

INTRODUCTION

FINANCIAL

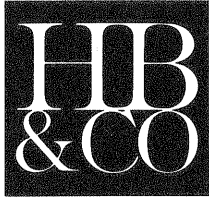
**FINANCIAL
STATEMENTS**

**SUPPLEMENTAL
INFORMATION**

STATISTICS



for the Fiscal Year ended
August 31, 2007



Hochschild, Bloom & Company LLP

Certified Public Accountants
Consultants and Advisors

INDEPENDENT AUDITORS' REPORT

January 18, 2008

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, 2007, 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 as of August 31, 2007, and the respective changes in financial position and cash flows, where applicable, 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 January 18, 2008 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-

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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 inquiries 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, is presented for purposes of additional analysis and is 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, is 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.

Hochschild, Bloom & Company LLP
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ARNOLD, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2007

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, 2007. Please read this narrative in conjunction with the letter of transmittal, the basic financial statements, and the accompanying notes to financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$71,814,008 (net assets). The City has a deficit unrestricted net assets totaling (\$12,505,389) due to \$16,554,301 in TIF Notes outstanding at year-end for infrastructure assets not owned by the City.
- Governmental activities and business-type activities had net assets of \$55,015,242 and \$16,798,766, respectively, at fiscal year-end.
- The City's total net assets decreased by \$11,878,330 during the fiscal year, with the combined governmental activities decreasing by \$13,514,130 and the combined business-type activities increasing by \$1,635,800.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,819,867, an increase of \$410,826 in comparison with the prior year.
- The City's total debt, including compensated absences, increased by \$23,925,011 during the current fiscal year to a total of \$52,059,856. The key factor in this increase was the issuance of \$16,554,301 in TIF notes for the Arnold Commons Development and issuance of \$4,290,000 in revenue bonds for the purchase and improvement of the Pomme Creek golf course.

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains required and additional supplementary 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 one normally associates 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.

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

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007**

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

	Fund Statements			
	Government-wide Statements	Governmental 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: golf course, 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	* Balance sheet	* Statement of net assets	* Statement of fiduciary net assets
	* Statement of activities	* Statement of revenues, expenditures, and charges in fund balances	* Statement of revenues, expenses, and changes in 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 funds 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 City'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 all its Governmental Funds. Budgetary comparison statements have been provided for each fund to demonstrate compliance with these budgets.

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 three *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

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007**

for its sewer and storm water utility systems and the Pomme Creek Golf Course. The City does not utilize the second type of proprietary funds, 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 funds 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 this fund is 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 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 financial statements can be found pages 24 through 48 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 49 through 52 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 \$71,814,008 at the close of the most recent fiscal year. (Table A-2)

At the end of the current fiscal year, the City had positive balances in two categories of net assets (invested in capital assets, net of related debt and restricted net assets); however, its unrestricted net assets had a deficit balance of \$12,505,389.

**Table A-2
City of Arnold's Net Assets as of August 31, 2006 and 2007
(In thousands of dollars)**

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 20,678	14,056	12,497	13,998	33,175	28,054
Capital assets	77,806	80,217	14,982	24,067	92,788	104,284
Total assets	98,484	94,273	27,479	38,065	125,963	132,338
Long-term debt outstanding	16,960	33,218	11,175	18,842	28,135	52,060
Other liabilities	12,995	6,040	1,141	2,424	14,136	8,464
Total liabilities	29,955	39,258	12,316	21,266	42,271	60,524
Net assets invested in capital assets, net of related debt	61,593	64,270	12,886	13,735	74,479	78,005
Restricted for debt service	1,390	1,250	842	5,065	2,232	6,315
Unrestricted	5,546	(10,505)	1,435	(2,001)	6,981	(12,506)
Total net assets	\$ 68,529	55,015	15,163	16,799	83,692	71,814

The largest portion of the City's net assets, \$78,004,806 in 2007 (an increase of approximately 5% from 2006), 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;

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007**

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, \$6,314,591 represents resources that are reserved to satisfy debt service.

The remaining category of the City's net assets represents a deficit balance of *unrestricted net assets* totaling (\$12,505,389) in 2007. This deficit is the result of \$16,554,301 in tax incremental financing (TIF) notes outstanding at year-end for infrastructure assets not owned by the City. These TIF notes are limited obligations of the City and will be retired by the incremental increase in sales tax revenues generated within the TIF district.

**Table A-3
Change in City of Arnold's Net Assets for the Years Ended August 31, 2006 and 2007
(In thousands of dollars)**

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Percentage Change</i>
	2006	2007	2006	2007	2006	2007	2006 - 2007
Revenues							
Program revenues:							
Charges for services	\$ 2,662	3,357	2,554	3,599	5,216	6,956	33.36 %
Operating grants	1,139	1,144	-	-	1,139	1,144	0.44
Capital grants	781	1,331	-	-	781	1,331	70.42
General revenues:							
Taxes	9,793	9,851	-	-	9,793	9,851	0.59
Investment income	243	364	345	586	588	950	61.56
Miscellaneous	364	1,954	-	-	364	1,954	436.81
Total revenues	<u>14,982</u>	<u>18,001</u>	<u>2,899</u>	<u>4,185</u>	<u>17,881</u>	<u>22,186</u>	24.08
Expenses							
General government	3,135	2,026	-	-	3,135	2,026	(35.37)
Public safety	5,141	5,163	-	-	5,141	5,163	0.43
Public works	2,026	3,648	-	-	2,026	3,648	80.06
Highways and streets	1,406	446	-	-	1,406	446	(68.28)
Parks and recreation	1,889	1,990	-	-	1,889	1,990	5.35
Health and sanitation	826	885	-	-	826	885	7.14
Economic development	-	16,554	-	-	-	16,554	100.00
Sewer system	-	-	1,870	2,140	1,870	2,140	14.44
Storm water	-	-	38	127	38	127	234.21
Golf course	-	-	-	427	-	427	100.00
Interest on long-term debt	656	658	-	-	656	658	0.30
Total expenses	<u>15,079</u>	<u>31,370</u>	<u>1,908</u>	<u>2,694</u>	<u>16,987</u>	<u>34,064</u>	100.53
Excess (deficiency) before transfers	(97)	(13,369)	991	1,491	894	(11,878)	(1,428.64)
Transfers	(349)	(145)	349	145	-	-	-
Increase (decrease) in net asstes	(446)	(13,514)	1,340	1,636	894	(11,878)	(1,428.64)
Net assets - September 1	<u>68,975</u>	<u>68,529</u>	<u>13,823</u>	<u>15,163</u>	<u>82,798</u>	<u>83,692</u>	1.08
Net assets - August 31	<u>\$ 68,529</u>	<u>55,015</u>	<u>15,163</u>	<u>16,799</u>	<u>83,692</u>	<u>71,814</u>	(14.19) %

Governmental activities. Governmental activities decreased the City's net assets by \$13,514,130. Key elements of this net decrease are as follows:

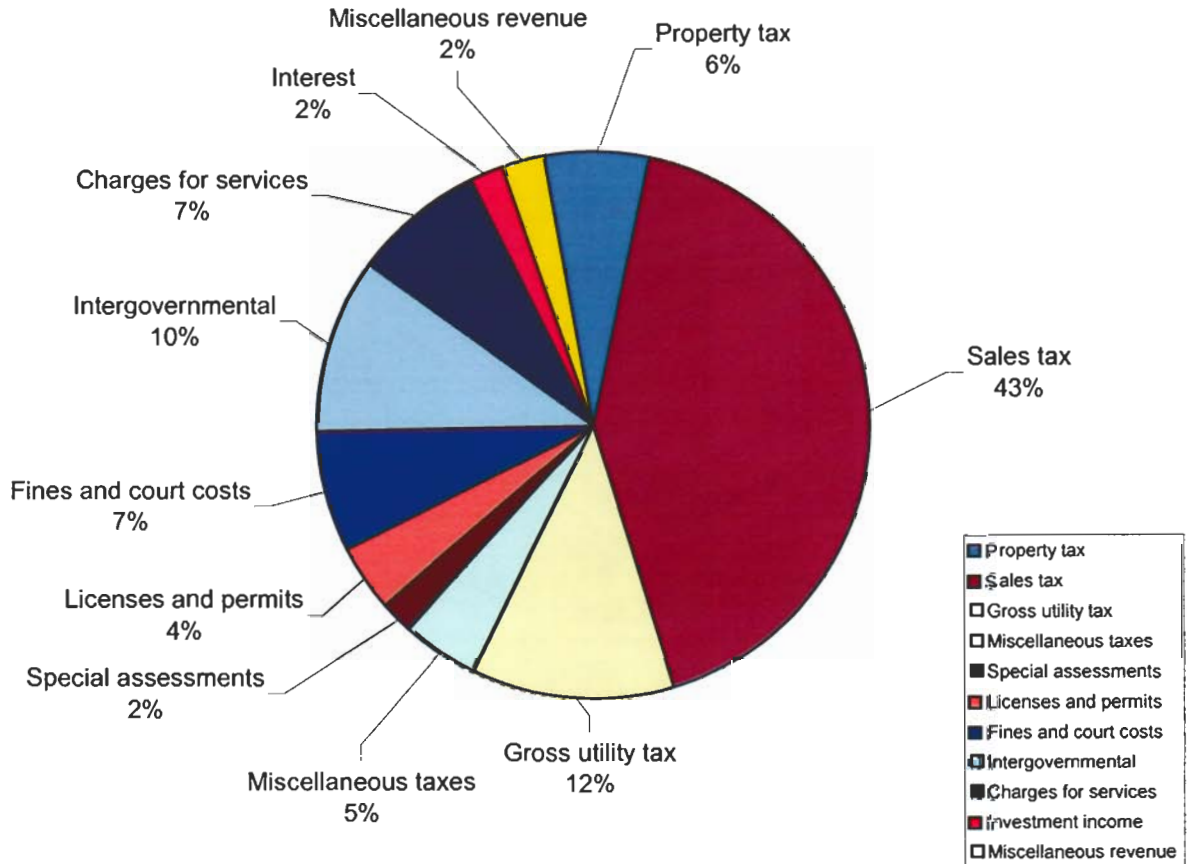
- Despite a decrease in the property tax rate from \$0.4379 per \$100 of assessed valuation in 2006 to \$0.4246 per \$100 of assessed valuation in 2007, property tax revenues increased by \$43,020 or 4.5% due to an increase in the assessed valuation of property located within the City.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007**

