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Financial Report, 2006

Monarch-Chesterfield Levee District of St. Louis County

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07-096-0001

SUSAN MONTEE, CPA
Missouri State Auditor

June 15, 2007

David R. Human
Husch & Eppenberger, LLC
190 Carondelet Plaza, Suite 600
St. Louis, MO 63105-3441

RE: Monarch-Chesterfield Levee District of St. Louis County

Fiscal Period: One Year Ended June 30, 2006 ✓

Dear Mr. Human:

In accordance with Section 105.145, RSMo, we acknowledge receipt of the financial report of your political subdivision for the above-described fiscal period.

Thank you for your cooperation in sending this information.

Sincerely,

SUSAN MONTEE, CPA
STATE AUDITOR

A handwritten signature in cursive script that reads "Judy Buerky".

Judy Buerky
Local Government Analyst



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

**MONARCH-CHESTERFIELD
LEVEE DISTRICT**

FINANCIAL REPORT
(Audited)

Year Ended June 30, 2006

**MONARCH-CHESTERFIELD
LEVEE DISTRICT**

**FINANCIAL REPORT
(Audited)**

Year Ended June 30, 2006

MONARCH-CHESTERFIELD LEVEE DISTRICT
FINANCIAL REPORT

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

INDEPENDENT AUDITORS' REPORT

November 16, 2006

Board of Supervisors
MONARCH-CHESTERFIELD LEVEE DISTRICT

We have audited the accompanying financial statements of the governmental activities and each major fund of the **MONARCH-CHESTERFIELD LEVEE DISTRICT** (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 District'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 financial position of the governmental activities and each major fund of the District as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Hochschild, Bloom & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

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MONARCH-CHESTERFIELD LEVEE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

This section of the Monarch-Chesterfield Levee District's (the District) financial report for the year ended June 30, 2006 presents an easily readable analysis of the District's financial activities based on currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with the financial statements. For a comprehensive understanding of the financial statements, please review the District's financial statements, including the footnotes that follow the Management's Discussion and Analysis (MD&A).

FINANCIAL HIGHLIGHTS

On a government-wide basis, the District's total assets exceeded its liabilities by \$25,795,190 at June 30, 2006. The cost of the District's government activities was \$1,776,520 in fiscal year 2006.

As of June 30, 2006, the District's governmental funds reported combined ending fund balances of \$19,598,167. Of this amount, \$5,112,795 or 26% is unreserved funds, a significant portion of which is invested in long-term investments. Upon maturity, these funds are available for spending at the District's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The first set of financial statements are the government-wide statements which report information about the District as a whole using accounting methods similar to those used by private-sector businesses. The two government-wide statements, statement of net assets and statement of activities, report the District's net assets and how they have changed.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference 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 District 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 showing how the District'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 timing of related cash flows.

The statement of activities presents the various functions of the District and the degree by which they are supported by charges for services, grants and contributions, tax revenues, and investment income.

The government activities of the District include administrative levee projects and debt service.

MONARCH-CHESTERFIELD LEVEE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial Statements

The second set of statements are fund financial statements, which provide information about groupings of related accounts which are used to maintain control over resources for specific activities or objectives. The District uses fund accounting to demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the District's most significant funds -- not the District as a whole. The funds of the District are classified as governmental funds. It should be noted that the District does not have any proprietary funds.

Governmental Funds - Governmental funds tell how general governmental services were financed in the short-term as well as what financial resources remain available for future spending to finance District programs.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 government 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 District's near-term financial 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 the government-wide governmental activities.

The District maintains two individual governmental funds according to their type (General and Debt Service). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund which are considered to be major funds.

The governmental fund financial statements can be found on pages 9 through 12 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 13 through 21 of this report.

