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1-1-2008

## Financial Statements, 2007

Mountain Farm Community Improvement District

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### Recommended Citation

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**MOUNTAIN FARM  
COMMUNITY IMPROVEMENT DISTRICT**

**FINANCIAL STATEMENTS**  
*September 30, 2007*



**HUMES & BARRINGTON, LLP**  
*Certified Public Accountants*

**MOUNTAIN FARM  
COMMUNITY IMPROVEMENT DISTRICT  
FINANCIAL STATEMENTS**  
*September 30, 2007*

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## HUMES & BARRINGTON, LLP

*Certified Public Accountants*

*I d e a s   T h a t   M a k e   A   D i f f e r e n c e*

### *Independent Auditor's Report*

**To the Board of Directors  
Mountain Farm Community  
Improvement District  
St. Louis, Missouri**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mountain Farm Community Improvement District (the District) as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

As described in Note 1, the District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities and each major fund as of September 30, 2007 and the respective changes in financial position - modified cash basis there of for the period then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008, on our consideration of Mountain Farm Community Improvement District's internal control over financial reporting and on 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 reporting 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 budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly presented in all material respects, on the basis of accounting described in Note 1, in relation to the financial statements taken as a whole.

*Humes & Barrington, LLP*

**Humes & Barrington, LLP**

June 4, 2008

**MOUNTAIN FARM  
COMMUNITY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*For the Year Ended September 30, 2007*

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As management of the **MOUNTAIN FARM COMMUNITY IMPROVEMENT DISTRICT** (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with the District's financial statements (attached).

**Financial Highlights**

- \* The liabilities of the District exceeded its assets at the close of the most recent fiscal period by \$696,502 (net deficiency).
- \* The District's total net deficiency increased by \$106,383. This increase is due to capital outlays which have been funded by further issuance of Series 2006A revenue notes and accrual of debt service.
- \* As of the close of the current fiscal period, the District's governmental funds reported ending fund balance of \$12,351. Approximately 12% of this amount, \$1,472, is available for spending at the District's discretion (unreserved fund balance).
- \* At the end of the current fiscal period, the unreserved balance for the Project Fund was \$1,472, or 1%, of total Project Fund expenditures in the current fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net deficiency presents information on all of the District's assets and liabilities, with the difference between the two reported as net deficiency. Over time, increases or decreases in net assets (deficiency) may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net deficiency changed during the most recent fiscal period.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by sales tax and intergovernmental revenues (governmental activities). The governmental activities of the District include collection of sales and special assessments tax, payment of capital outlays and general administrative expenses, and accrual of debt service interest.

The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*For the Year Ended September 30, 2007*

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governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District only maintains governmental 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 statement 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 period. 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 District'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 District presently maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances using the modified cash basis of accounting for the Debt Service Fund, Debt Service Reserve Fund, and Project Fund, which are considered to be major funds.

The District adopts an annual appropriated budget for its Project Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 10 and 12 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements. The notes to financial statements can be found on pages 14 through 17 of this report.

**Required supplemental information.** This management's discussion and analysis represents financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**Other supplemental information.** The budgetary comparison schedule provides budget to actual information.

#### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In this case of the District, liabilities exceed assets by \$696,502 at the close of the most recent fiscal period.

By far the largest portion of the District's net assets reflects its debt. The District does not record capital assets because they do not own the assets the debt was issued to build.

**MOUNTAIN FARM  
COMMUNITY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*For the Year Ended September 30, 2007*

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A condensed version of the statement of net deficiency – modified cash basis is as follows:

	<b>September 30, 2007</b>
<b>ASSETS</b>	
Cash equivalents	\$ 1,472
Cash equivalents – restricted for debt service	<u>10,879</u>
Total Assets	<u>12,351</u>
 <b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accrued expenses – interest	45,268
Due to affiliate	1,472
Total current liabilities	
 <b>Long-term liabilities:</b>	
Due within one year	-
Due in more than one year	<u>662,113</u>
Total long-term liabilities	
Total Liabilities	<u>708,853</u>
 <b>NET DEFICIENCY</b>	
Unrestricted	(685,623)
Restricted – debt service	<u>(10,879)</u>
Total Net Deficiency	<u>\$ (696,502)</u>

The District's net deficiency increased by \$106,383 during the current fiscal period. The majority of this increase is due to the additions to capital outlays.