- Charges for services revenue increased \$694,865 or 26.1%. Of this amount, \$266,229 or 38.3% was due to increased recreation center memberships and fees. A correlating increase of \$106,158 is reflected in the operating expenditures for park and recreation. Arnold Commons and other development activities are credited for increasing building permits, commercial site and improvement plans approvals service revenues of \$220,000 or 31.7%. An increase in court costs and fines provided an additional \$116,727 or 16.8%.
- Grant revenues in the combined public works and highway and streets departments increased \$599,228 over prior year's funding while their combined total expenditures decreased \$253,995 as multi-year state revolving fund projects were completed and capitalized.
- Interest income increased by \$121,315 during the current year. This increase represents interest earned on funds deposited with the Missouri Department of Transportation in August 2000. The City's security deposit of \$550,000 and accrued interest were available for release upon the completion of certain street improvements to Church Road.
- The issuance of \$16,554,301 in TIF notes in conjunction with the Arnold Commons development project is the most significant change in activities for fiscal 2007. As previously stated, these notes are for infrastructure assets not owned by the City.

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, 2007**

Figure A-2

Expenditures by Function - Governmental Funds

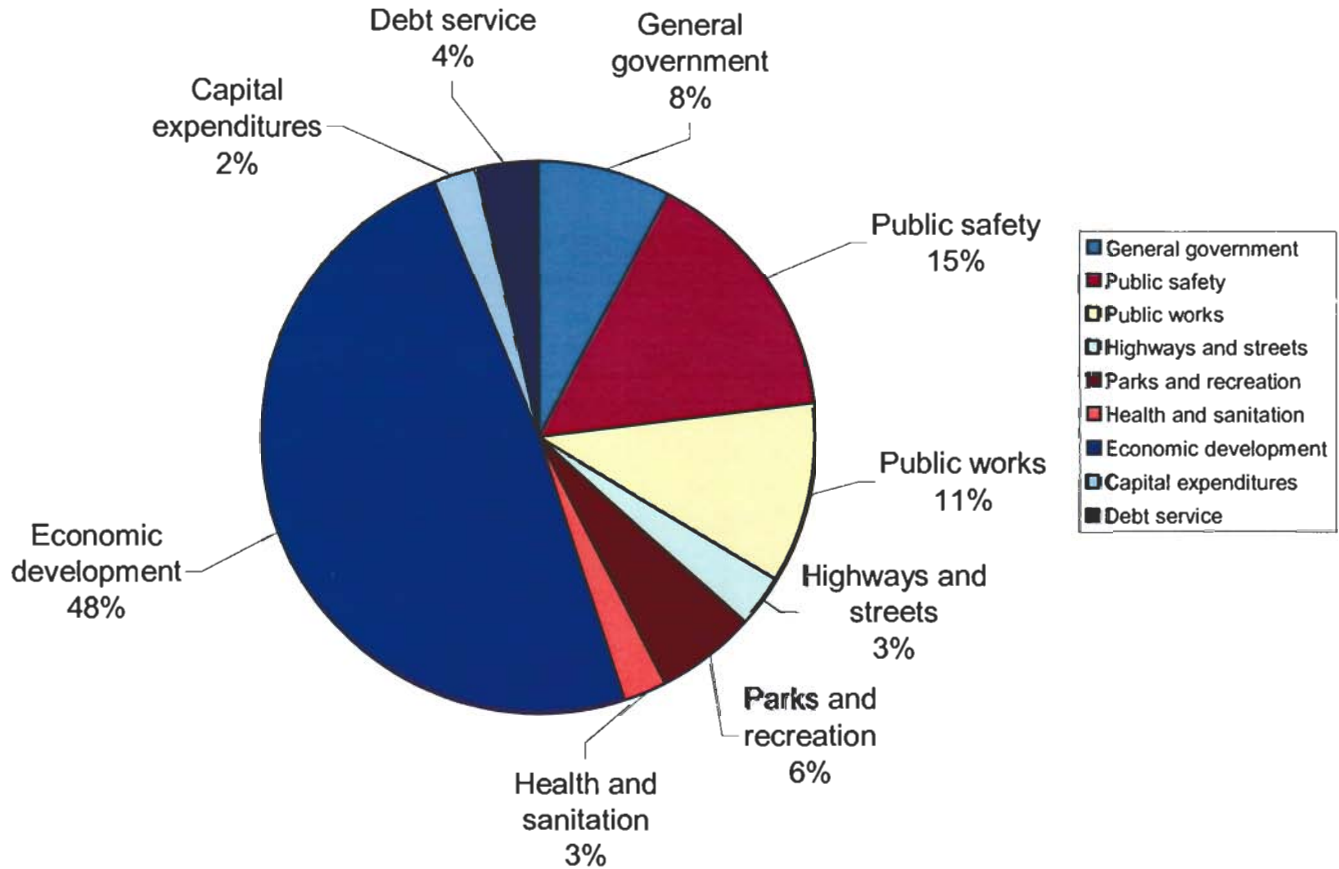


Table A-4 presents the cost of each of the City's six governmental functions - general government including economic development, public safety (police, courts, and justice services), public works, highways and streets, parks and recreation (parks and recreation center), and health and sanitation - as 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.

- The cost of all governmental activities this year was \$31,370,170.
- However, the amount that our taxpayers paid for these activities through City taxes was \$8.98 million. Some of the costs were paid by:
 - Those who directly benefited from the programs,
 - Issuance of debt in conjunction, or
 - Other governments and organizations that subsidized certain programs with grants and contributions.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007**

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

	<i>Total Cost Of Services</i>		<i>Percentage</i>		<i>Net Cost Of Services</i>		<i>Percentage</i>
	2006	2007	<i>Change</i>		2006	2007	<i>Change</i>
General government	\$ 3,135	\$ 2,026	(35.37) %	\$ 2,692	\$ 1,571	(41.64) %	
Public safety	5,141	5,163	0.43	3,686	3,416	(7.33)	
Public works	2,026	3,648	80.06	1,551	3,443	121.99	
Highways and streets	1,406	446	(68.28)	133	(1,696)	(1,375.19)	
Parks and recreation	1,889	1,990	5.35	968	727	(24.90)	
Health and sanitation	826	885	7.14	811	865	6.66	
Economic development	-	16,554	100.00	-	16,554	100.00	
Interest on long-term debt	656	658	0.30	656	658	0.30	
Total	\$ 15,079	\$ 31,370	108.04 %	\$ 10,497	\$ 25,538	143.29 %	

Business-type activities. Business-type activities increased the City's net assets by \$1,635,800. Key elements of this increase are as follows:

- Charges for sewer services increased by \$192,448 during the current year as it continues to reflect the sewer fee rate increase introduced in December 2005. A correlating increase of \$101,859 is reflected in the cost of services operating expense for the Sewer Fund. Of this amount, \$42,873 or 42% represents increased utility expense while MSD treatment costs increased \$28,000 or 27%. Use of contract sewer repairs services, equipment rental, and temporary personnel accounts for the additional growth in expenses.
- The current year marks the addition of a public golf course to the City's business-type activities. Purchased in March 2007, charges for services revenue totaled \$401,008 through fiscal year-end. Cost of services expenses of \$336,739 were also incurred during this period. Depreciation and debt service caused the Golf Fund to end its first partial year with a modest \$9,359 loss.
- Investment income increased by \$241,718 or 70% 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 sewer revenue bond and leasehold revenue bond issues.
- The Storm Water Fund ended its first full year of operations with a change in net assets of \$387,611.
- Due to the issuance of \$4,290,000 in leasehold revenue bonds for the purchase and renovation of the golf course and the outstanding sewer revenue bonds, interest expense increased by 81%.

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 \$4,558,707, an increase of \$539,372 in comparison with the prior year. Of the unreserved fund balance, the City Council has designated 1) \$884,449 for the construction of sewer subdistricts, 2) \$550,000 for street and road projects, 3) \$140,517 is allocated for greenway beautification, 4) \$126,415 is allocated for tourism, 5) \$111,294 is set aside for economic development, and 6) \$49,218 is allocated to various other projects. An additional \$6,271,895 is reserved to indicate that it is not available for spending because it has already been committed: 1) \$5,697,566 to liquidate contracts and purchase orders of the prior period and 2) \$574,329 for prepaid expenditures. Of the \$5,697,566 in encumbrances, \$4.9 million is related to the Arnold Commons project while \$0.6 million is for sewer subdistrict work. The unreserved, undesignated fund balance remaining is a deficit of \$3,575,081.