MONARCH-CHESTERFIELD LEVEE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

NET ASSETS

The condensed statement of net assets for governmental activities is as follows:

	June 30	
	2006	2005
ASSETS		
Current and other assets	\$20,752,309	21,663,291
Capital assets, net	<u>30,513,322</u>	<u>28,937,663</u>
Total Assets	<u>51,265,631</u>	<u>50,600,954</u>
LIABILITIES		
Long-term debt outstanding	24,385,000	25,935,000
Other liabilities	<u>1,085,441</u>	<u>478,071</u>
Total Liabilities	<u>25,470,441</u>	<u>26,413,071</u>
NET ASSETS		
Invested in capital assets, net of related debt	19,571,316	19,230,947
Restricted	8,588,873	9,217,558
Unrestricted (deficiency)	<u>(2,364,999)</u>	<u>(4,260,622)</u>
Total Net Assets	<u>\$25,795,190</u>	<u>24,187,883</u>

Changes in Net Assets

The District's total revenue on a government-wide basis was \$3,383,827. Levee assessments represent 48% and charges to the City of Chesterfield under the TIF note agreement represent 13% of the District's revenue. Investment income is 11% and the remainder is project reimbursements and miscellaneous revenues.

The total cost of all programs and services was \$1,776,520. The District's expenses cover construction and maintenance of the levee and debt service.

The condensed statement of activities for governmental activities is as follows:

**MONARCH-CHESTERFIELD LEVEE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

	For The Years Ended June 30	
	<u>2006</u>	<u>2005</u>
REVENUES		
Levee assessments	\$ 1,627,066	1,617,757
TIF note revenue	455,494	861,325
Project reimbursements	813,293	672,575
Investment income	378,519	1,377,755
Other income	<u>109,455</u>	<u>11,400</u>
Total Revenues	<u>3,383,827</u>	<u>4,540,812</u>
 EXPENSES		
General government	604,242	581,748
Interest on long-term debt	<u>1,172,278</u>	<u>1,196,803</u>
Total Expenses	<u>1,776,520</u>	<u>1,778,551</u>
 CHANGE IN NET ASSETS	1,607,307	2,762,261
 NET ASSETS, JULY 1	<u>24,187,883</u>	<u>21,425,622</u>
 NET ASSETS, JUNE 30	<u>\$25,795,190</u>	<u>24,187,883</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Governmental Funds

The focus on the District's governmental funds is to provide information and balances of available spendable resources. Such information is useful in assessing the District'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.

At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$5,112,795, while the total fund balance was \$16,871,937.

Governmental fund activities decreased the District's total fund balances by \$1,357,676. The District's capital outlays were down \$249,516 from the prior year, as TIF revenues decreased by \$1.2 million. Investment income decreased by \$1 million in the current year.

The fund balance in the District's General Fund decreased by \$1,603,834 from the prior year's fund balance. The change of the current fiscal year's fund balance is mainly due to debt service and bond re-funding as well as extensive levee construction.

**MONARCH-CHESTERFIELD LEVEE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District has invested \$31,376,752 in capital assets, including land and levee construction. This amount increased for the current fiscal year by \$1,690,783. The District has depreciated these capital assets in the amount of \$863,430 as of June 30, 2006. Depreciation expense for the current fiscal year ended June 30, 2006 amounted to \$115,124. Capital assets net of depreciation for governmental activities was as follows:

	June 30	
	2006	2005
Improvements	\$ 2,646,570	2,761,694
Land improvements	11,972,358	10,927,458
Land	11,538,191	10,892,308
Easements	<u>4,356,203</u>	<u>4,356,203</u>
Total Capital Assets, Net Of Depreciation	<u>\$30,513,322</u>	<u>28,937,663</u>

All depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Additional information on the District's capital assets can be found in Note C.

Long-term Debt

At the end of the fiscal year 2006, the District had outstanding revenue bond long-term debt obligations for governmental activities in the amount of \$24,385,000 compared to \$25,935,000 in fiscal year 2005. The 6% decrease reflects principal payments of \$1,550,000 made during the fiscal year ended 2006. Additional information on the District's long-term debt can be found in Note F.

ECONOMIC FACTORS AND NEXT YEAR'S EXPENDITURES

The District expects some revenue growth and increases in expenses in the fiscal year ending June 30, 2007. Installment tax assessed in 2006 increased by approximately \$75,548. Maintenance tax assessed in 2006 increased by approximately \$24,000.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District in care of David R. Human, Husch & Eppenberger, LLC at 190 Carondelet Plaza, #600, St. Louis, MO 63105-3441.