**Governmental activities.** Governmental activities increased the District's net assets (deficiency) by \$106,383.

**MOUNTAIN FARM  
COMMUNITY IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*For the Year Ended September 30, 2007*

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A condensed version of the statement of activities – modified cash basis is as follows:

	<b>For the Year Ended September 30, 2007</b>
<b>REVENUES</b>	
Sales tax and special assessment	\$ 10,871
Investment income	<u>8</u>
Total revenues	10,879
 <b>EXPENSES</b>	
Administrative	46,994
Capital outlay	25,000
Interest on long-term debt	<u>45,268</u>
Total expenses	<u>117,262</u>
 <b>CHANGE IN NET ASSETS</b>	 (106,383)
 <b>NET ASSETS (DEFICIENCY), <i>beginning of year</i></b>	 <u>(590,119)</u>
 <b>NET DEFICIENCY, <i>ending of year</i></b>	 \$ <u>(696,502)</u>

Comparative analysis will be provided in future years when prior period information is available.

**Financial Analysis of the District's Fund**

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

**Governmental funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of 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.

As of the end of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$12,351.

**Project Fund Budgetary Highlights**

The District did revise its original budget for the current fiscal year. Revenues were initially budgeted at \$103,320 and expenses were also initially budgeted at \$103,320. The budget was revised in August 2007 to reflect revenues of \$17,368 and expenses of \$146,379. The original budget estimated revenues and expenses based on the community improvement project having been finished in the prior year so that the special assessment revenue could be collected in the current year. However, the project was still being finalized in the current year and special assessment revenue did not begin to be collected until the end of the current fiscal year.

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*For the Year Ended September 30, 2007*

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**Long-term debt.** At the end of the current fiscal period, the District had debt outstanding of \$662,113. This amount is community improvement revenue notes. The debt increased by \$159,253 during the current fiscal period.

**Economic Factors and Next Year's Budget**

Sales tax and special assessment income was the main source of revenue for the District at 99.9% of total revenues. Administrative, capital outlay and interest on long-term debt make up the usage of resources in the current year. Administrative expenses amount to 40% of the total expenditures. Capital outlay expenses amount to 21% and interest on long-term debt amounts to 39%. These factors were considered in preparing the District's 2008 budget.

**Requests for Information**

This financial report is designed to provide our residents and taxpayers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the District's Office at (314) 429-5100.

**MOUNTAIN FARM  
COMMUNITY IMPROVEMENT DISTRICT  
STATEMENT OF NET DEFICIENCY - MODIFIED CASH BASIS**

*September 30, 2007*

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*Governmental Activities*

<b>Assets:</b>	
Cash	\$ 1,472
Cash - restricted for debt service	<u>10,879</u>
<b>Total assets</b>	12,351
<b>Liabilities:</b>	
Current liabilities:	
Accrued interest	45,268
Due to affiliate	1,472
Noncurrent liabilities:	
Due within one year	-
Due in more than one year	<u>662,113</u>
<b>Total liabilities</b>	708,853
<b>Net deficiency:</b>	
Unrestricted	(685,623)
Restricted - debt service	<u>(10,879)</u>
<b>Total net deficiency</b>	\$ <u>(696,502)</u>

*See accompanying notes to the financial statements.*

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

*For the Year Ended September 30, 2007*

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**Functions/programs:**

**Governmental activities:**

Administrative	\$ (46,994)
Capital outlay	(25,000)
Interest on long-term debt	<u>(45,268)</u>

**Total governmental activities** (117,262)

**General revenues:**

Sales tax and special assessment	10,871
Investment income	<u>8</u>

**Total general revenues** 10,879

**Change in net assets** (106,383)

**Net deficiency, beginning of period** (590,119)

**Net deficiency, end of year** \$ (696,502)

*See accompanying notes to the financial statements.*

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**

*September 30, 2007*

	Debt Service Fund	Revenue Fund	Project Fund	Total Governmental Funds
<b>Assets:</b>				
Cash	\$ -	\$ -	\$ 1,472	\$ 1,472
Cash - restricted for debt service	<u>1</u>	<u>10,878</u>	<u>-</u>	<u>10,879</u>
<b>Total assets</b>	<u>\$ 1</u>	<u>\$ 10,878</u>	<u>\$ 1,472</u>	<u>\$ 12,351</u>
<b>Fund balances:</b>				
Unreserved, reported in:				
Project Fund	\$ -	\$ -	\$ 1,472	\$ 1,472
Reserved, reported in:				
Debt Service Fund	1	-	-	1
Revenue Fund	<u>-</u>	<u>10,878</u>	<u>-</u>	<u>10,878</u>
<b>Total fund balances</b>	<u>1</u>	<u>10,878</u>	<u>1,472</u>	<u>12,351</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1</u>	<u>\$ 10,878</u>	<u>\$ 1,472</u>	<u>\$ 12,351</u>