CITY OF ARNOLD, MISSOURI MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2007

The Recreation Center Fund completed its second full year of operations. This 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 \$1,198,045. Of this balance, \$1,250,000 is reserved for bond escrow funds and a deficit of \$59,998 is undesignated. This is a decrease from the prior year's fund balance of \$191,661 or 13.8%. Key factors to this change are an increase in expenditures for capital outlays of \$100,682, debt service of \$30,200, and a loss of \$36,373 in general sales tax as compared to last year.

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 (\$2,410,911), a decrease of \$3,822,087. Net assets restricted for debt service on SRF notes increased by \$3,890,248. The balance of unrestricted net assets for the Storm Water Fund amounted to \$395,479, an increase of \$372,111 over prior year. The golf course ended the year with an unrestricted net asset balance of \$14,756.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$585,545 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- \$187,000 increase in insurance costs
- \$50,000 increase in attorney costs
- \$148,442 in road projects
- \$293,750 for retirement of long-term debt principal
-

The final amended budget states that intergovernmental revenues were estimated to be \$7,424,300 for the fiscal year. Actual revenue of \$1,857,171 varied budget by 75%. Intergovernmental revenues represent amounts reimbursed through grants from other governmental entities for the current year's capital activities. The Church Road widening project was substantially completed as projected. The Arnold Commons and Crossroads projects did not progress as quickly as estimated resulting in a budget shortage in intergovernmental revenues with a corresponding decrease in actual expenditures in the public works roads project budget. It is estimated that both road projects will be advanced in fiscal year 2008.

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, 2007, amounts to \$104,283,356 (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 12.4% (a 3% increase for governmental activities and a 60% 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 financial statements on pages 32 through 35.

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

- Approximately \$2,388,474 was expended for road and street projects.
- A city-wide storm warning siren system totaling \$187,477 was installed.
- Vehicles purchased for highway and streets and the recreation center totaled \$140,129.
- Funds of \$121,139 were allocated to the purchase of public works and highways and streets equipment including a salt spreader and portable lift system.
- Recreation center kitchen construction expenditures of \$95,135 were incurred.
- The golf course purchase increased business activities, related land, and equipment by \$3,213,043 and \$93,250, respectively.
- The City transferred sewer lines totaling \$144,683 to the Sewer Fund.
- Project expenses for the MSD tunnel project in the Sewer Fund totaled \$4,809,468.

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007**

**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>	
	2006	2007	2006	2007	2006	2007
Land	\$ 27,095,487	27,095,487	145,118	3,358,161	27,240,605	30,453,648
Buildings	16,472,997	15,984,035	46,498	89,699	16,519,495	16,073,734
Treatment plants	-	-	477,369	438,411	477,369	438,411
Machinery and equipment	432,358	572,406	462,628	547,434	894,986	1,119,840
Automotive equipment	800,282	653,840	-	-	800,282	653,840
Infrastructure	23,064,179	28,597,716	-	-	23,064,179	28,597,716
Sewer lines	-	-	11,399,946	11,549,342	11,399,946	11,549,342
Construction in progress	9,940,263	7,313,047	2,451,172	8,083,778	12,391,435	15,396,825
Total	\$ 77,805,566	80,216,531	14,982,731	24,066,825	92,788,297	104,283,356

Long-term debt. At year-end the City had \$51,671,180 in bonds and notes outstanding - an increase of 86.3% from last year - as shown in Table A-6. Governmental activity debt for fiscal year 2007 was composed of a \$286,378 lease/purchase obligation entered into for the acquisition of warning sirens and a dump truck and the issuance of special limited obligation TIF notes of \$16,554,301 for the Arnold Commons project. The City is authorized to issue an additional \$4,445,699 in TIF notes, up to a total of \$21 million, for this project. For business-type activities, \$4,290,000 in revenue bonds were issued for the purchase and improvements of a golf course 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 financial statements, pages 35 through 40.

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 \$30,513,314. 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 2006-2007</i>
	2006	2007	2006	2007	2006	2007	
Revenue bonds and notes (backed by specific tax and fee revenues)	\$ 16,556	32,829	11,175	18,842	27,731	51,671	86.3 %

**CITY OF ARNOLD, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate, not seasonally adjusted, for Jefferson County for August 2007 was 5.2%, which is an increase from a rate of 4.4% a year ago. This matches to the state's average unemployment rate of 5.2% and is higher than the national average rate of 4.6%, all rates not seasonally adjusted.
- The Consumer Price Index indicates that inflation has increased 3.45% 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 2008 fiscal year.

The property tax rate set to support the 2008 fiscal year budget is \$0.4246 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. With a year's data on hand, 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.

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for the Fiscal Year ended
August 31, 2007

CITY OF ARNOLD, MISSOURI**STATEMENT OF NET ASSETS****AUGUST 31, 2007**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,498,375	4,425,780	7,924,155
Receivables (net of allowances for uncollectibles):			
Taxes	2,699,391	-	2,699,391
Special assessments	1,668,884	-	1,668,884
Service fees	-	198,290	198,290
Intergovernmental	547,545	-	547,545
Miscellaneous	3,612,196	-	3,612,196
Internal balances	(412,797)	412,797	-
Prepaid items	630,167	3,328	633,495
Bond issue costs	328,744	254,039	582,783
Restricted assets:			
Cash and cash equivalents	89,779	8,703,558	8,793,337
Investments	1,249,818	-	1,249,818
Net pension asset	144,446	-	144,446
Capital assets:			
Land and construction in progress	34,408,534	11,441,939	45,850,473
Other capital assets, net of accumulated depreciation	45,807,997	12,624,886	58,432,883
Total Assets	<u>94,273,079</u>	<u>38,064,617</u>	<u>132,337,696</u>
LIABILITIES			
Accounts payable	3,789,575	1,974,589	5,764,164
Accrued liabilities	131,802	26,883	158,685
Accrued interest payable	27,291	46,732	74,023
Unearned revenue	1,645,288	376,088	2,021,376
Short-term debt	445,584	-	445,584
Noncurrent liabilities:			
Due within one year	690,674	371,167	1,061,841
Due in more than one year	32,527,623	18,470,392	50,998,015
Total Liabilities	<u>39,257,837</u>	<u>21,265,851</u>	<u>60,523,688</u>
NET ASSETS			
Invested in capital assets, net of related debt	64,269,955	13,734,851	78,004,806
Restricted for debt service	1,250,000	5,064,591	6,314,591
Unrestricted	<u>(10,504,713)</u>	<u>(2,000,676)</u>	<u>(12,505,389)</u>
Total Net Assets	<u>\$ 55,015,242</u>	<u>16,798,766</u>	<u>71,814,008</u>

CITY OF ARNOLD, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

FUNCTIONS/PROGRAMS	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
Primary Government							
Governmental Activities							
General government	\$ 2,026,103	455,173	20	-	(1,570,910)	-	(1,570,910)
Public safety	5,162,582	1,694,748	51,760	-	(3,416,074)	-	(3,416,074)
Public works	3,648,054	-	-	204,576	(3,443,478)	-	(3,443,478)
Highways and streets	445,648	-	1,015,900	1,126,488	1,696,740	-	1,696,740
Parks and recreation	1,990,090	1,187,075	75,653	-	(727,362)	-	(727,362)
Health and sanitation	884,918	19,568	755	-	(864,595)	-	(864,595)
Economic development	16,554,301	-	-	-	(16,554,301)	-	(16,554,301)
Interest on long-term debt	658,474	-	-	-	(658,474)	-	(658,474)
Total Governmental Activities	<u>31,370,170</u>	<u>3,356,564</u>	<u>1,144,088</u>	<u>1,331,064</u>	<u>(25,538,454)</u>	<u>-</u>	<u>(25,538,454)</u>
Business-type Activities							
Sewer system	2,139,774	2,685,117	-	-	-	545,343	545,343
Storm water	127,061	513,150	-	-	-	386,089	386,089
Golf	427,304	401,008	-	-	-	(26,296)	(26,296)
Total Business-type Activities	<u>2,694,139</u>	<u>3,599,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>905,136</u>	<u>905,136</u>
Total Primary Government	<u>\$ 34,064,309</u>	<u>6,955,839</u>	<u>1,144,088</u>	<u>1,331,064</u>	<u>(25,538,454)</u>	<u>905,136</u>	<u>(24,633,318)</u>
General Revenues							
Taxes:							
Property					992,520	-	992,520
Sales					6,860,615	-	6,860,615
Gross receipts					1,961,536	-	1,961,536
Miscellaneous					35,611	-	35,611
Investment income					364,016	585,981	949,997
Gain on sale of assets					504,457	-	504,457
Miscellaneous					1,450,252	-	1,450,252
Transfers					<u>(144,683)</u>	<u>144,683</u>	<u>-</u>
Total General Revenues And Transfers					<u>12,024,324</u>	<u>730,664</u>	<u>12,754,988</u>
CHANGES IN NET ASSETS					(13,514,130)	1,635,800	(11,878,330)
NET ASSETS, SEPTEMBER 1					<u>68,529,372</u>	<u>15,162,966</u>	<u>83,692,338</u>
NET ASSETS, AUGUST 31					<u>\$ 55,015,242</u>	<u>16,798,766</u>	<u>71,814,008</u>