MONARCH-CHESTERFIELD LEVEE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 1,741,854
Investments	4,628,475
Receivables:	
Levee assessments	78,669
Project reimbursements	170,318
Interest	142,463
Tax increment financing:	
Note receivable - current	557,419
Note receivable - noncurrent	5,852,901
Restricted assets:	
Investments	7,177,191
Prepaid expenses	54,703
Bond issue costs, net of amortization	348,316
Capital assets not being depreciated:	
Land improvements	11,972,358
Land	11,538,191
Easements	4,356,203
Capital assets net of accumulated depreciation:	
Improvements	2,646,570
Total Assets	<u>51,265,631</u>
LIABILITIES	
Accounts payable	653,110
Accrued interest payable	369,389
Unearned revenue	62,942
Long-term liabilities:	
Due within one year	1,600,000
Due in more than one year	22,785,000
Total Liabilities	<u>25,470,441</u>
NET ASSETS	
Invested in capital assets, net of related debt	19,571,316
Restricted:	
Construction	1,194
Debt service	8,587,679
Unrestricted (deficiency)	<u>(2,364,999)</u>
Total Net Assets	<u>\$ 25,795,190</u>

See notes to financial statements

MONARCH-CHESTERFIELD LEVEE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues		Net Revenues (Expenses) And Changes In Net Assets
	Expenses	Charges For Services	Operating Grants And Contributions	Governmental Activities
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities:				
General government	\$ 604,242	-	-	(604,242)
Interest on long-term debt	1,172,278	-	-	(1,172,278)
Total Governmental Activities	\$ 1,776,520	-	-	(1,776,520)
 General Revenues				
Levee assessments				1,627,066
TIF note revenue				455,494
Project reimbursements				813,293
Investment income				378,519
Other income				109,455
Total General Revenues				3,383,827
CHANGE IN NET ASSETS				1,607,307
NET ASSETS, JULY 1				24,187,883
NET ASSETS, JUNE 30				\$ 25,795,190

See notes to financial statements

MONARCH-CHESTERFIELD LEVEE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 330,172	1,411,682	1,741,854
Investments	4,628,475	-	4,628,475
Prepaid items	-	43,598	43,598
Receivables:			
Levee assessments	78,669	-	78,669
Project reimbursements	170,318	-	170,318
Interest	142,463	-	142,463
Tax increment financing:			
Note receivable - current	557,419	-	557,419
Note receivable - noncurrent	5,852,901	-	5,852,901
Restricted assets:			
Investments	5,906,241	1,270,950	7,177,191
Total Assets	<u>\$ 17,666,658</u>	<u>2,726,230</u>	<u>20,392,888</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 653,110	-	653,110
Deferred revenue	78,669	-	78,669
Unearned revenue	62,942	-	62,942
Total Liabilities	<u>794,721</u>	<u>-</u>	<u>794,721</u>
 Fund Balances			
Reserved:			
Construction	1,194	-	1,194
TIF note receivable - noncurrent	5,852,901	-	5,852,901
Debt service	5,905,047	2,682,632	8,587,679
Prepaid items	-	43,598	43,598
Unreserved	5,112,795	-	5,112,795
Total Fund Balances	<u>16,871,937</u>	<u>2,726,230</u>	<u>19,598,167</u>
Total Liabilities And Fund Balances	<u>\$ 17,666,658</u>	<u>2,726,230</u>	<u>20,392,888</u>

See notes to financial statements

MONARCH-CHESTERFIELD LEVEE DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total Fund Balances - Governmental Funds	\$ 19,598,167
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 fund financial statements. The cost of the assets is \$31,376,752 and the accumulated depreciation is \$863,430.	30,513,322
Prepaid items not required to be recorded in the fund statements.	11,105
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. Long-term assets at year-end consists of levee assessments receivable.	78,669
Bond issuance costs are not financial resources and, therefore, not reported in the fund financial statements. The issuance costs were \$435,939 and the accumulated amortization is \$87,623.	348,316
Interest on long-term debt is recognized as an expenditure when due in the funds.	(369,389)
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 bonds payable.	<u>(24,385,000)</u>
Total Net Assets Of Governmental Activities	<u><u>\$ 25,795,190</u></u>

