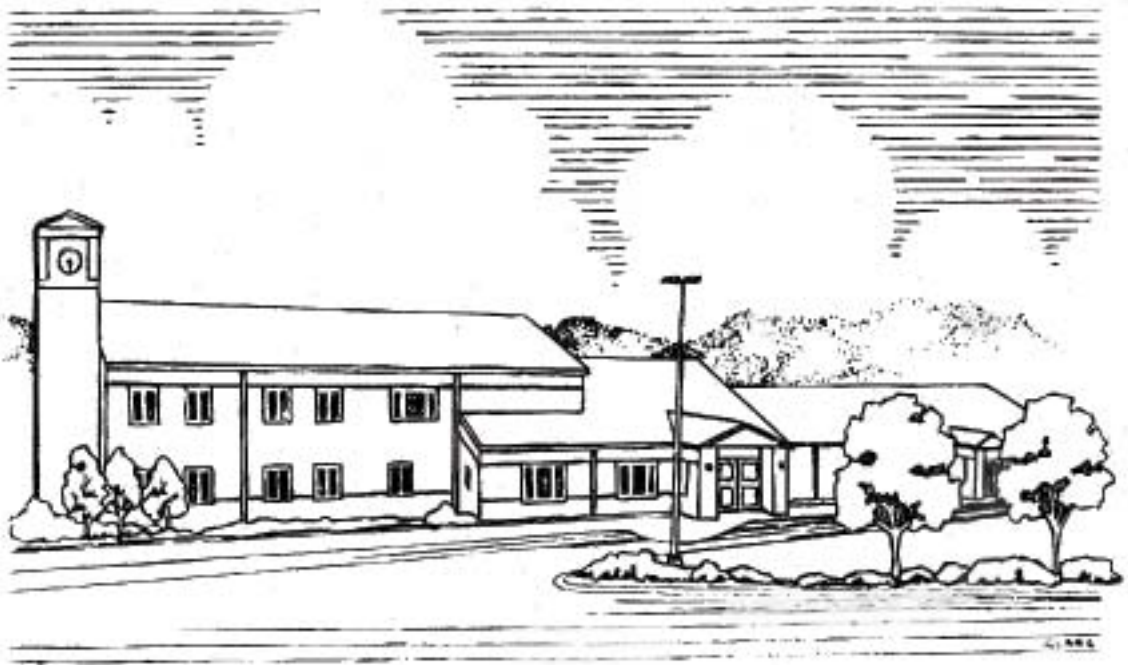


City of Arnold, Missouri
Comprehensive Annual
Financial Report



for the Fiscal Year ended
August 31, 2007

CITY OF ARNOLD, MISSOURI

**Comprehensive Annual Financial Report
For The Fiscal Year Ended August 31, 2007**

Prepared by the Finance Department

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INTRODUCTION

FINANCIAL

**FINANCIAL
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STATISTICS



for the Fiscal Year ended
August 31, 2007



City of Arnold

Mark Powell, Mayor

January 21, 2008

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

The comprehensive annual financial report of the City of Arnold, Missouri (the City) for the fiscal year ended August 31, 2007, is hereby submitted. This report consists of management's representations concerning the finances of the City of Arnold. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City of Arnold's financial statements were audited by Hochschild, Bloom & Company LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended August 31, 2007, are free of material misstatement. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Arnold's financial statements for the fiscal year ended August 31, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Government

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

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

The City of Arnold provides a range of services, including police protection; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural

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

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

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

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

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

Local economy

The economic condition and outlook of the City of Arnold has been stable in recent years. The current year real estate tax base showed growth of 3 percent above last year's levels. The City's housing stock, geographic location, and variety of services have kept real estate marketable. Commercial vacancies remain modest while the potential for further retail and industrial development appears highly favorable within the next five years. Recent construction of major commercial and industrial developments is proof of the economic vitality of the area.

During the past ten years, the unemployment rate for Jefferson County rose from an initial low of 1.9 percent (1999) to a decade high of 5.6 percent (2004). The current rate 5.3 percent hovers close to this ten-year high. Unemployment is expected to remain fairly stable within the region. In conjunction with local Tax Increment Financing (TIF) projects that are in process, a number of new retail sales and service establishments will open for business, bringing several hundred jobs to the City over the next few years. Also, several new regional employers will be coming online in the near future; a large concrete plant, a metal smelter and others.