CITY OF ARNOLD, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2007

	General	Recreation Center	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,132,047	269,366	96,962	3,498,375
Receivables (net of allowances for uncollectibles):				
Taxes	2,471,077	202,968	-	2,674,045
Special assessments	1,668,884	-	-	1,668,884
Intergovernmental	547,545	-	-	547,545
Court	82,359	-	-	82,359
Miscellaneous	2,836,941	33,536	13,682	2,884,159
Deposits	671,024	-	-	671,024
Due from other funds	203,840	-	-	203,840
Prepaid items	574,329	8,033	47,805	630,167
Restricted assets:				
Cash and cash equivalents	89,597	182	-	89,779
Investments	-	1,249,818	-	1,249,818
	<u>\$ 12,277,643</u>	<u>1,763,903</u>	<u>158,449</u>	<u>14,199,995</u>
Total Assets				
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,658,824	116,211	14,540	3,789,575
Accrued liabilities	126,320	5,482	-	131,802
Due to other funds	-	118,028	-	118,028
Deferred revenue	2,989,599	326,137	80,794	3,396,530
Short-term debt	445,584	-	-	445,584
Advance to other funds	498,609	-	-	498,609
	<u>7,718,936</u>	<u>565,858</u>	<u>95,334</u>	<u>8,380,128</u>
 Fund Balances				
Reserved for:				
Prepaid items	574,329	8,033	47,805	630,167
Encumbrances	5,697,566	-	-	5,697,566
Recreational center escrow deposit	-	1,250,000	-	1,250,000
Unreserved:				
Designated for sewer subdistrict projects	884,449	-	-	884,449
Designated for road reconstruction	550,000	-	-	550,000
Designated for drug forfeitures	40,152	-	-	40,152
Designated for greenway beautification	140,517	-	-	140,517
Designated for economic development	111,294	-	-	111,294
Designated for pride in our City	9,066	-	-	9,066
Designated for tourism	126,415	-	-	126,415
Undesignated - General Fund	(3,575,081)	-	-	(3,575,081)
Undesignated - Special Revenue Fund	-	(59,988)	15,310	(44,678)
	<u>4,558,707</u>	<u>1,198,045</u>	<u>63,115</u>	<u>5,819,867</u>
Total Fund Balances				
Total Liabilities And Fund Balances	<u>\$ 12,277,643</u>	<u>1,763,903</u>	<u>158,449</u>	<u>14,199,995</u>

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, 2007

Total Fund Balances - Governmental Funds \$ 5,819,867

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 governmental funds. The cost of the assets is \$111,608,515 and the accumulated depreciation is \$31,391,984. 80,216,531

Net pension assets are not financial resources and, therefore, are not reported in the governmental funds. 144,446

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 1,751,242

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	(27,291)
Accrued compensated absences	(388,676)
Capital lease obligations payable outstanding	(763,568)
Leasehold revenue bonds outstanding	(15,095,000)
Tax increment revenue notes outstanding	(16,554,301)
Unamortized bond premium	(416,752)
Unamortized bond issuance cost	328,744
	328,744

Total Net Assets Of Governmental Activities \$ 55,015,242

CITY OF ARNOLD, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

	<u>General</u>	<u>Recreation Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 9,684,624	1,030,252	151,306	10,866,182
Special assessments	306,798	-	-	306,798
Licenses and permits	648,771	-	-	648,771
Fines and court costs	1,177,581	-	-	1,177,581
Intergovernmental	1,857,171	44,708	8,538	1,910,417
Charges for services	189,284	1,062,598	74,246	1,326,128
Investment income	279,244	84,618	154	364,016
Miscellaneous	365,174	28,449	571	394,194
Total Revenues	<u>14,508,647</u>	<u>2,250,625</u>	<u>234,815</u>	<u>16,994,087</u>
EXPENDITURES				
Current:				
General government	2,351,505	-	306,110	2,657,615
Public safety	5,118,609	-	6,345	5,124,954
Public works	3,583,152	-	-	3,583,152
Highways and streets	1,093,891	-	-	1,093,891
Parks and recreation	559,598	1,385,190	-	1,944,788
Health and sanitation	882,010	-	-	882,010
Economic development	16,554,301	-	-	16,554,301
Capital outlay	673,371	119,203	25,812	818,386
Debt service:				
Principal	272,723	275,000	-	547,723
Interest	58,684	662,893	-	721,577
Total Expenditures	<u>31,147,844</u>	<u>2,442,286</u>	<u>338,267</u>	<u>33,928,397</u>
REVENUES UNDER EXPENDITURES	<u>(16,639,197)</u>	<u>(191,661)</u>	<u>(103,452)</u>	<u>(16,934,310)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of notes	16,554,301	-	-	16,554,301
Proceeds from capital lease	286,378	-	-	286,378
Sale of capital assets	504,457	-	-	504,457
Transfers in	-	-	166,567	166,567
Transfers out	(166,567)	-	-	(166,567)
Total Other Financing Sources (Uses)	<u>17,178,569</u>	<u>-</u>	<u>166,567</u>	<u>17,345,136</u>
NET CHANGE IN FUND BALANCES	539,372	(191,661)	63,115	410,826
FUND BALANCES, SEPTEMBER 1	<u>4,019,335</u>	<u>1,389,706</u>	<u>-</u>	<u>5,409,041</u>
FUND BALANCES, AUGUST 31	<u>\$ 4,558,707</u>	<u>1,198,045</u>	<u>63,115</u>	<u>5,819,867</u>

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, 2007

Net Change In Fund Balances - Governmental Funds \$ 410,826

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

Capital outlays are reported in the 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 (\$4,443,179) exceeded depreciation (\$2,673,185) in the current period. 1,769,994

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. 640,971

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (102,222)

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 (286,378)
Tax increment revenue notes (16,554,301)

Repayments:

Capital lease obligations payable 272,720
Leasehold revenue bonds 275,000
Amortization 4,190

Net Adjustment (16,288,769)

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 the governmental funds:

Accrued interest on bonds 229
Net pension asset 39,832
Accrued compensated absences 15,009

55,070

Change In Net Assets Of Governmental Activities \$ (13,514,130)

CITY OF ARNOLD, MISSOURI
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AUGUST 31, 2007

	Business-type Activities - Enterprise Funds			
	Sewer Fund	Storm Water Fund	Golf Fund	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 3,885,566	441,011	99,203	4,425,780
Service fees (net of allowances for uncollectibles)	167,280	31,010	-	198,290
Prepaid items	1,664	1,664	-	3,328
Total Current Assets	<u>4,054,510</u>	<u>473,685</u>	<u>99,203</u>	<u>4,627,398</u>
Noncurrent Asset				
Capital assets:				
Land and construction in progress	8,214,396	15,500	3,212,043	11,441,939
Other capital assets, net of accumulated depreciation	12,505,340	-	119,546	12,624,886
Total Capital Assets	<u>20,719,736</u>	<u>15,500</u>	<u>3,331,589</u>	<u>24,066,825</u>
Restricted bond cash, cash equivalents, and investments	7,808,635	115,676	779,247	8,703,558
Advance from other funds	498,609	-	-	498,609
Bond issue costs	140,957	-	113,082	254,039
Total Noncurrent Assets	<u>29,167,937</u>	<u>131,176</u>	<u>4,223,918</u>	<u>33,523,031</u>
Total Assets	<u>33,222,447</u>	<u>604,861</u>	<u>4,323,121</u>	<u>38,150,429</u>
LIABILITIES				
Current Liabilities				
Accounts payable	1,933,003	4,593	36,993	1,974,589
Accrued liabilities	17,810	6,902	2,171	26,883
Due to other funds	62,409	23,403	-	85,812
Accrued interest payable	1,449	-	45,283	46,732
Unearned revenues	217,104	158,984	-	376,088
Revenue bonds payable - current	371,167	-	-	371,167
Total Current Liabilities	<u>2,602,942</u>	<u>193,882</u>	<u>84,447</u>	<u>2,881,271</u>
Noncurrent Liabilities				
Revenue bonds payable	9,490,104	-	4,248,033	13,738,137
Notes payable	4,732,255	-	-	4,732,255
Total Noncurrent Liabilities	<u>14,222,359</u>	<u>-</u>	<u>4,248,033</u>	<u>18,470,392</u>
Total Liabilities	<u>16,825,301</u>	<u>193,882</u>	<u>4,332,480</u>	<u>21,351,663</u>
NET ASSETS				
Invested in capital assets, net of related debt	14,075,802	15,500	(356,451)	13,734,851
Restricted for debt service	4,732,255	-	332,336	5,064,591
Unrestricted	(2,410,911)	395,479	14,756	(2,000,676)
Total Net Assets	<u>\$ 16,397,146</u>	<u>410,979</u>	<u>(9,359)</u>	<u>16,798,766</u>

CITY OF ARNOLD, MISSOURI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

	<u>Business-type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Sewer Fund</u>	<u>Storm Water Fund</u>	<u>Golf Fund</u>	
OPERATING REVENUES				
Charges for services	\$ 2,685,117	513,150	401,008	3,599,275
OPERATING EXPENSES				
Cost of services	953,186	91,061	320,071	1,364,318
Administration	138,000	36,000	-	174,000
Depreciation and amortization	562,707	-	16,668	579,375
Total Operating Expenses	<u>1,653,893</u>	<u>127,061</u>	<u>336,739</u>	<u>2,117,693</u>
OPERATING INCOME	<u>1,031,224</u>	<u>386,089</u>	<u>64,269</u>	<u>1,481,582</u>
NONOPERATING REVENUE (EXPENSE)				
Investment income	567,522	1,522	16,937	585,981
Interest expense	(485,881)	-	(90,565)	(576,446)
Total Nonoperating Revenue (Expense)	<u>81,641</u>	<u>1,522</u>	<u>(73,628)</u>	<u>9,535</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,112,865	387,611	(9,359)	1,491,117
CAPITAL CONTRIBUTIONS - SEWER LINES	<u>144,683</u>	<u>-</u>	<u>-</u>	<u>144,683</u>
CHANGE IN NET ASSETS	1,257,548	387,611	(9,359)	1,635,800
NET ASSETS, SEPTEMBER 1	<u>15,139,598</u>	<u>23,368</u>	<u>-</u>	<u>15,162,966</u>
NET ASSETS (DEFICIT), AUGUST 31	<u>\$ 16,397,146</u>	<u>410,979</u>	<u>(9,359)</u>	<u>16,798,766</u>