See notes to financial statements

MONARCH-CHESTERFIELD LEVEE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Levee assessments	\$ 787,629	853,265	1,640,894
TIF revenue	573,304	-	573,304
Project reimbursements	827,541	-	827,541
Investment income	288,849	89,670	378,519
Other income	109,455	-	109,455
Total Revenues	<u>2,586,778</u>	<u>942,935</u>	<u>3,529,713</u>
EXPENDITURES			
Current:			
Accounting and audit	22,410	-	22,410
Bank charges	3,571	-	3,571
Insurance	18,623	-	18,623
Board fees	19,700	-	19,700
Salaries	25,542	-	25,542
Levee operations and maintenance	149,182	-	149,182
Miscellaneous	6,880	-	6,880
Professional fees	238,210	-	238,210
Engineering and design fees	7,197	-	7,197
Debt service:			
Principal	-	1,550,000	1,550,000
Interest	-	1,155,292	1,155,292
Capital outlay:			
Land improvement - levee construction	1,044,899	-	1,044,899
Land purchase	645,883	-	645,883
Total Expenditures	<u>2,182,097</u>	<u>2,705,292</u>	<u>4,887,389</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>404,681</u>	<u>(1,762,357)</u>	<u>(1,357,676)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	2,008,515	2,008,515
Transfers out	(2,008,515)	-	(2,008,515)
Total Other Financing Sources (Uses)	<u>(2,008,515)</u>	<u>2,008,515</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(1,603,834)	246,158	(1,357,676)
FUND BALANCES, JULY 1	<u>18,475,771</u>	<u>2,480,072</u>	<u>20,955,843</u>
FUND BALANCES, JUNE 30	<u>\$ 16,871,937</u>	<u>2,726,230</u>	<u>19,598,167</u>

See notes to financial statements

**MONARCH-CHESTERFIELD LEVEE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Net Change In Fund Balances - Governmental Funds \$ (1,357,676)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$1,690,783 exceed depreciation of \$115,124 in the current year. 1,575,659

Bond issue costs are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the life of the bonds as amortization expense. This amount represents current year bond issuance costs amortized in the current year. (32,695)

Revenue in the statement of activities that do not provide current financial resources are not reported in the fund financial statements. This amount represents the decrease in deferred revenue. (145,886)

Repayment of debt principal is recorded as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The following adjustments have been made for debt service:
Principal payments 1,550,000

Prepaid items not required to be recorded in the fund statements increased in the current year. 2,196

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount represents the decrease in accrued interest. 15,709

Change In Net Assets Of Governmental Activities \$ 1,607,307

See notes to financial statements

MONARCH-CHESTERFIELD LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **MONARCH-CHESTERFIELD LEVEE DISTRICT** (the District) was established on July 25, 1947. The District operates under a Circuit Court Levee District form of government and provides improvements and maintenance to the levee known as the Monarch-Chesterfield Levee. The Monarch-Chesterfield Levee is located along the right bank of the Missouri River between river miles 46 and 38.5 in the City of Chesterfield. The levee lies about 14 miles west of the City of St. Louis, Missouri. The length of the existing 100-year levee system is 11.5 miles and protects approximately 4,240 acres.

The significant accounting policies applied by the District in the preparation of the accompanying combined financial statements are summarized below:

1. Reporting Entity

The financial statements of the District include the financial activities of the District and its component units. The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District 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 District. The District does not have any component units or fiduciary funds.

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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

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. Assessments and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements of the District are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Governmental re-

MONARCH-CHESTERFIELD LEVEE DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Government-wide and Fund Financial Statements (Continued)

sources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are summarized by type in the basic financial statements. The District uses only governmental fund types.

Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The acquisition uses and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of and changes in financial position rather than upon net income.

The following are the District's governmental major funds:

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

Debt Service Fund -- The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

3. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. The term "available" is defined as collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. For the District, available is defined as expected to be received within sixty days of fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due (i.e., matured).

MONARCH-CHESTERFIELD LEVEE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus and Basis of Accounting (Continued)

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

4. Budgets and Budgetary Accounting

The District has no statutory requirement to adopt an annual budget and thus has not adopted a budget.

5. Investments

State statutes and District policy authorize the District to invest in U.S. Treasury, agencies and instrumentalities, time deposit certificates, repurchase agreements, and certain guaranteed investment contracts. Investments are stated at fair value except for the guaranteed investment contract that is recorded at the contract amount.

