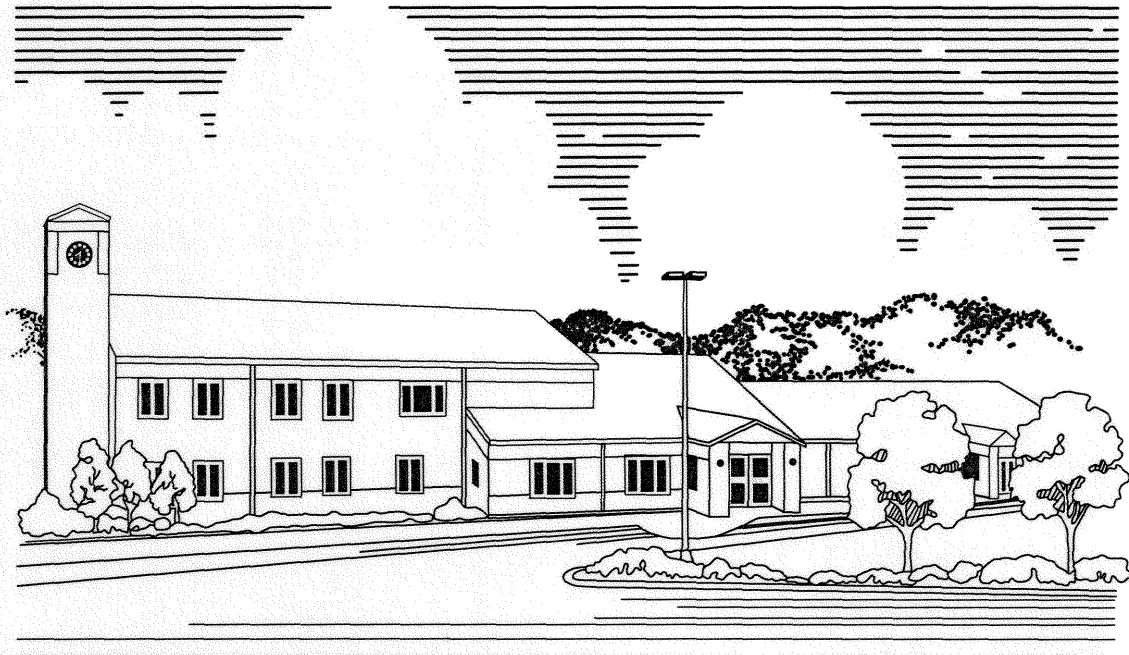


City of Arnold, Missouri

Comprehensive Annual Financial Report



for the Fiscal Year ended
August 31, 2011

CITY OF ARNOLD, MISSOURI

**Comprehensive Annual Financial Report
For The Fiscal Year Ended August 31, 2011**

Prepared by the Finance Department

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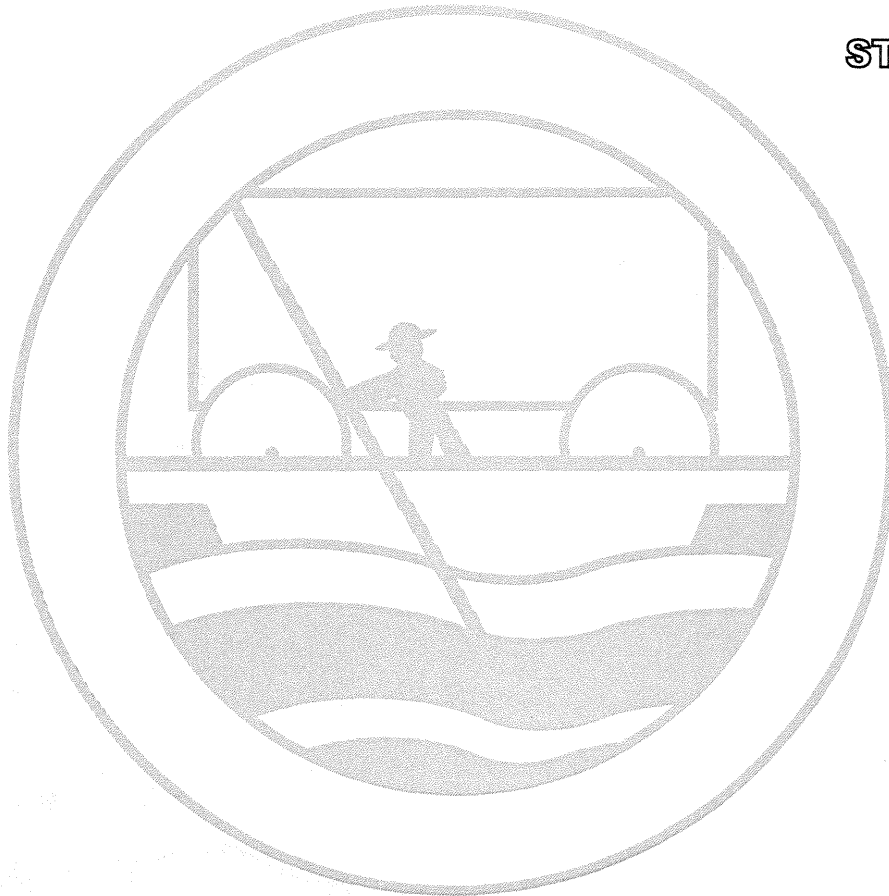
INTRODUCTION