CITY OF ARNOLD, MISSOURI
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

	Business-type Activities - Enterprise Funds			
	Sewer Fund	Storm Water Fund	Golf Fund	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,949,791	666,184	401,008	4,016,983
Payments to suppliers	103,483	(90,375)	(280,907)	(267,799)
Payments to employees	(134,073)	(29,098)	-	(163,171)
Net Cash Provided By Operating Activities	<u>2,919,201</u>	<u>546,711</u>	<u>120,101</u>	<u>3,586,013</u>
Cash flows from noncapital financing activities:				
Due from (to) other funds	291,114	(8,502)	-	282,612
Advance to other funds	(498,609)	-	-	(498,609)
Net Cash Used In Noncapital Financing Activities	<u>(207,495)</u>	<u>(8,502)</u>	<u>-</u>	<u>(215,997)</u>
Cash flows from capital and related financing activities:				
Purchase of equipment	(6,148,018)	-	(3,344,281)	(9,492,299)
Purchase of land	-	(15,500)	-	(15,500)
Principal payments on notes payable	(80,200)	-	-	(80,200)
Principal payments on bonds	(461,667)	-	-	(461,667)
Proceeds from bonds	-	-	4,130,975	4,130,975
Proceeds from notes payable	3,970,449	-	-	3,970,449
Interest expense	(487,227)	-	(45,282)	(532,509)
Net Cash Provided By (Used In) Capital And Related Financing Activities	<u>(3,206,663)</u>	<u>(15,500)</u>	<u>741,412</u>	<u>(2,480,751)</u>
Cash flows from investing activities:				
Investment income	567,522	1,522	16,937	585,981
Proceeds from sale of investments	9,920,344	-	-	9,920,344
Purchase of investments	(7,830,614)	-	(779,247)	(8,609,861)
Net Cash Provided By (Used In) Investing Activities	<u>2,657,252</u>	<u>1,522</u>	<u>(762,310)</u>	<u>1,896,464</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,162,295	524,231	99,203	2,785,729
CASH AND CASH EQUIVALENTS, SEPTEMBER 1 (including \$8,910 for the Sewer Fund reported in restricted accounts)	<u>1,723,271</u>	<u>32,456</u>	<u>-</u>	<u>1,755,727</u>
CASH AND CASH EQUIVALENTS, AUGUST 31 (including \$115,676 for the Storm Water Fund reported in restricted accounts)	<u>\$ 3,885,566</u>	<u>556,687</u>	<u>99,203</u>	<u>4,541,456</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 1,031,224	386,089	64,269	1,481,582
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	562,707	-	16,668	579,375
(Increase) decrease in:				
Receivables	264,674	24,683	-	289,357
Prepaid items	(1,544)	(1,664)	-	(3,208)
Increase (decrease) in:				
Accounts payable	1,058,213	2,350	36,993	1,097,556
Accrued liabilities	3,927	6,902	2,171	13,000
Unearned revenues	-	128,351	-	128,351
Total Adjustments	<u>1,887,977</u>	<u>160,622</u>	<u>55,832</u>	<u>2,104,431</u>
Net Cash Provided By Operating Activities	<u>\$ 2,919,201</u>	<u>546,711</u>	<u>120,101</u>	<u>3,586,013</u>
Noncash operating, financing, and investing activities:				
Contributions of capital assets from government	\$ 144,683	-	-	144,683
Par value of debt issued	\$ -	-	4,290,000	4,290,000
Discount recorded	-	-	(43,043)	(43,043)
Cost of issuance	-	-	(115,982)	(115,982)
Net Cash Received	<u>\$ -</u>	<u>-</u>	<u>4,130,975</u>	<u>4,130,975</u>

See notes to financial statements

CITY OF ARNOLD, MISSOURI
STATEMENT OF FIDUCIARY NET ASSETS -
PENSION TRUST FUND
AUGUST 31, 2007

ASSETS

Deposit administration contracts	<u>\$ 5,508,469</u>
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NET ASSETS

Held in trust for pension benefits	<u>\$ 5,508,469</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, 2007

ADDITIONS

Contributions:

Employer contributions	\$ 457,273
Employee contributions	194,342
Total Contributions	<u>651,615</u>

Investment income:

Net appreciation in fair value of investments, interest, and dividends	482,862
Less - Investment expense	<u>(26,683)</u>
Net Investment Income	<u>456,179</u>
Total Additions	1,107,794

DEDUCTIONS

Retirement benefits	<u>511,529</u>
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CHANGE IN NET ASSETS

596,265

NET ASSETS HELD IN TRUST FOR PENSION
BENEFITS, SEPTEMBER 1

4,912,204

**NET ASSETS HELD IN TRUST FOR PENSION
BENEFITS, AUGUST 31**

\$ 5,508,469

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 inter-governmental 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 funds 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 funds:

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 ¼¢ parks and recreation center sales tax which is deposited into this fund and used for bi-annual bond payments.

The other governmental funds of the City are considered nonmajor. They are Special Revenue Funds which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

The City reports the following major proprietary funds:

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Golf Fund -- This fund is used to account for operations of the City's golf course.

Additionally, the City reports the following fund type:

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 Funds are charges for services. Operating expenses for the Enterprise Funds include the cost of services, administration expenses, and depreciation and amortization. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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:

	August 31
	2007
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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 storm water monies are classified as restricted assets on the balance sheet because their use is limited by grant agreements.

Certain Golf Fund monies are classified as restricted on the balance sheet for the payment of construction projects and bond reserve because their use is limited by applicable bond covenants.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Capital Assets (Continued)

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

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

11. Compensated Absences

City employees generally earn vacation at the rate of 0.83 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. Comp time accrued is also paid upon the date of separation. Sick leave is accumulated based on length of service and is available only to provide compensation during periods of illness. Sick leave is payable to the employee upon termination. All vacation pay, sick leave, and comp time 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. Fund Equity

In the fund financial statements, governmental funds report 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.

15. Deferred Revenues

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them. In subsequent periods, when both the revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

16. Deposit

The City was required by MoDOT to pay a deposit of \$550,000 for a bridge replacement project for Church Road. The deposit of \$550,000 plus interest accrued at August 31, 2007 was \$671,024. The deposit was repaid to the City in September 2007.

17. 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.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

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, 2007, 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, 2007, 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>
Repurchase agreement	\$ 2,282,000	-	2,282,000	-	-	-	AAA
Guaranteed investment contract	7,808,635	-	-	3,076,380	648,900	4,083,355	Not rated
Government securities:							
Federal Home Loan Mortgage Corporation	1,249,818	-	1,249,818	-	-	-	AAA
Money market funds	<u>779,429</u>	<u>779,429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	Not rated
Total Investments	<u>\$12,119,882</u>	<u>779,429</u>	<u>3,531,818</u>	<u>3,076,380</u>	<u>648,900</u>	<u>4,083,355</u>	

Investment Policies:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy, the City minimizes credit risk by diversifying the portfolio to reduce potential losses on individual securities.

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. In accordance with its investment policy, the City minimizes interest rate risk by structuring the investment portfolio so that securities ma-

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

2. Investments (Continued)

ture to meet cash requirements for ongoing operations, therefore avoiding the need to sell securities on the open market prior to maturity and investing primarily in shorter term securities.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. In accordance with its investment policy, the City minimizes concentration of credit risk by diversifying the investment portfolio.

Custodial Credit Risk

For deposits, custodial credit risk 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 fully able to recover collateral securities in the possession of an outside party. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, or by a single collateral pool established by the financial institution.

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. In accordance with its policy, the City addresses custodial risk by diversifying the investment portfolio.