6. Allowance for Doubtful Accounts

Management believes amounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is needed.

7. Restricted Assets

Certain resources set aside for the repayment of bonds are classified as restricted assets on the statement of net assets and balance sheet because their use is limited by applicable bond covenants.

8. Capital Assets

Capital assets, which include improvements, land improvements, land, and easements, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life is not capitalized.

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

MONARCH-CHESTERFIELD LEVEE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Capital Assets (Continued)

Asset	Years
Improvements	15 - 50
Land improvements	Nondepreciable
Land	Nondepreciable
Easements	Nondepreciable

9. Long-Term Obligations

In the government-wide financial statements and in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities of net assets. Bond premiums and discount, 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, if any. 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 cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

11. Interfund Transactions

Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as transfers. Such transfers are reported as other financing sources (uses) in the governmental fund types.

12. Levee Assessments

Levee assessments attach as an enforceable lien on property as of January 1. Assessments are levied on October 1 and are due and payable on or before December 31. All unpaid assessments become delinquent January 1 of the following year. The District contracts with St. Louis County to bill and collect their levee assessments. St. Louis County charges a collection fee for these services.

MONARCH-CHESTERFIELD LEVEE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Levee Assessments (Continued)

Levee assessment revenue is recognized to the extent it is collected within 60 days after year-end in the fund financial statements. Assessments not collected within 60 days of year-end are deferred for fund financial statements but are recognized as revenue in the government-wide financial statements.

In accordance with Sections 245.195 and 246.305, RSMo, the District levied a maintenance assessment of .7% and an installment assessment of .75%, respectively, per assessed \$100 benefit for the year ended December 31, 2005.

13. 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 the accompanying notes. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

1. Deposits

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

As of June 30, 2006, the District's bank balances were entirely secured or collateralized with securities held by the District or by its agent in the District's name.

MONARCH-CHESTERFIELD LEVEE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE B - CASH AND INVESTMENTS (Continued)

2. Investments

As of June 30, 2006, the District had the following investments:

<u>Investments</u>	<u>Fair Market Value</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>
U.S. Treasury Security Stripped	\$ 9,093,272	1,023,581	4,412,285	3,236,350	421,056	N/A
Guaranteed investment contracts	2,710,826	-	-	-	2,710,826	Not Rated
Fidelity Treasury Fund	<u>1,568</u>	<u>1,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	Not Rated
Total Investments	<u>\$11,805,666</u>	<u>1,025,149</u>	<u>4,412,285</u>	<u>3,236,350</u>	<u>3,131,882</u>	

Investments Policies

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

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

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

NOTE C - CAPITAL ASSETS

Capital asset activity was as follows:

MONARCH-CHESTERFIELD LEVEE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE C - CAPITAL ASSETS (Continued)

	<u>For The Year Ended June 30, 2006</u>			
	<u>June 30</u>			<u>June 30</u>
	<u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>2006</u>
Governmental Activities				
Capital assets not being depreciated:				
Land improvements	\$10,927,458	1,044,900	-	11,972,358
Land	10,892,308	645,883	-	11,538,191
Easements	<u>4,356,203</u>	-	-	<u>4,356,203</u>
Total Capital Assets Not Being Depreciated	<u>26,175,969</u>	<u>1,690,783</u>	-	<u>27,866,752</u>
Capital assets being depreciated:				
Improvements	3,510,000	-	-	3,510,000
Less - Accumulated depreciation for improvements	<u>748,306</u>	<u>115,124</u>	-	<u>863,430</u>
Total Capital Assets Being Depreciated, Net	<u>2,761,694</u>	<u>(115,124)</u>	-	<u>2,646,570</u>
Governmental Activities Capital Assets, Net	<u>\$28,937,663</u>	<u>1,575,659</u>	-	<u>30,513,322</u>

NOTE D - RESTRICTED ASSETS

The various restricted account balances are shown below:

	<u>June 30</u>
	<u>2006</u>
Series 1999 Revenue Bond Reserve and Debt Service Accounts	\$5,906,241
Series 2003 Revenue and Refunding Bond Reserve Account	<u>1,270,950</u>
	<u>\$7,177,191</u>

