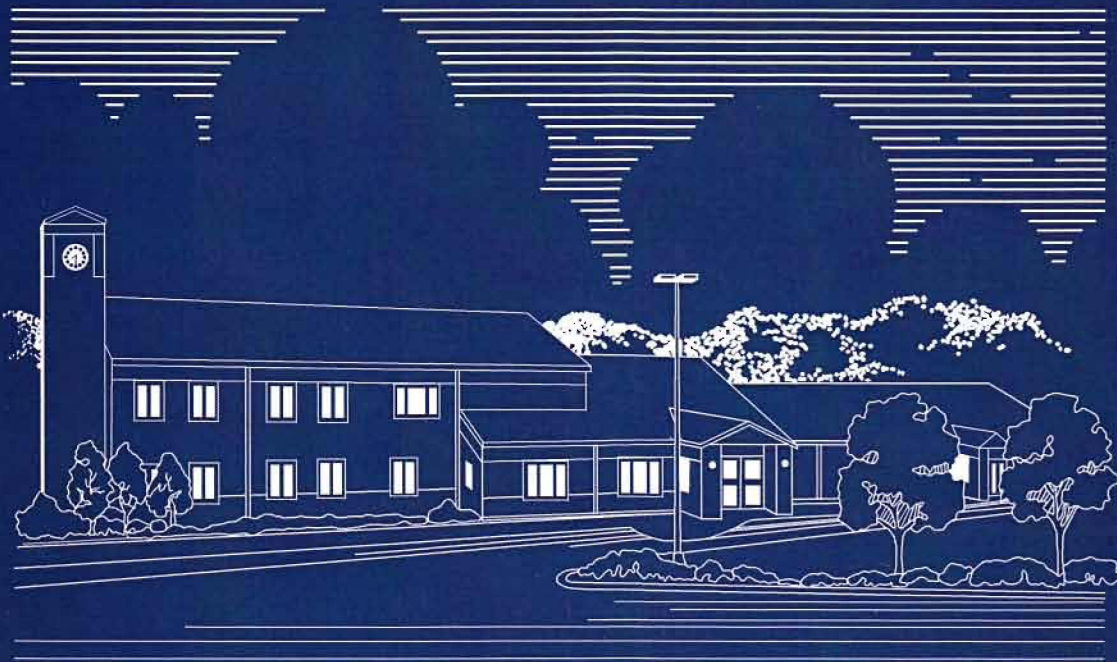


City of Arnold, Missouri
Comprehensive Annual
Financial Report



for the Fiscal Year ended
August 31, 2008

CITY OF ARNOLD, MISSOURI

**Comprehensive Annual Financial Report
For The Fiscal Year Ended August 31, 2008**

Prepared by the Finance Department

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INTRODUCTION

FINANCIAL

**FINANCIAL
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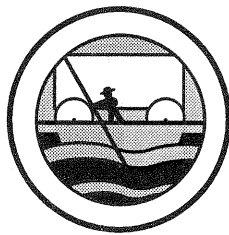
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INTRODUCTION



for the Fiscal Year ended
August 31, 2008



City of Arnold

Mark Powell, Mayor

January 14, 2009

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, 2008, is hereby submitted. This report consists of management's representations concerning the finances of the City. 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'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, 2008, 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's financial statements for the fiscal year ended August 31, 2008, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

Profile of the City

Incorporated in 1972 as a city of the third class, the City 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 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, hiring employees, and overseeing the day-to-day operations of the City. 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 provides a range of services, including police protection; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural events. Trash, sewer, and storm water system services are provided through the City. 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'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 has been stable in recent years. The current year real estate tax base showed growth of 10% above last year's levels. The City's housing stock, geographic location, and variety of services have kept real estate marketable. This year, Money Magazine online named the City the 12th most affordable place to live in the United States. Commercial

vacancies remain modest while the potential for further retail and industrial development appears 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 monthly unemployment rate for Jefferson County rose from an initial low of 1.9% (1999) to a decade high of 7.1% (2005). August 2008 sets a new ten-year high at 7.7%. Unemployment is expected to remain fairly high within the region due to recent economic challenges. Some economists are predicting that employment levels will not recover until mid-2010. The City believes it is in a favorable situation for the coming year because it anticipates that in conjunction with local Tax Increment Financing (TIF) projects in process, a number of new retail sales and service establishments have or will open for business, bringing several hundreds jobs to the City. Also, several new regional employers will be coming online in the near future; a large concrete plant, a metal smelter, and others.