*See accompanying notes to the financial statements.*

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET - MODIFIED CASH BASIS -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF**  
**NET DEFICIENCY - MODIFIED CASH BASIS**  
*September 30, 2007*

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<b>Total fund balances - governmental funds</b>	\$ 12,351
Amounts reported for governmental activities in the statement of net deficiency are different because:	
Accrued interest used in governmental activities are not financial resources, and, therefore, are not reported in the funds.	(45,268)
Certain other liabilities from an affiliate that is not due and payable in the current period, and, therefore, are not reported as liabilities in the governmental funds.	(1,472)
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:	
Community improvement revenue note proceeds	<u>(662,113)</u>
<b>Net deficiency of governmental activities</b>	\$ <u>(696,502)</u>

*See accompanying notes to the financial statements.*

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**  
*For the Year Ended September 30, 2007*

	<u>Debt Service Fund</u>	<u>Revenue Fund</u>	<u>Project Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Sales tax and special assessment	\$ -	\$ 10,871	\$ -	\$ 10,871
Investment income	-	8	-	8
<b>Total revenues</b>	-	10,879	-	10,879
<b>Expenditures:</b>				
Administrative fees	-	-	10,057	10,057
Legal fees	-	-	36,937	36,937
Capital outlay	-	-	25,000	25,000
Debt service - interest	45,268	-	-	45,268
<b>Total expenditures</b>	45,268	-	71,994	117,262
<b>Revenues over (under) expenditures</b>	(45,268)	10,879	(71,994)	(106,383)
<b>Other financing sources (uses):</b>				
Proceeds from notes issuance	-	-	159,253	159,253
Proceeds from affiliate	-	-	1,472	1,472
Repayments to affiliates	-	-	(127,999)	(127,999)
Interest on long-term notes payable	-	-	45,268	45,268
Transfers in	45,269	-	-	45,269
Transfers out	-	(1)	(45,268)	(45,269)
<b>Total other financing sources (uses)</b>	45,269	(1)	32,726	77,994
<b>Net changes in fund balances</b>	1	10,878	(39,268)	(28,389)
<b>Fund balances, beginning of year</b>	-	-	40,740	40,740
<b>Fund balances, end of year</b>	\$ 1	\$ 10,878	\$ 1,472	\$ 12,351

*See accompanying notes to the financial statements.*

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL**  
**FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
*For the Year Ended September 30, 2007*

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<b>Net changes in fund balances - governmental funds</b>	\$ 12,351
Amounts reported for governmental activities in the statement of activities are different because:	
Accrued interest used in governmental activities are not financial resources, and, therefore, are not reported in the funds.	(45,268)
Certain other liabilities from an affiliate that provides current financial resources to government funds, while the repayment of the liability increases the community improvement revenue note; however, it has no effect on net assets.	(1,472)
The issuance of long-term debt (e.g. community improvement revenue notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds; however, it has no effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt:	
Community improvement revenue note proceeds	<u>(662,113)</u>
<b>Change in net assets of governmental activities</b>	<b>\$ <u>(696,502)</u></b>

*See accompanying notes to the financial statements.*

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*September 30, 2007*

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The Mountain Farm Community Improvement District (the District), incorporated in 2005, is a political subdivision duly organized under the laws of the State of Missouri. The District operates under the direction of a Board of Directors. The District was formed for the purpose of redevelopment of certain blighted land to serve a new commercial development project in the City of Weldon Spring, Missouri (the City). Generally, the District is authorized to impose a sales tax of 1% within its boundaries and a special assessment tax on real property located within the District effective April 1, 2007 through March 31, 2027.