FINANCIAL

**FINANCIAL
STATEMENTS**

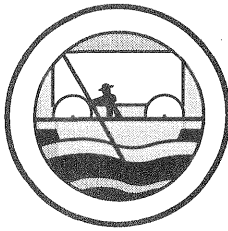
**SUPPLEMENTAL
INFORMATION**

STATISTICS



for the Fiscal Year ended

August 31, 2011



City of Arnold

Ron Counts, Mayor

February 9, 2012

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, 2011, 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.

Hochschild, Bloom & Company LLP audited the City's financial statements. 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, 2011, 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, 2011, are fairly presented in conformity with U.S. generally accepted accounting principles (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 Government

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

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

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 nonpartisan 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. With the assistance of the Budget Review Committee, the city administrator and finance director present the proposed budget to the mayor and city council for review in July prior to adoption. The city 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. Even with the sluggish residential and commercial markets, the current year real estate tax base showed growth of 1.198% 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 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 10.1% (2009). The Federal Reserve Bank of St Louis reports that as of August 2011, the unemployment rate has dropped to 8.7%. By comparison, as of August 2011, the unemployment rate for the State of Missouri was 9.0%. The adjacent counties of St. Louis, Franklin, and Washington were reported at 8.7%, 8.7%, and 11.3%, respectively. Economists are predicting unemployment will continue to recover slowly within the nation and region but vary widely on when or if it will level off at the pre-recession rate. The City continues to believe it is in a favorable situation for the coming year given the number of new retail sales and services establishments that have opened or will open for business within the next year bringing several hundred jobs to the City.

The City's tax structure relies primarily on sales taxes and gross receipts utility taxes. Utility tax receipts from the electric, gas, and telecommunications companies continue to increase at a modest rate. City sales tax receipts for fiscal year 2011 remained strong. After factoring in the EATS pass-through payments on the TIF projects, the City's general sales tax receipts were 5.4% over the prior fiscal year. We are projecting only a slight increase in 2012 sales tax as compared to 2011 despite receipts from new businesses within the TIF project areas. The City has and will continue to demonstrate its ability to compress government expenditures to accommodate this tighter economy and any temporary downturns in revenue.

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; the nearly completed "Arnold Commons" redevelopment project and the "Arnold Crossroads" redevelopment project currently under construction.

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 Dierbergs supermarket. In July 2009, the City sold \$28,485,000 in TIF bonds to refund the \$21,000,000 in TIF notes previously issued for this project. This property is over 95% built-out. Retailers and restaurants operating in this development include: Panera Bread, Chili's, Qdoba, 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 has completed improvements to all major adjacent roads. These improvements included the widening of Church Road; the addition of a slip ramp

from Highway 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 includes the revitalization and modification of an existing shopping center located in the heart of the City. This project, led by Jones Realty, includes the new Drury Suites & Inn Hotel with meeting and banquet facilities. Several stores have already opened, including Steak-n-Shake, Lombardo's Terrazzo Grill, Arby's, McDonalds and Wendy's restaurants, and a remodeled 24 Hour Fitness center. Just after the start of fiscal 2012, a new Panda Express restaurant and Starbucks opened. An anchor tenant is still being sought. Other outlots are currently being developed and future restaurants are planned for this area.

Other new retail developments outside the TIF areas include a stand-alone grocery and new retail strip (100% leased) within the Water Tower Development scheduled to open within the first quarter of fiscal 2012. Major tenants of the Water Tower Development include a Walmart Supercenter, 54th Street Bar & Grill, Aldi, Trek Bicycles, and Super China Buffet.

Major Initiatives

The City continues to receive collections from the City's first transportation development district (TDD) 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 generates revenue for several major road projects within or connected to the district. The ARC TDD issued bonds in February 2010 to fund some of its planned improvement projects. Design and engineering work was completed on a modern roundabout intersection improvement at the Astra Way and Missouri State Road intersection and improvements on Highway 141 and Astra Way. Construction is scheduled to begin in spring 2012 with funding from a combination of federal surface transportation program, TDD, and City funds.

The City assisted in funding the creation of a master plan for the revitalization of northern Jeffco Blvd. in 2008. This grassroots plan for the retail/commercial district dubbed 'Hometown' has been reviewed by the Planning Commission and accepted by the city council. The Hometown plan will serve as the jumping off point to revitalize the northern end of Jeffco Blvd. and the surrounding area.

After a year-long review and re-write, the City's new Comprehensive Plan was adopted by city council in January 2012. A comprehensive plan is a tool used by communities to strategize for the orderly development and redevelopment of a City. It provides the blueprint or guidelines for the community to follow. For the City, this plan will consider the vision developed by the Hometown Association and will replace the existing plan that is over 13 years old and outmoded.