The City's tax structure relies primarily on sales taxes and utility taxes. Settlements with the major cellular telephone companies were received in fiscal 2008 and utility tax receipts continue to increase at a modest rate. As was the case in 2005 through 2007, general sales tax receipts for fiscal year 2008 continued to remain relatively flat. Little growth to a 10% loss in sales tax has been the regional trend, but the City has demonstrated its ability to compress expenditures to accommodate this tighter economy or temporary downturns in revenue. However, 2009 looks to have a slight increase due to sales tax receipts related to the new TIF projects.

Long-term Financial Planning

The City desires to plan for the success of the City 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 Arnold 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 \$21,000,000 in TIF notes to aid this project, which will be capitalized at a Spring 2009 bond offering. Many of the stores have already opened or will open soon including: Panera Bread, Chili's, Texas Roadhouse, Arnold Stove and Fireplace, PetSmart, Office Depot, and Dollar Tree. To accommodate anticipated changes in traffic patterns and density because of this development, the City have substantially completed

improvements to all major adjacent roads. These improvements included the widening of Church Road, the addition of a slip ramp from Hwy. 141 into the development, and the reconfiguration of the Church Road, Old Lemay Ferry Road, and Missouri State Road intersection.

The Arnold Crossroads redevelopment area will include the revitalization and modification of an existing shopping center located in the heart of the City. 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 Gander Mountain, an outdoor hunting and fishing sporting goods store as the anchor tenant. Other site improvements include a new four-way intersection at the Crossroads Shops with landscaping and beautification efforts throughout the development site. Several stores have already opened, including a Steak-n-Shake, McDonalds, and 24 Hour Fitness.

The City's connector tunnel and the new MSD wastewater treatment plant have been completed. The City has entered into an agreement to fund its share of capacity, \$16,721,443 (phase 1) over the next 25 years. Plans for phase 2 envision an additional \$9 million (in 2004 dollars) City investment. A consultant has been selected to begin a comprehensive sewer rate study to determine how operating and capital costs should be allocated to the users of the system and to provide a model for projecting these rates into the future.

Major Initiatives

The City has begun to receive collections from the City's first transportation development district and continues to evaluate the City's transportation system. Approved in April 2008, the Arnold Retail Corridor (ARC) TDD is a large and diverse entity that will generate revenue for several major road projects within or connected to the district. The Ozark Bridge project, also underway, will utilize a HUD grant, NID funds, and City CIP funding to replace an outmoded and failing bridge. In 2009, the City hopes to begin engineering just within its western boundary at the 141/Astra Way intersection, the entrance to the Library, Rec Center, and College.

The City funded the creation of a master plan for the revitalization of northern Jeffco Blvd. in 2008. This plan for the retail/commercial district dubbed 'Hometown' is currently under review by the Planning Commission. The City believes that coupled with other initiatives such as its newly created facade loan program the rebirth of this area will lead to increased investment in this area of the City.

Funded by a partial grant from the St. Louis-Jefferson Solid Waste Management District, the City expanded its free recycling program smaller toters to 65-gallons containers for all citizens. The service has received a very positive response and

the City will continue to provide a recycling program and weekly trash pickup at no cost to its residents.

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 the last three years, the course has undergone many significant remodeling and improvement projects and is now PGA certified. In 2008 the Pomme Creek master plan was approved and work was begun to redesign the 15th hole.

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, 2007. This is the 19th 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, 2007

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.