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

**Reporting entity**

In evaluating the District as a reporting entity under GASB Statement 34, management has addressed all component units for which the District may or may not be financially accountable and, as such, be includable within the District's financial statements. In accordance with GASB Statement No. 34, the District (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefit to or impose specific burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units to be included in the District's reporting entity.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets (deficiency) - modified cash basis and the statement of activities - modified cash basis) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund 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 has no business-type activities.

The statement of activities - modified cash basis 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. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*September 30, 2007*

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**NOTE 1**      **SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES** *(continued)*

**Measurement focus, basis of accounting and financial statement presentation**

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

*Measurement focus*

In the government-wide statement of net assets (deficiency) - modified cash basis and the statement of activities - modified cash basis, governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

In the fund financial statements, all governmental funds utilize a "current financial resources" measurement focus as applied to the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

*Basis of accounting*

In the government-wide statement of net assets (deficiency) - modified cash basis and statement of activities and the fund financial statements, governmental activities are presented using a cash basis of accounting. This basis recognizes assets, liabilities, net assets (deficiency)/fund equity, revenues and expenditures/expenses when they result from cash transactions. Only accrued interest related to the District's revenue note Series 2006A debt is accrued and reported herein. This basis is a comprehensive basis of accounting other than U.S. generally accepted government accounting principles.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as U.S. generally accepted government accounting principles, the fund financial statements for governmental funds would use the accrual basis of accounting. All government-wide statements would be presented on the accrual basis of accounting.

The District reports the following major governmental funds:

**Project Fund** - This fund is to be used for the acquisition, construction or maintenance of major capital facilities, public improvements and operating equipment. Any moneys remaining when the Transportation Project is completed shall be transferred to the Debt Service Fund to redeem outstanding bonds.

**Debt Service Fund** - This fund is used for the payment of debt principal, interest and related costs.

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*September 30, 2007*

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**Revenue Fund** - This fund is used to deposit moneys received from the sales tax and special assessment revenues received. The moneys deposited into the Revenue Fund shall be allocated in the following order: to fund the Annual Operating Fund deposit in to the Project Fund, to pay the interest on the Notes as it comes due, for payment to the Trustee or Paying Agent an amount sufficient for payment of any fees, charges, costs and expenses which are due and owing to the Trustee or Paying Agent, and to fund the Debt Service Fund for the redemption of the Notes in authorized denominations.

**Use of estimates**

The preparation of basic financial statements 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.

**Budgetary data**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The proposed budget is submitted to the Board of Directors for the fiscal year in August. The operating budget includes proposed expenditures and means of financing them, not to exceed the total revenue of the preceding year plus any unreserved balance at the end of such year. The budget was prepared timely and submitted to the Board of Directors for approval.
- b. Budget revisions must be approved by the Board of Directors. The budget was revised in August 2007 to the current year budget.
- c. All annual appropriations lapse at fiscal year-end.

**NOTE 2      CASH AND CASH EQUIVALENTS**

State statutes and debt covenants authorize the District to invest in government securities, bonds, notes or other obligations of the State or any political subdivision of the State, repurchase agreements with any financial institution, obligations of various government home loan associations, certificates of deposits, or money market funds invested in government securities. Amounts are stated at fair value.

The District's cash equivalents at September 30, 2007 are invested in money market mutual funds amounting to \$12,351.

**NOTE 3      NOTES PAYABLE**

The District financed the community improvement project through the issuance of community improvement revenue notes beginning on June 14, 2006. Technology Drive, LLC agreed to purchase up to \$1,250,000 Series 2006 Special Assessment and Sales Tax Revenue Notes ("Notes") from the District.

**MOUNTAIN FARM  
COMMUNITY IMPROVEMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2007**

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**NOTE 3**     **NOTES PAYABLE** *(continued)*

The Notes were issued pursuant to a Trust Indenture (“Indenture”) between the District (dated as of June 1, 2006) and UMB Bank (“Trustee”). Under the terms of the Indenture, the District assigned and pledged to the Trustee all revenues and all moneys held by the Trustee derived by the District from the CID sales taxes and CID special assessments.

The Notes and the interest do not constitute a debt of the District, the City of Weldon Springs, Missouri, the State of Missouri or any political subdivision and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. The Notes are payable solely from the pledged sales tax and special assessment revenues as provided in the Indenture.

