3	3	3	2	2	1
Miles of sanitary sewers	98.5	96.3	96.3	96.3	96.3	95.3	95.3	74.8	74.8	74.8
Miles of storm sewers	7.4	7.4	7.4	7.4	7.4	7.3	7.33	7.3	7.3	7.3
Number of pumping stations	9	9	9	9	9	9	9	6	6	6
Parks and recreation:										
Number of parks	5	5	5	5	5	5	5	5	5	4
Acres of parks	485	485	485	485	463	463	463	348	348	229
Tennis courts	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	3	3	1	1	1	1	1	1	1	1

COMPLIANCE SECTION



Hochschild, Bloom & Company LLP
Certified Public Accountants
Consultants and Advisors

**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***

November 29, 2006

Honorable Mayor and City Council
CITY OF ARNOLD, MISSOURI

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF ARNOLD, MISSOURI** (the City) as of and for the year ended August 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with U.S. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

- 16100 Chesterfield Parkway West, Suite 125, Chesterfield, Missouri 63017-4829, 636-532-9525, Fax 636-532-9055
- 1000 Washington Square, P.O. Box 1457, Washington, Missouri 63090-8457, 636-239-4785, Fax 636-239-5448

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the 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 Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated November 29, 2006.

This report is intended solely for the information and use of management, 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.

Hochschild, Bloom & Company LLP

CERTIFIED PUBLIC ACCOUNTANT