City's tax structure relies primarily on sales taxes and utility taxes. After receipt of settlements with the cellular telephone companies to be received in fiscal 2008, utility tax receipts are likely to continue to increase at a modest rate. As was the case in 2005 and 2006, general sales tax receipts increased for fiscal year 2007. Due to level retail sales, sales tax receipts are anticipated to remain stable or decrease slightly until the new TIF projects are in place. Little to no growth in sales tax has been a regional trend, and the City has demonstrated its ability to compress government expenditures to accommodate a tight economy or temporary downturn in revenue. It is anticipated this trait will continue.

The City continues to evaluate the City's transportation system and anticipates the inauguration of the City's first transportation development district in conjunction with the Arnold Commons Development. Several major road and bridge projects are currently under construction or were completed this year. Partial funding for these projects will come from Federal Surface Transportation Programs (STP) and Federal Congestion Mitigation and Air Quality (CMAQ) programs with the balance being funded through the Jefferson County Capital Improvement Tax.

Long-term financial planning

The City desires to plan for the success of Arnold for decades to come. To encourage growth and stability, the City has actively sought out and supported commercial development. Two TIF

development projects have been approved by the City Council and are currently under construction, the “Arnold Commons” redevelopment project and the “Arnold Crossroads” redevelopment project.

The Commons redevelopment area is approximately 40 acres in size, located in the southwest quadrant of Interstate 55 and Highway 141. The Arnold TIF Commission was established to coordinate, along with developer THF Realty, the development of a quality 225,000 square-foot retail shopping center on the property, anchored by a Lowe’s Home Improvement Warehouse and a Dierberg’s supermarket. The City has issued \$16,554,301 in TIF notes to aid this project, which will be capitalized at a spring 2008 bond offering. Many store openings are anticipated in the first quarter of 2008.

The Arnold Crossroads redevelopment area will include the revitalization and modification of an existing shopping center located in the heart of Arnold. This project, let by Jones Realty, includes plans for a new Drury Hotel with meeting and banquet facilities, new buildings for existing restaurants, new retail stores, including an outdoor hunting and fishing sporting goods store as the anchor tenant. Other site improvements include a new 4-way intersection at the Crossroads Shops with landscaping and beautification efforts throughout the development site.

Major initiatives

Fiscal year 2007 marked the second full year of operation for the City’s 55,000-square-foot Arnold Recreation Center. The state-of-the-art facility boasts an indoor and outdoor water park and pool, a fitness center complete with the newest equipment, a walking/running track and a huge recreation room. Other amenities include party room rentals, fitness/recreation classes and programs, and on-site childcare. The center also works with the Mid East Area Agency on Aging (MEAAA) to provide services to area senior citizens including a daily meal program, activities, and informational programs.

In March 2007, the City issued \$4.29 million in Leasehold Revenue Bonds Series 2007 for the purchase of a previously privately owned public golf course known as Pomme Creek Golf course. Originally designed in 1993, the course sits on 125 acres in the southern part of the City and boasts 18 holes.

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

In 2006, in response to new, stricter Federal Environmental Protection Agency water quality regulations, the City began start-up operations for the implementation of a new storm water utility system. In previous years, the City conducted a series of public engagement and communications meetings to get community input on how to address chronic storm water problems such as flooding, severe soil erosion, infrastructure improvements, and creek and stream maintenance. Professional consultants were engaged to develop a storm water master plan, create a rationale for a fee rate structure, and identify short and long-term capital project needs. A new storm water department has been created to address federal requirements, planning and engineering, code enforcement, routine maintenance, street sweeping, and capital construction. Funding for this new enterprise system will come primarily from user fees charged to commercial and residential customers based upon the quantity of impervious land surface. The estimated annual expenditure budget for the new storm water utility is \$500,000.


Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arnold for its comprehensive annual financial report for the fiscal year ended August 31, 2006. This is the 18th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

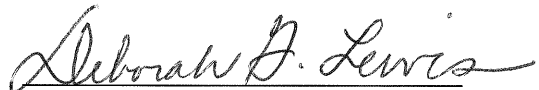
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,



Matthew Unrein
City Administrator



Deborah G. Lewis
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Arnold
Missouri

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2006

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



Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF ARNOLD, MISSOURI
PRINCIPAL OFFICIALS

Mark Powell Mayor

Council

Randy Crisler	Ward One
Paul Vinson	Ward One
William Moritz	Ward Two
John Brazeal	Ward Two
Phillip Amato	Ward Three
Joyce Deckman	Ward Three
Alfred Ems	Ward Four
Butch Cooley	Ward Four