At September 30, 2007, all of the notes principal balance of \$662,113 is long-term. The Notes shall mature on June 1, 2026 and bear interest at 8% per annum. Interest on the Notes are payable semi-annually on June 1 and December 1 in each year, beginning on the first interest payment date following the initial transfer of moneys to the Revenue Fund. Interest that is accrued but unpaid shall be compounded.

The notes are subject to optional and mandatory redemption by the District in whole in the event monies in the CID Special Trust Fund, the Revenue Fund and the Debt Service Fund are sufficient to redeem 100% of the notes.

The following is a summary of the changes in the District’s notes payable:

	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2007</u>	Amount Due Within <u>One Year</u>
Series 2006A Community Improvement Revenue Note	\$ 502,860	\$ 159,253	\$ -	\$ 662,113	\$ -

**NOTE 4**     **RELATED PARTY TRANSACTION**

The District has entered into a notes payable agreement with Technology Drive, LLC. Technology Drive, LLC is co-owned and operated by members of the District's Board of Directors. For the period ended September 30, 2007, the District has received proceeds from notes issued of \$159,253. Total Series 2006A revenue notes issued to Technology Drive, LLC is \$662,113 at September 30, 2007.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MOUNTAIN FARM**  
**COMMUNITY IMPROVEMENT DISTRICT**  
**OTHER SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -**  
**MODIFIED CASH BASIS - CAPITAL PROJECTS FUND**  
*For the Year Ended September 30, 2007*

	Original Budget	Final Budget	Actual	Over (Under) Budget	
<b>Revenues:</b>					
Sales tax and special assessment	\$ 103,320	\$ 17,368	\$ 10,871	\$ (6,497)	1
Investment income	-	-	8	8	2
<b>Total revenues</b>	103,320	17,368	10,879	(6,489)	
<b>Expenditures:</b>					
Administrative fees	1,550	11,600	10,057	(1,543)	3
Legal fees	-	42,519	36,937	(5,582)	4
Capital outlay	9,639	25,000	25,000	-	
<b>Total expenditures</b>	11,189	79,119	71,994	(7,125)	
<b>Revenues over (under) expenditures</b>	92,131	(61,751)	(61,115)	636	
<b>Other financing sources (uses):</b>					
Proceeds from note issuance	-	147,875	159,253	11,378	5
Proceeds from affiliates	-	-	1,472	1,472	5
Repayments to affiliates	-	-	(127,999)	(127,999)	5
Interest on long-term debt	(92,131)	(67,260)	(45,268)	21,992	6
Transfer to other funds	-	-	45,268	45,268	
<b>Total other financing sources (uses)</b>	(92,131)	80,615	32,726	(47,889)	
<b>Net changes in fund balances</b>	\$ -	\$ 18,864	(28,389)	\$ (47,253)	
<b>Fund balances, beginning of year</b>			40,740		
<b>Fund balances, end of year</b>			\$ 12,351		

**Explanations of Budget vs Actual**

- 1 The Board of Directors had anticipated the community improvement project to be complete prior to the start of the current fiscal year. If the project had been completed in the prior year, special assessment revenue would have begun being collected early in the year; however, the first payment was not received until the end of the fiscal year.
- 2 The Board of Directors did not budget for the sweep income earned on the unused note proceeds received.
- 3 The Board of Directors budgeted for a \$1,600 administrative fee to the Trustee. The administrative fee was paid out of the legal fee category in the current year.
- 4 Legal fees anticipated were higher than expected due to additional time spent to condemn a billboard located within the community improvement district.
- 5 Additional funds needed to be issued to cover expenditures because the Board of Directors over estimated the amount of revenues to be received. However, amount of additional funds issued was still \$1,472 short. The difference was temporarily funded by a related party. In the prior year, the related parties also funded the difference of funds needed to cover expenses until an increase was issued to the notes payable in the current year.
- 6 The Board of Directors calculated the interest expense owed through December 31, 2007. Because the fiscal year ends on September 30, 2007, interest expense owed is only accrued through the end of the fiscal year, not the calendar year.