NOTE E - TAX INCREMENT FINANCING NOTE RECEIVABLE

On March 15, 2002, the City of Chesterfield, Missouri (the City) issued a Tax Increment Financing (TIF) note to the District for an amount up to \$13,464,651 to evidence the amount advanced by the District on behalf of the City pursuant to the Amended and Restated Intergovernmental Cooperation Agreement dated August 21, 2001. The balance on this note receivable as of June 30, 2006 was \$6,410,320. This note was issued in connection with a certain redevelopment plan entitled "Chesterfield Valley Tax Increment Financing Redevelopment Plan," dated June 28, 1994, and as from time to time further amended. This instrument is a special limited obligation of the City and is payable solely from

MONARCH-CHESTERFIELD LEVEE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE E - TAX INCREMENT FINANCING NOTE RECEIVABLE (Continued)

incremental tax revenues that the City is entitled to receive under Sections 99.800 through 99.865 of Missouri Revised Statutes deposited from time to time in the Special Allocation Fund of the City and is not a general obligation of the City, St. Louis County, the State of Missouri, or any political subdivision thereof, nor of any office or employee thereof.

The principal and interest (at 6.041% per annum) shall be payable in semi-annual installments to the extent there are funds available in the Special Allocation Fund of the City.

Maturities in future years are as follows:

For The Years Ended June 30	<u>Principal</u>
2007	\$ 557,419
2008	557,419
2009	557,419
2010	557,419
2011	557,419
2012 - 2016	2,787,096
2017 - 2018	<u>836,129</u>
	<u>\$6,410,320</u>

NOTE F - LONG-TERM DEBT

A summary of changes in long-term liabilities was as follows:

	<u>For The Year Ended June 30, 2006</u>			Amounts Due Within One Year	
	<u>Balance June 30 2005</u>	<u>Additions</u>	<u>Reductions</u>		<u>Balance June 30 2006</u>
	1999 improvement revenue bonds	\$13,965,000	-		695,000
2003 improvement and refunding revenue bonds	<u>11,970,000</u>	<u>-</u>	<u>855,000</u>	<u>11,115,000</u>	
	<u>\$25,935,000</u>	<u>-</u>	<u>1,550,000</u>	<u>24,385,000</u>	
				<u>1,600,000</u>	

1999 improvement revenue bonds were originally issued in the amount of \$17,000,000, due in varying annual installments through March 1, 2019 with interest at 4.1% to 5.75%.

MONARCH-CHESTERFIELD LEVEE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE F - LONG-TERM DEBT (Continued)

2003 improvement and refunding revenue bonds were issued in October 2003 in the amount of \$12,855,000, due in varying annual installments through March 1, 2017 with interest at 1% to 4.125%.

Aggregate maturities required on long-term debt for governmental activities are as follows:

For The Years Ended June 30	Revenue Bonds		
	Principal	Interest	Total
2007	\$ 1,600,000	1,108,173	2,708,173
2008	1,650,000	1,055,367	2,705,367
2009	1,715,000	996,200	2,711,200
2010	1,775,000	930,925	2,705,925
2011	1,850,000	858,535	2,708,535
2012 - 2016	10,630,000	2,959,268	13,589,268
2017 - 2021	<u>5,165,000</u>	<u>514,387</u>	<u>5,679,387</u>
	<u>\$24,385,000</u>	<u>8,422,855</u>	<u>32,807,855</u>

NOTE G - SUBSEQUENT EVENT

The District issued \$2,675,000 of bonds for an improvement project in the west end of Chesterfield Valley and \$7,880,000 of bonds for a seepage berm on August 2, 2006.

NOTE H - COMMITMENTS AND CONTINGENCIES

The District's construction contract commitments for various construction projects at June 30, 2006 amounted to \$869,555.

NOTE I - PRIOR PERIOD ADJUSTMENT

The previously stated net assets have been adjusted as follows:

	<u>Governmental Activities</u>
Net assets, June 30, 2005 as previously reported	\$24,572,981
Restatement for accrued interest payable	<u>(385,098)</u>
Net Assets, June 30, 2005, As Restated	<u>\$24,187,883</u>