Diane Waller City Clerk

Scott Gowan Treasurer

Todd Hamby Judge

Robert Sweeney City Attorney

Matthew Unrein City Administrator

Deborah Lewis (beginning December 10, 2007) Finance Director

Robert Shockey Chief of Police

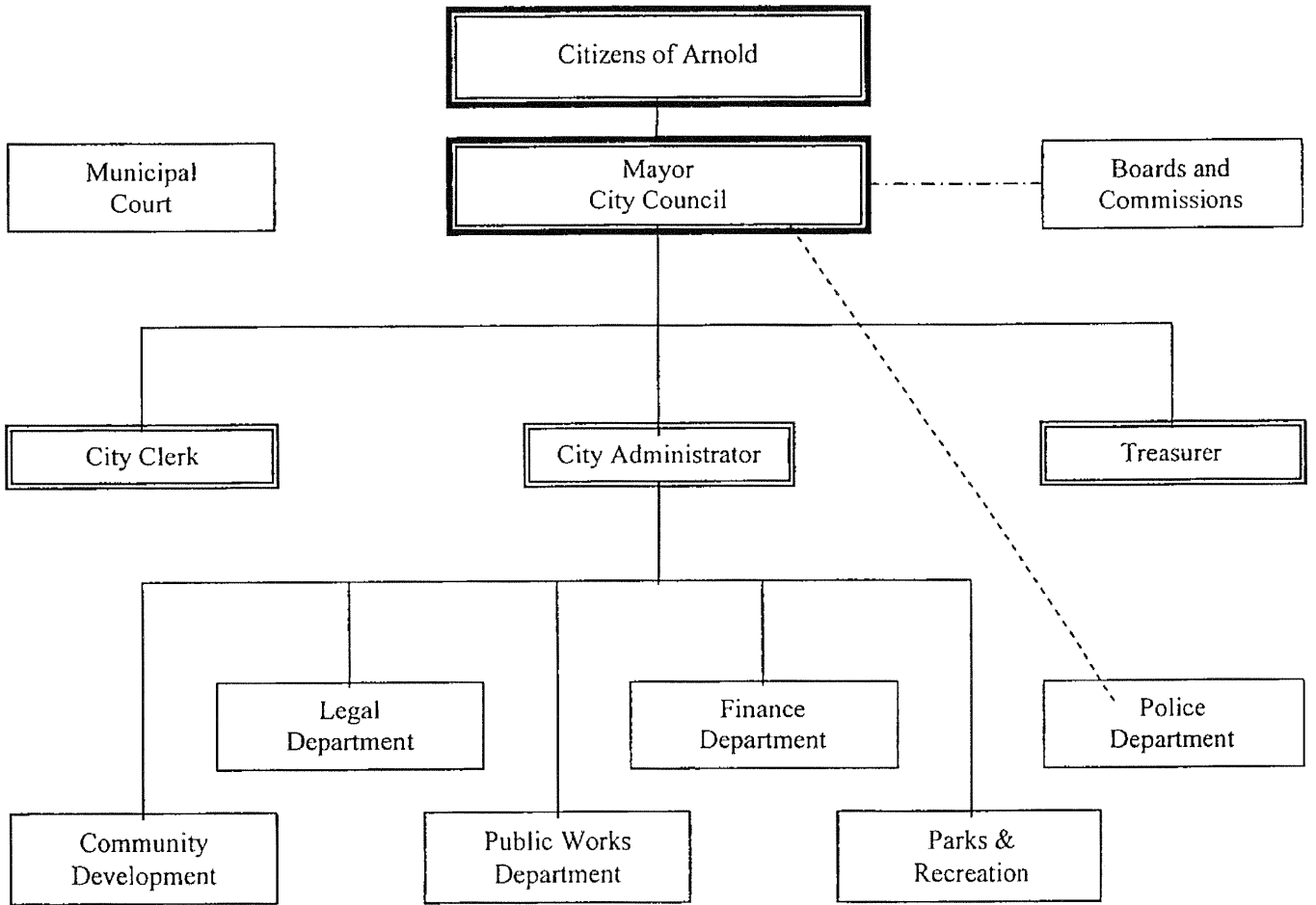
Mary Holden Community Development Director

Jeff Blue Public Works Director

Greg Hall Director of Administration

Susie Boone Parks and Recreation Director

Organization Chart



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