*See accompanying notes to the financial statements.*

**COMPLIANCE**



## HUMES & BARRINGTON, LLP

*Certified Public Accountants*

*I d e a s   T h a t   M a k e   A   D i f f e r e n c e*

*Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards*

**To the Board of Directors  
Mountain Farm Community Improvement District  
St. Louis, Missouri**

We have audited the financial statements the governmental activities and each major fund of Mountain Farm Community Improvement District as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 28, 2008. As described in our report on the financial statements, the Mountain Farm Community Improvement District prepares its financial statements on the modified cash basis of accounting. This basis is a comprehensive basis of accounting other than U. S. generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mountain Farm Community Improvement District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain Farm Community Improvement District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Mountain Farm Community Improvement District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mountain Farm Community Improvement District's financial statements that is more than inconsequential will not be prevented or detected by Mountain Farm Community Improvement District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as reported in findings 2007-1 and 2007-2.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe finding 2007-2 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Farm Community Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Humes & Barrington, LLP

**Humes & Barrington, LLP**

June 4, 2008

**MOUNTAIN FARM COMMUNITY IMPROVEMENT DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
*Year Ended September 30, 2007*

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**Findings and Responses:**

**Finding 2007-1 Financial Reporting:**

**Criteria**

The District is required to prepare financial statements, certain material adjustments and disclosures as required by Statement on Auditing Standards No. 112 including the preparation of the Management Discussion and Analysis and Required Supplementary Information.

**Condition**

The District's accounting staff was unable to prepare financial statements, certain material adjustments and disclosures as required by Statements on Auditing Standards No. 112.

**Context**

The District's internally maintained financial statements do not include preparation in accordance with government fund accounting nor include disclosures required as part of government activities and major funds.

**Effect**

The District utilized its CPA firm to assist with drafting of the government financial statements and related disclosures and proposing material adjustments to same, for approval by District management. The District also utilized its CPA firm to assist with its first-time preparation of the Management Discussion and Analysis.

**Cause**

District accounting staff do not have detailed knowledge of governmental accounting principles and their application to the government financial statements and thus had difficulty in preparing these first-year financial statements and required related supplementary information as required under GASB34.

**Recommendation**

We realize that our assistance in the preparation of financial statements in accordance with generally accepted government accounting principles must be assessed by management as a cost/benefit analysis. However, management of the District cannot rely on the CPA firm to be part of their internal control structure. We will be pleased to continue to assist management with future financial statement disclosure requirements, but encourage accounting and management of the District to gain a better understanding of the accounting and financial reporting requirements of a governmental entity, such as the District.

**Response of District officials**

The District plans to take the following actions:

1. The District's accounting staff will review the Statement on Auditing Standards No. 112 with the CPA firm.
2. The District will obtain a better understanding of the Auditing Standards and therefore, will not have to rely on the CPA firm as much.
3. The District will review a footnote and financial statement disclosure checklist prior to any future audits.
4. The District will prepare the financial statements and footnotes and all related schedules prior to the audit in accordance with Government Auditing Standards.

**MOUNTAIN FARM COMMUNITY IMPROVEMENT DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
*Year Ended September 30, 2007*

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**Finding 2007-2 Accounting for Notes and Loans**

**Criteria**

The District is required to maintain its books of records that are complete and accurate.

**Condition**

The District's books of record had significant errors in the accounting for loans advanced by the related entity, Technology Drive, LLC during the interim construction period and the subsequent issuance of Series A 2006 notes that were purchased by this same related entity in accordance with the terms of the Trust Indenture.

**Context**

Advances made by Technology Drive, LLC during the course of construction to the District's to fund expenses, were not recorded.

**Effect**

The District's internal financial records had significant errors in its record keeping which required audit adjustments, resulting in internally prepared financial statements being presented to the Board of Directors being incorrectly stated.

**Cause**

District accounting staff did not identify these accounting errors until identified during the course of the audit. Loan balances which are held under trust agreement with a bank were not properly reconciled, which had they been, would have identified these differences.

**Recommendation**

District accounting staff should be performing monthly reconciliations to assure that all advances on the Series 2006 A notes and any other related loans are properly identified and recorded. We realize that the District is a new entity and that accounting resources are limited. However, a good internal control policy requires monthly reconciliations of all accounts and review of such reconciliations by District management. This will provide District management the assurance that good financial records are being maintained.

**Response of District officials**

The District plans to take the following actions:

1. The District's accounting staff has been expanded and thereby, allowing more time and resources for allocating and recording entries as required.
2. The District's accounting staff will perform monthly reconciliations to assure that all advances, notes, loans, disbursements, and receipts are recorded correctly.
3. The reconciliations completed by the District's accounting staff will be reviewed by management on a regular basis.