The City's Economic Development Committee is responsible for motivating the retail, commercial, and industrial development of the City. New projects include the development of a Farmer's Market. The Farmer's Market will be in place and

We believe the updated Comprehensive Plan and Farmer's Market along with other economic development plans currently underway, will net economic benefits for the City through opportunities for development and provide for the improvement of city services.

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 for its comprehensive annual financial report for the fiscal year ended August 31, 2010. This is the 22st 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'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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

CITY OF ARNOLD, MISSOURI
PRINCIPAL OFFICIALS

Ron Counts

Mayor

Council

Doris Borgelt

Ward One

Christine Lang

Ward One

William Moritz

Ward Two

Jeff Fitter

Ward Two

Phil Amato

Ward Three

Paul Freese

Ward Three

Kenneth Moss

Ward Four

Sandra Kownacki

Ward Four

Diane Waller

City Clerk

Dan Kroupa

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

Bryson Baker

Public Works Director

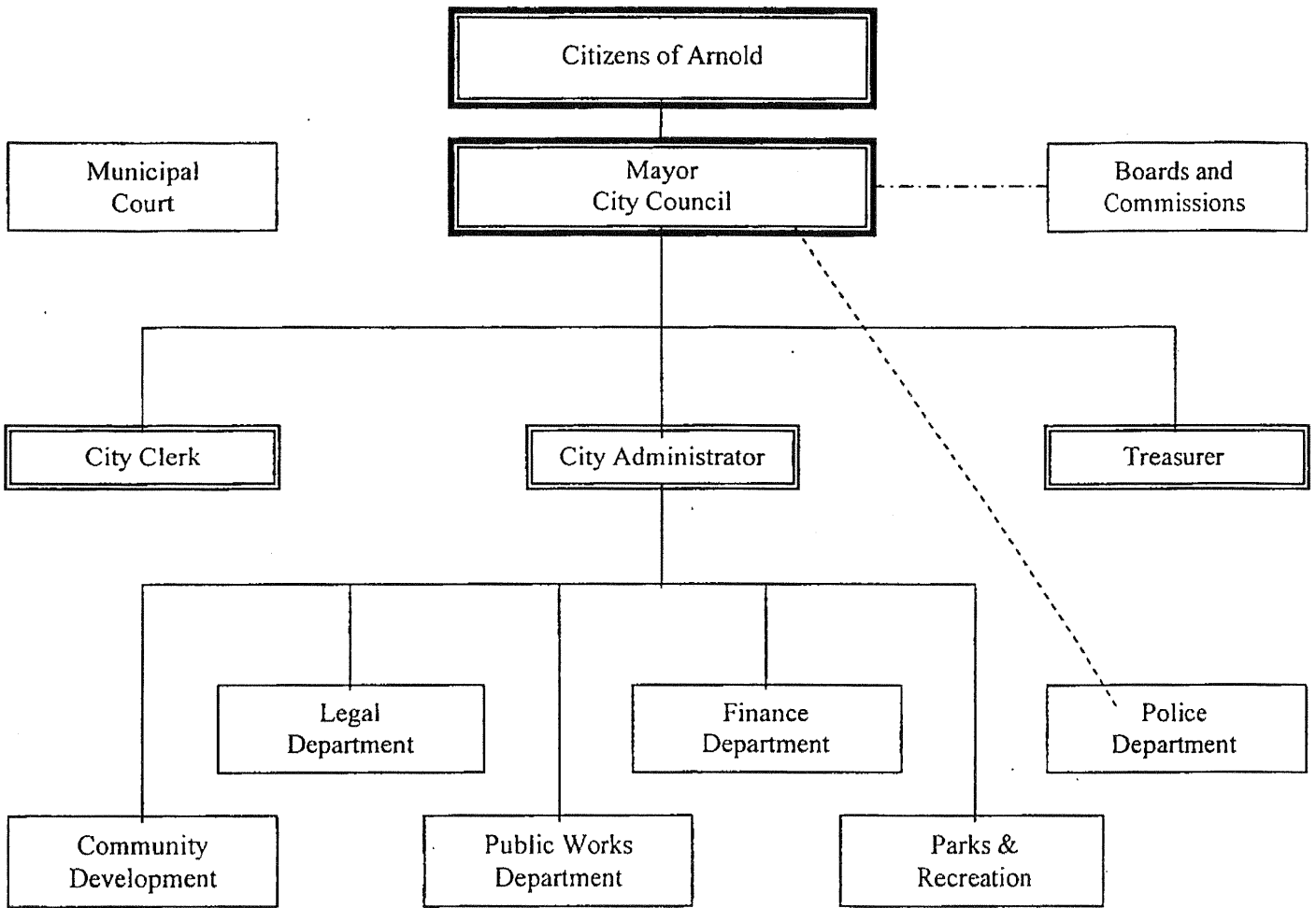
Greg Hall

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.