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)

	<u>For The Year Ended August 31, 2007</u>			
	<u>Balance</u> <u>August 31</u> <u>2006</u>	<u>Additions</u>	<u>Deletions</u> <u>And</u> <u>Transfers</u>	<u>Balance</u> <u>August 31</u> <u>2007</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$27,095,487	-	-	27,095,487
Construction in progress	<u>9,940,263</u>	<u>3,885,716</u>	<u>6,512,932</u>	<u>7,313,047</u>
Total Capital Assets Not Being Depreciated	<u>37,035,750</u>	<u>3,885,716</u>	<u>6,512,932</u>	<u>34,408,534</u>
Capital assets being depreciated:				
Buildings and other improvements	18,510,780	107,548	-	18,618,328
Automotive equipment	1,728,896	151,472	42,044	1,838,324
Machinery and equipment	1,634,231	335,112	-	1,969,343
Infrastructure	<u>47,656,752</u>	<u>7,117,234</u>	<u>-</u>	<u>54,773,986</u>
Total Capital Assets Being Depreciated	<u>69,530,659</u>	<u>7,711,366</u>	<u>42,044</u>	<u>77,199,981</u>
Less - Accumulated depreciation for:				
Building and other improvements	2,037,783	596,510	-	2,634,293
Automotive equipment	928,614	297,914	42,044	1,184,484
Machinery and equipment	1,201,873	195,064	-	1,396,937
Infrastructure	<u>24,592,573</u>	<u>1,583,697</u>	<u>-</u>	<u>26,176,270</u>
Total Accumulated Depreciation	<u>28,760,843</u>	<u>2,673,185</u>	<u>42,044</u>	<u>31,391,984</u>
Total Capital Assets Being Depreciated, Net	<u>40,769,816</u>	<u>5,038,181</u>	<u>-</u>	<u>45,807,997</u>
 Governmental Activities Capital Assets, Net	 <u>\$77,805,566</u>	 <u>8,923,897</u>	 <u>6,512,932</u>	 <u>80,216,531</u>

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE C - CAPITAL ASSETS (Continued)

	For The Year Ended August 31, 2007			
	Balance August 31 2006	Additions	Deletions And Transfers	Balance August 31 2007
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 145,118	3,213,043	-	3,358,161
Construction in progress	<u>2,451,172</u>	<u>6,152,007</u>	<u>519,401</u>	<u>8,083,778</u>
Total Capital Assets Not Being Depreciated	<u>2,596,290</u>	<u>9,365,050</u>	<u>519,401</u>	<u>11,441,939</u>
Capital assets being depreciated:				
Buildings	56,484	47,612	-	104,096
Treatment plants	2,168,329	26,997	-	2,195,326
Machinery and equipment	1,148,586	213,751	18,000	1,344,337
Sewer lines	<u>17,816,007</u>	<u>516,037</u>	<u>-</u>	<u>18,332,044</u>
Total Capital Assets Being Depreciated	<u>21,189,406</u>	<u>804,397</u>	<u>18,000</u>	<u>21,975,803</u>
Less - Accumulated depreciation for:				
Buildings	9,986	4,411	-	14,397
Treatment plants	1,690,960	65,955	-	1,756,915
Machinery and equipment	685,958	128,945	18,000	796,903
Sewer lines	<u>6,416,061</u>	<u>366,641</u>	<u>-</u>	<u>6,782,702</u>
Total Accumulated Depreciation	<u>8,802,965</u>	<u>565,952</u>	<u>18,000</u>	<u>9,350,917</u>
Total Capital Assets Being Depreciated, Net	<u>12,386,441</u>	<u>238,445</u>	<u>-</u>	<u>12,624,886</u>
Business-Type Activities Capital Assets, Net	<u>\$14,982,731</u>	<u>9,603,495</u>	<u>519,401</u>	<u>24,066,825</u>

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

	For The Year Ended August 31 2007
Governmental activities:	
General government	\$ 634,977
Public safety	314,701
Public works	45,538
Highways and streets	1,628,863
Parks and recreation	46,049
Health and sanitation	<u>3,057</u>
Total Depreciation Expense - Governmental Activities	<u>\$2,673,185</u>

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE C - CAPITAL ASSETS (Continued)

	For The Year Ended August 31 <u>2007</u>
Business-type activities:	
Sewer	\$553,260
Golf	<u>12,692</u>
Total Depreciation Expense - Business-type Activities	<u>\$565,952</u>

NOTE D - LONG-TERM DEBT

Changes in Long-term Liabilities

Long-term liability activity was as follows:

	For The Year Ended August 31, 2007			Amounts Due Within One Year	
	Balance August 31 <u>2006</u>	<u>Additions</u>	<u>Reductions</u>		Balance August 31 <u>2007</u>
Governmental activities:					
Leasehold revenue bonds	\$15,370,000	-	275,000	15,095,000	305,000
Plus - Premium	436,597	-	19,845	416,752	-
Tax increment revenue notes	-	16,554,301	-	16,554,301	-
Capital lease obligations	749,910	286,378	272,720	763,568	307,939
Compensated absences	<u>403,685</u>	<u>65,728</u>	<u>80,737</u>	<u>388,676</u>	<u>77,735</u>
Total Governmen- tal Activities	<u>\$16,960,192</u>	<u>16,906,407</u>	<u>648,302</u>	<u>33,218,297</u>	<u>690,674</u>
Business-type activities:					
Revenue bonds payable	\$10,120,833	4,290,000	461,667	13,949,166	371,167
Less - Discounts	(13,141)	(43,043)	(2,904)	(53,280)	-
Plus - Premiums	224,954	-	11,536	213,418	-
Notes payable	<u>842,007</u>	<u>3,970,448</u>	<u>80,200</u>	<u>4,732,255</u>	<u>-</u>
Total Business- type Activities	<u>\$11,174,653</u>	<u>8,217,405</u>	<u>550,499</u>	<u>18,841,559</u>	<u>371,167</u>

Compensated absences are generally liquidated by the General Fund. Leasehold revenue bonds are generally liquidated by the Recreation Center Fund. Revenue bonds are generally liquidated by the Sewer Fund and Golf Fund. Tax increment revenue notes are generally liquidated by the General Fund. Notes payable are generally liquidated by the Sewer Fund.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

Governmental Activities:

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:

<u>For The Years</u> <u>Ended August 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	440,000	619,014	1,059,014
2013 - 2017	2,830,000	2,859,224	5,689,224
2018 - 2022	4,255,000	2,157,750	6,412,750
2023 - 2027	<u>6,165,000</u>	<u>928,376</u>	<u>7,093,376</u>
	<u>\$15,095,000</u>	<u>9,138,926</u>	<u>24,233,926</u>

Tax Increment Revenue Notes

The City has tax increment revenue notes which are special limited obligations of the City, payable solely from payments in lieu of taxes attributable to the increase in assessed value of real property, incremental increases in economic activity taxes in the project area, and monies on deposit in the Debt Service Reserve Fund. The bonds and notes do not constitute a general obligation of the City. Bonds and notes outstanding at August 31, 2007 are as follows:

	<u>Date</u> <u>Issued</u>	<u>Date Of</u> <u>Maturity</u>	<u>Date Of</u> <u>Annual</u> <u>Payment</u>	<u>Original</u> <u>Amount</u>	<u>Balance</u> <u>August 31</u> <u>2007</u>
Triangle	8-31-2007	9-14-2028	November 1	\$16,554,301	\$16,554,301

The City is authorized to issue an additional \$4,445,699 in TIF notes, up to a total of \$21 million.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

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.

During 2007 the City entered into a lease agreement as lessee for financing the acquisition of equipment and vehicles.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities August 31 2007</u>
Assets:	
Automotive equipment	\$ 975,618
Machinery and equipment	<u>385,484</u>
	1,361,102
Less - Accumulated depreciation	<u>597,032</u>
	<u>\$ 764,070</u>

The future minimum capital lease obligations and the net present value of these minimum lease payments as of August 31, 2007 were as follows:

<u>For The Years Ended August 31</u>	<u>Governmental Activities</u>			
	<u>2005 Equipment And Vehicles</u>	<u>2006 Vehicles</u>	<u>2007 Equipment And Vehicles</u>	<u>Total</u>
2008	\$106,934	162,003	63,288	332,225
2009	53,467	162,003	63,288	278,758
2010	-	40,501	63,288	103,789
2011	-	-	63,288	63,288
2012	<u>-</u>	<u>-</u>	<u>31,644</u>	<u>31,644</u>
Total Minimum Lease Payments	160,401	364,507	284,796	809,704
Less - Amount representing interest	<u>4,541</u>	<u>16,233</u>	<u>25,362</u>	<u>46,136</u>
Present Value Of Minimum Lease Payments	<u>\$155,860</u>	<u>348,274</u>	<u>259,434</u>	<u>763,568</u>

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

Business-type Activities:

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 of bonds issued in prior years was \$11,405,000. 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 %	\$ 513,333
Sewerage system - Series 1993	3.40 - 5.40	521,666
Sewerage system - Series 2005	3.25 - 5.25	5,885,000
Sewerage system - Series 2006	3.60 - 5.25	2,739,167
Golf course - Series 2007	3.90 - 4.375	<u>4,290,000</u>
		<u>\$13,949,166</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:

<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

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

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 revenue bonds dated February 1, 2007 maturing on December 1, 2018 and thereafter may be called for redemption and payment prior to maturity in whole or in part on or after December 1, 2017, 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:

For The Years Ended August 31	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 371,166	633,535	1,004,701
2009	492,000	612,986	1,104,986
2010	516,000	591,541	1,107,541
2011	530,000	569,095	1,099,095
2012	654,000	542,089	1,196,089
2013 - 2017	3,006,000	2,291,856	5,297,856
2018 - 2022	3,425,000	1,595,496	5,020,496
2023 - 2027	3,530,000	722,280	4,252,280
2028 - 2032	<u>1,425,000</u>	<u>161,010</u>	<u>1,586,010</u>
Total	<u>\$13,949,166</u>	<u>7,719,888</u>	<u>21,669,054</u>

Notes Payable

	<u>August 31 2007</u>
SRF - 1992, no interest	\$ 280,000
SRF - 1993, no interest	368,900
SRF - 2005, no interest	2,096,338
SRF - 2006, no interest	<u>1,987,017</u>
	<u>\$4,732,255</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 2007 the City obtained lines of credit to finance acquisition of residential properties within the Arnold Commons redevelopment area. The lines of credit balance outstanding at August 31, 2007 is as follows:

	For The Year Ended August 31, 2007				
	Origination Date	Maturity Date	Interest Rate	Credit Line	Balance
Lines of credit	06-04-2006	03-31-2007	6.61%	\$ <u>445,584</u>	\$ <u>445,584</u>

Changes in short-term debt were as follows:

	For The Year Ended August 31, 2007			
	Balance August 31 2006	Additions	Reductions	Balance August 31 2007
Lines of credit	\$ <u>9,165,567</u>	<u>11,945,584</u>	<u>20,665,567</u>	\$ <u>445,584</u>

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, 2007, which is the date of the latest actuarial valuation available, was \$2,154,441 and the City's total payroll was \$5,745,898.