Chae S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF ARNOLD, MISSOURI
PRINCIPAL OFFICIALS

Mark Powell Mayor

Council

Randy Crisler	Ward One
Matthew Hay	Ward One
William Moritz	Ward Two
Jerel Poor	Ward Two
Phillip Amato	Ward Three
Joyce Deckman	Ward Three
Alfred Ems	Ward Four
Butch Cooley	Ward Four

Diane Waller City Clerk

Paul Freese Treasurer

Todd Hamby Judge

Robert Sweeney City Attorney

Matthew Unrein City Administrator

Deborah Lewis Finance Director

Robert Shockey Chief of Police

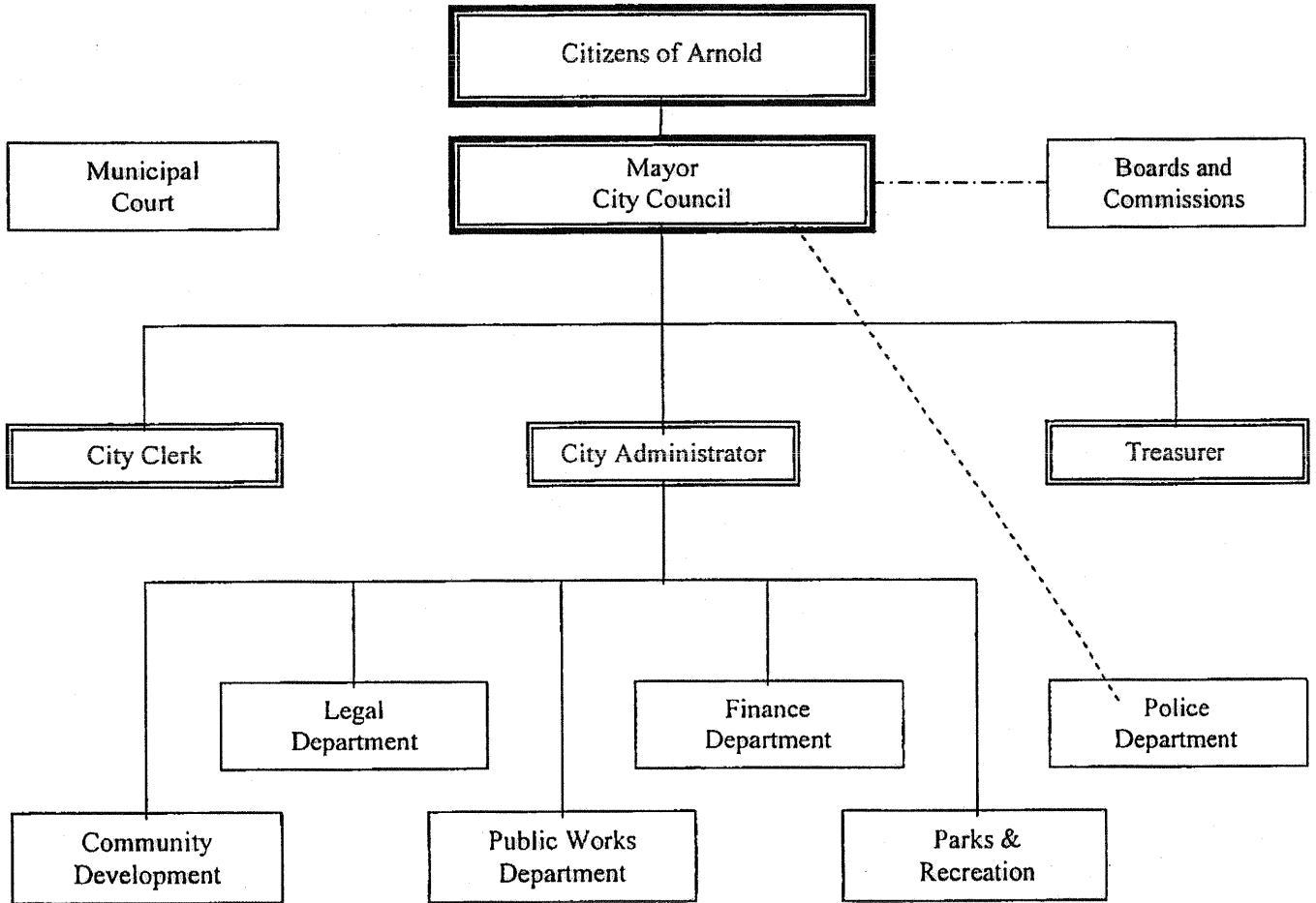
Mary Holden Community Development Director

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.