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:

<u>Group</u>	<u>August 31</u> <u>2007</u>
Retirees and beneficiaries currently receiving benefits	1
Vested terminated employees and active employees	50

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.

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)

Funding Status and Progress

<u>Valuation For The Actuarial Years Ended August 31</u>	<u>Pension Plan Actuarial Value Of Assets</u>	<u>Covered Payroll</u>
2007	\$5,508,469	\$2,154,441
2006	4,912,904	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

Schedule Of Employer Contributions

<u>For The Years Ended August 31</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2007	\$425,810	\$457,273	107.4%
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

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:

Actuarial cost method	Aggregate actuarial cost method
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

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)

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	Net Pension Asset (Obligation) End Of Year
2007	\$417,441	107.4%	\$144,446
2006	381,178	83.7	104,614
2005	250,135	84.2	156,197
2004	203,376	80.0	183,244
2003	200,068	94.9	210,517
2002	189,276	172.0	205,114
Valuation For The Actuarial Years Ended August 31	Net Pension Asset (Obligation) Beginning Of Year	Interest Net Pension Asset (Obligation)	Annual Required Contribution
2007	\$104,614	\$ 8,369	\$425,810
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

Note: Adjustment to annual required contribution is \$0 for each year.

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>Actual Contribution</u>	<u>Increase (Decrease) In Net Pension Asset (Obligation)</u>	<u>Net Pension Asset (Obligation) End Of Year</u>
2007	\$457,273	\$ 39,832	\$144,446
2006	329,595	(51,583)	104,614
2005	223,088	(27,047)	156,197
2004	176,103	(27,273)	183,244
2003	205,471	5,403	210,517
2002	333,911	144,635	205,114

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 state 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.

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 18.7% (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 2007, the City's annual pension cost of \$475,234 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2005 and/or February 28, 2006 annual actuarial valuation using the entry age actuarial cost method.

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)

The actuarial assumptions as of February 28, 2007 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 and division, 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, 2007 was 17 years.

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>
2007	\$475,234	100%
2006	404,407	100
2005	311,658	100

Schedule of funding progress follows:

<u>For The Valuation Years Ended February 28</u>	<u>Actuarial Value Of Assets</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Accrued Liability (UAL)</u>
2007	\$6,415,513	\$8,180,308	\$1,764,795
2006	5,461,396	6,931,372	1,469,976
2005	4,646,329	6,716,857	2,070,528

<u>For The Valuation Years Ended February 28</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL As A Percentage Of Covered Payroll</u>
2007	78%	\$2,703,800	65%
2006	79	2,224,604	66
2005	69	2,178,352	95

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)

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 2007</u>
General Fund - Major Fund	Recreation Center Fund - Major Fund	\$118,028
General Fund - Major Fund	Sewer Fund - Major Fund	62,409
General Fund - Major Fund	Storm Water Fund - Major Fund	<u>23,403</u>
		<u>\$203,840</u>

The outstanding balances between funds result mainly from the time lag between dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in accounting system, and 3) payments between funds are made. All interfund balances are expected to be repaid during the fiscal year ending August 31, 2008.

Advance From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>August 31 2007</u>
Sewer Fund - Major Fund	General Fund - Major Fund	<u>\$498,609</u>

The outstanding balances between funds result from the purchase of land by the Sewer Fund to be used by the General Fund. The balance is not expected to be repaid within the fiscal year ending August 31, 2008.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE H - INTERFUND TRANSACTIONS

Individual interfund transactions are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>For The Year Ended August 31 2007</u>
Nonmajor Fund - Tourism Fund	General Fund	\$126,415
Nonmajor Fund - Drug Forfeiture Fund	General Fund	<u>40,152</u>
		<u>\$166,567</u>

Interfund transfers were used to establish new funds from the fund in which they were previously reported.

NOTE I - 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 J - 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, 2008.

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 ex-

NOTE J - INSURANCE (Continued)

ceed 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 \$560,538 for MIRMA's fiscal years ended June 30, 2008. Settled claims resulting in these risks have not exceeded coverage in any of the past three years.

NOTE K - INTERFUND ADMINISTRATION FEE

During the year the Sewer Fund, the Storm Water Fund, and the Recreation Center Fund paid \$138,000, \$36,000, 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 L - 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, 2007 the City had commitments for sewer projects in the amount of \$2,235,638.

NOTE M - SUBSEQUENT EVENT

In November 2007 the Council approved the issuance of Missouri Development Finance Board Infrastructure Facilities Revenue Bonds Series 2007A and 2007B for \$2,475,000 and \$7,110,000, respectively.

NOTE N - RESTRICTED NET ASSETS

The government-wide statement of net assets does not report any restricted net assets which are restricted by enabling legislation.

INTRODUCTION

FINANCIAL

**FINANCIAL
STATEMENTS**

**SUPPLEMENTAL
INFORMATION**

STATISTICS



for the Fiscal Year ended
August 31, 2007

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
				<u>Budget</u>
REVENUES				
Taxes				
Property	\$ 996,000	996,000	992,520	(3,480)
Sales	5,771,000	5,771,000	5,956,739	185,739
Public utility gross receipts	1,825,000	1,825,000	1,961,536	136,536
Motor fuel	560,000	560,000	583,495	23,495
Other	180,000	180,000	190,334	10,334
Total Taxes	<u>9,332,000</u>	<u>9,332,000</u>	<u>9,684,624</u>	<u>352,624</u>
Special Assessments	<u>90,000</u>	<u>90,000</u>	<u>306,798</u>	<u>216,798</u>
Licenses and Permits	<u>446,550</u>	<u>446,550</u>	<u>648,771</u>	<u>202,221</u>
Fines and Court Costs	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,177,581</u>	<u>(222,419)</u>
Intergovernmental	<u>7,424,300</u>	<u>7,424,300</u>	<u>1,857,171</u>	<u>(5,567,129)</u>
Charges for Services	<u>106,900</u>	<u>106,900</u>	<u>189,284</u>	<u>82,384</u>
Investment Income	<u>147,000</u>	<u>147,000</u>	<u>279,244</u>	<u>132,244</u>
Miscellaneous				
Administration	180,000	180,000	210,000	30,000
Other	80,750	80,750	155,174	74,424
Total Miscellaneous	<u>260,750</u>	<u>260,750</u>	<u>365,174</u>	<u>104,424</u>
Total Revenues	<u>19,207,500</u>	<u>19,207,500</u>	<u>14,508,647</u>	<u>(4,698,853)</u>
EXPENDITURES				
General Government				
General and administrative	917,685	1,045,181	989,578	(55,603)
Mayor and council	99,020	100,419	97,899	(2,520)
Municipal court	164,683	159,820	173,252	13,432
Administrator	304,670	303,523	302,735	(788)
Treasurer	19,868	44,668	38,102	(6,566)
Finance	256,994	252,705	245,526	(7,179)
Collector of revenue	175,706	167,636	158,336	(9,300)
Attorney	99,000	149,000	161,662	12,662
Elections	6,600	11,000	7,887	(3,113)
Planning commission	215,224	174,558	176,528	1,970
Total General Government	<u>2,259,450</u>	<u>2,408,510</u>	<u>2,351,505</u>	<u>(57,005)</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued)				
Public Safety				
Police	4,430,340	4,403,340	4,282,135	(121,205)
Police board	6,615	2,615	498	(2,117)
Dispatching	513,878	508,278	477,381	(30,897)
Building commission	403,035	385,840	358,595	(27,245)
Total Public Safety	<u>5,353,868</u>	<u>5,300,073</u>	<u>5,118,609</u>	<u>(181,464)</u>
Public Works	<u>7,843,640</u>	<u>8,012,082</u>	<u>3,583,152</u>	<u>(4,428,930)</u>
Highways and Streets	<u>1,434,781</u>	<u>1,308,121</u>	<u>1,093,891</u>	<u>(214,230)</u>
Parks and Recreation	<u>568,622</u>	<u>559,593</u>	<u>559,598</u>	<u>5</u>
Health and Sanitation				
Health department	50,883	59,283	58,634	(649)
Rabies control	146,419	138,569	102,329	(36,240)
Vector control	28,950	26,710	19,053	(7,657)
Solid waste	690,000	696,000	701,994	5,994
Total Health And Sanitation	<u>916,252</u>	<u>920,562</u>	<u>882,010</u>	<u>(38,552)</u>
Capital Outlay	<u>622,700</u>	<u>782,167</u>	<u>673,371</u>	<u>(108,796)</u>
Debt Service	<u>39,926</u>	<u>333,676</u>	<u>331,407</u>	<u>(2,269)</u>
Total Expenditures	<u>19,039,239</u>	<u>19,624,784</u>	<u>14,593,543</u>	<u>(5,031,241)</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>168,261</u>	<u>(417,284)</u>	<u>(84,896)</u>	<u>332,388</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	210,000	210,000	286,378	76,378
Sale of capital assets	3,000	3,000	504,457	501,457
Transfers out	-	-	(166,567)	(166,567)
Total Other Financing Sources (Uses)	<u>213,000</u>	<u>213,000</u>	<u>624,268</u>	<u>411,268</u>
NET CHANGE IN FUND BALANCE	<u>\$ 381,261</u>	<u>(204,284)</u>	<u>539,372</u>	<u>743,656</u>
FUND BALANCE, SEPTEMBER 1			<u>4,019,335</u>	
FUND BALANCE, AUGUST 31			<u>\$ 4,558,707</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Sales	\$ 1,082,807	1,082,807	1,030,252	(52,555)
Intergovernmental	-	44,000	44,708	708
Charges for services	1,264,800	1,264,800	1,062,598	(202,202)
Investment income	40,000	40,000	84,618	44,618
Miscellaneous:				
Other	600	20,600	28,449	7,849
Total Revenues	<u>2,388,207</u>	<u>2,452,207</u>	<u>2,250,625</u>	<u>(201,582)</u>
EXPENDITURES				
Recreation center	1,559,935	1,585,184	1,385,190	(199,994)
Capital outlay	68,000	119,137	119,203	66
Debt service	935,489	937,989	937,893	(96)
Total Expenditures	<u>2,563,424</u>	<u>2,642,310</u>	<u>2,442,286</u>	<u>(200,024)</u>
NET CHANGE IN FUND				
BALANCES	<u>\$ (175,217)</u>	<u>(190,103)</u>	(191,661)	<u>(1,558)</u>
FUND BALANCE, SEPTEMBER 1			<u>1,389,706</u>	
FUND BALANCE, AUGUST 31			<u>\$ 1,198,045</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, 2007

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, Tourism, Drug Forfeiture, 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. Budgets do not include economic development and debt proceeds related to the tax increment financing projects.
- f. Budget amendments at the department level must be approved by the City Council. Management may authorize transfers of appropriations within a department. Current year budget includes amendments.
- g. Appropriations lapse at year-end.

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

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 3,498,375	4,422,967
Receivables (net of allowances for uncollectibles):		
Taxes	2,674,045	1,704,638
Special assessments	1,668,884	1,808,032
Intergovernmental	547,545	266,911
Court	82,359	-
Miscellaneous	2,884,159	632,691
Deposits	671,024	-
Due from other funds	203,840	576,200
Prepaid items	630,167	481,578
Land held for resale	-	9,165,567
Restricted assets:		
Cash and cash equivalents	89,779	232,871
Capital improvements sales tax receivable	-	461,322
Investments	1,249,818	1,249,776
	\$ 14,199,995	21,002,553
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 3,789,575	2,387,782
Accrued liabilities	131,802	90,783
Accrued interest	-	212,914
Due to other funds	118,028	834,782
Deferred revenue	3,396,530	2,901,684
Short-term debt	445,584	9,165,567
Advance to other funds	498,609	-
Total Liabilities	8,380,128	15,593,512
 Fund Balances		
Reserved for:		
Prepaid items	630,167	481,578
Encumbrances	5,697,566	1,126,868
Recreational center escrow deposit	1,250,000	1,250,000
Unreserved:		
Designated for sewer subdistrict projects	884,449	1,050,149
Designated for street projects	-	112,183
Designated for road reconstruction	550,000	550,000
Designated for drug forfeitures	40,152	40,152
Designated for greenway beautification	140,517	60,000
Designated for economic development	111,294	78,581
Designated for pride in our City	9,066	9,066
Designated for tourism	126,415	126,415
Undesignated	(3,619,759)	524,049
Total Fund Balances	5,819,867	5,409,041
	\$ 14,199,995	21,002,553

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

	2007	2006
REVENUES		
Taxes	\$ 10,866,182	10,753,278
Special assessments	306,798	428,599
Licenses and permits	648,771	501,547
Fines and court costs	1,177,581	1,060,849
Intergovernmental	1,910,417	337,205
Charges for services	1,326,128	937,009
Investment income	364,016	242,701
Miscellaneous	394,194	420,189
Total Revenues	16,994,087	14,681,377
EXPENDITURES		
Current:		
General government	2,657,615	2,246,139
Public safety	5,124,954	4,790,213
Public works	3,583,152	1,997,244
Highways and streets	1,093,891	1,046,910
Parks and recreation	1,944,788	1,895,233
Health and sanitation	882,010	823,634
Economic development	16,554,301	-
Capital outlay	818,386	1,802,811
Debt service:		
Principal	547,723	858,743
Interest	721,577	927,996
Total Expenditures	33,928,397	16,388,923
REVENUES UNDER EXPENDITURES	(16,934,310)	(1,707,546)
OTHER FINANCING SOURCES (USES)		
Issuance of notes	16,554,301	-
Issuance of capital lease	286,378	600,000
Sale of capital assets	504,457	23,626
Transfers in	166,567	-
Transfers out	(166,567)	-
Total Other Financing Sources (Uses)	17,345,136	623,626
NET CHANGE IN FUND BALANCES	410,826	(1,083,920)
FUND BALANCES, SEPTEMBER 1	5,409,041	6,492,961
FUND BALANCES, AUGUST 31	\$ 5,819,867	5,409,041

CITY OF ARNOLD, MISSOURI
OTHER SUPPLEMENTAL INFORMATION - COMBINING
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2007

	<u>Special Revenue Funds</u>		
	<u>Tourism</u>	<u>Drug Forfeiture</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 79,106	17,856	96,962
Receivables:			
Miscellaneous	13,682	-	13,682
Prepaid items	47,805	-	47,805
	<u>47,805</u>	<u>-</u>	<u>47,805</u>
Total Assets	<u>\$ 140,593</u>	<u>17,856</u>	<u>158,449</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 13,942	598	14,540
Deferred revenue	80,794	-	80,794
	<u>80,794</u>	<u>-</u>	<u>80,794</u>
Total Liabilities	<u>94,736</u>	<u>598</u>	<u>95,334</u>
 Fund Balances			
Reserved for:			
Prepaid items	47,805	-	47,805
Unreserved:			
Undesignated - Special Revenue Fund	(1,948)	17,258	15,310
	<u>45,857</u>	<u>17,258</u>	<u>63,115</u>
Total Fund Balances	<u>45,857</u>	<u>17,258</u>	<u>63,115</u>
Total Liabilities And Fund Balances	<u>\$ 140,593</u>	<u>17,856</u>	<u>158,449</u>

CITY OF ARNOLD, MISSOURI
OTHER SUPPLEMENTAL INFORMATION - COMBINING
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

	<u>Special Revenue Funds</u>		
	<u>Tourism</u>	<u>Drug Forfeiture</u>	<u>Totals</u>
REVENUES			
Taxes	\$ 151,306	-	151,306
Intergovernmental	-	8,538	8,538
Charges for services	74,246	-	74,246
Investment income	-	154	154
Miscellaneous income	-	571	571
Total Revenues	<u>225,552</u>	<u>9,263</u>	<u>234,815</u>
EXPENDITURES			
Current:			
General government	306,110	-	306,110
Public safety	-	6,345	6,345
Capital outlay	-	25,812	25,812
Total Expenditures	<u>306,110</u>	<u>32,157</u>	<u>338,267</u>
REVENUES UNDER EXPENDITURES	(80,558)	(22,894)	(103,452)
OTHER FINANCING SOURCES			
Transfers in	<u>126,415</u>	<u>40,152</u>	<u>166,567</u>
NET CHANGE IN FUND BALANCES	45,857	17,258	63,115
FUND BALANCES, SEPTEMBER 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, AUGUST 31	<u>\$ 45,857</u>	<u>17,258</u>	<u>63,115</u>

CITY OF ARNOLD, MISSOURI
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - TOURISM FUND
FOR THE YEAR ENDED AUGUST 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Sales	\$ 160,000	160,000	151,306	(8,694)
Charges for services	158,000	158,000	74,246	(83,754)
Total Revenues	<u>318,000</u>	<u>318,000</u>	<u>225,552</u>	<u>(92,448)</u>
EXPENDITURES				
General government	<u>381,714</u>	<u>384,214</u>	<u>306,110</u>	<u>(78,104)</u>
REVENUES UNDER EXPENDITURES	(63,714)	(66,214)	(80,558)	(14,344)
OTHER FINANCING SOURCES				
Transfers in	<u>-</u>	<u>-</u>	<u>126,415</u>	<u>126,415</u>
NET CHANGE IN FUND BALANCES	<u>\$ (63,714)</u>	<u>(66,214)</u>	45,857	<u>112,071</u>
FUND BALANCE, SEPTEMBER 1			<u>-</u>	
FUND BALANCE, AUGUST 31			<u>\$ 45,857</u>	

CITY OF ARNOLD, MISSOURI
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - DRUG FORFEITURE FUND
FOR THE YEAR ENDED AUGUST 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ -	-	8,538	8,538
Investment income	100	100	154	54
Miscellaneous income	2,000	2,000	571	(1,429)
Total Revenues	<u>2,100</u>	<u>2,100</u>	<u>9,263</u>	<u>7,163</u>
EXPENDITURES				
Public safety	-	6,500	6,345	(155)
Capital outlay	8,000	29,400	25,812	(3,588)
Total Expenditures	<u>8,000</u>	<u>35,900</u>	<u>32,157</u>	<u>(3,743)</u>
REVENUES UNDER EXPENDITURES	(5,900)	(33,800)	(22,894)	10,906
OTHER FINANCING SOURCES				
Transfers in	-	-	40,152	40,152
NET CHANGE IN FUND BALANCES	<u>\$ (5,900)</u>	<u>(33,800)</u>	17,258	<u>51,058</u>
FUND BALANCE, SEPTEMBER 1			<u>-</u>	
FUND BALANCE, AUGUST 31			<u>\$ 17,258</u>	