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Independent Auditors' Report and Financial Statements, 2005

City of Dardenne Prairie

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CITY OF DARDENNE PRAIRIE, MISSOURI

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2005

Bates CPAs

A Professional Corporation of Accountants and Consultants

CITY OF DARDENNE PRAIRIE, MISSOURI

DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
City of Dardenne Prairie, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Dardenne Prairie, Missouri, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Dardenne Prairie, Missouri management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 opinions.

As described in Note 1, the City of Dardenne Prairie, Missouri prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Dardenne Prairie, Missouri as of December 31, 2005, and the revenues it collected and expenditures it paid for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2006, on our consideration of the City of Dardenne Prairie, Missouri internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 21 through 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Bates CPAs, P.C.

February 22, 2006

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City of Dardenne Prairie, Missouri

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2005

As management of the City of Dardenne Prairie, Missouri, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here along with the City's financial statements, including the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- On a government-wide basis the assets of the City exceeded its liabilities for the most recent fiscal year by \$ 4,595,577. The City has unrestricted net assets of \$ 474,807.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund equity of \$ 2,854,919.
- At the end of the current fiscal year, unrestricted fund equity for the General Fund was \$ 458,635 or 49% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. Note the government-wide financial statements exclude fiduciary fund activities.

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year.

The government-wide financial statements include the statement of net assets and the statement of activities arising from cash transactions. These statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Individual funds are not displayed but the statements distinguish governmental activities, which normally are supported by taxes and City general revenues, from business-type activities, which rely to a significant extent on fees and charges to external customers for support. The City has no business-type activities.

The City has elected to utilize a modified cash basis of accounting as explained in Note 1.C of the notes to the financial statements.

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

City of Dardenne Prairie, Missouri
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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, the governmental fund financial statements 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 equity as their measure of available spendable financial resources at the end of the 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 government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund equity provide a reconciliation to facilitate this comparison between governmental funds and the government-wide governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund equity for the General Fund, Road Special Revenue Fund, Parks and Recreation/Storm Water Control Fund, Debt Service Fund and Neighborhood Improvement District Project, all of which are considered to be major funds.

The City adopts an annual appropriated budget for its General Fund, Road Special Revenue Fund, and Parks and Recreation/Storm Water Control Fund. Budgetary comparison statements have been provided for all budgeted funds to demonstrate legal compliance with the respective adopted budget.

The governmental fund financial statements can be found on pages 10 and 11 of this report.

Notes to the Basic Financial Statements

The notes 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 20 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, certain required supplementary information can be found on pages 21 through 24 of this report.

City of Dardenne Prairie, Missouri
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year that the City has presented its financial statements under the new reporting model pursuant to Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The City has restated the prior fiscal year for the purpose of providing comparative information in this discussion and analysis.

A condensed version of the statement of net assets follows:

<u>ASSETS</u>	<u>DECEMBER 31, 2005</u>	<u>DECEMBER 31, 2004</u>
Cash and cash equivalents, unrestricted	\$ 2,857,134	\$ 289,107
Restricted assets	-	873,572
Capital assets	3,294,414	2,910,927
Bond Issuance Costs	<u>68,897</u>	<u>-</u>
Total Assets	<u>6,220,445</u>	<u>4,073,606</u>
 <u>LIABILITIES</u>		
Payroll Tax Liability	2,063	694
Court Bond Liability	150	-
Bonds and Capital Lease Obligation current	30,510	-
Performance deposits	-	27,104
Bonds Payable (Non Current)	1,580,000	-
Capital Lease Obligation (Non Current)	<u>12,145</u>	<u>-</u>
Total Liabilities	<u>1,624,868</u>	<u>27,798</u>
 <u>NET ASSETS</u>		
Invested in capital assets	3,345,656	2,910,927
Restricted for:		
Road Improvements	534,940	690,254
Policing and improvements of roads	53,866	-
Park/Stormwater Improvements	186,308	156,214
Unrestricted	<u>474,807</u>	<u>288,413</u>
Total Net Assets	<u>\$ 4,595,577</u>	<u>\$ 4,045,808</u>

As noted earlier, net assets may serve over time as a useful indicator of a city's financial position. As illustrated above, in the case of the City of Dardenne Prairie, assets exceeded liabilities by \$ 4,595,577 at the close of December 31, 2005.

By far the largest portion of the City of Dardenne Prairie's net assets (73 percent) reflects its investment in capital assets (e.g., land, buildings, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City of Dardenne Prairie uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City of Dardenne Prairie's net assets (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 474,807) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Dardenne Prairie, Missouri
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005

Governmental Activities

As illustrated below, governmental activities increased the City's net assets by \$ 549,769. This was largely attributable to federal and state funding received for significant infrastructure costs which have been capitalized. The City has no business activities.

	FOR THE YEAR ENDED DECEMBER 31, 2005	FOR THE YEAR ENDED DECEMBER 31, 2004
REVENUES		
Program revenues:		
Charges for services	\$ 373,356	\$ 334,863
Federal & state grants	634,383	3,000,133
General revenues:		
Property Taxes	225,457	201,773
Licenses	-	17,292
NID Assessment Fees	126,666	-
Franchise Fees	34,203	11,504
Sales Tax	418,922	173,338
Unrestricted investment income	2,103	1,725
Restricted investment income	13,307	-
Miscellaneous	<u>1,671</u>	<u>3,966</u>
Total revenues	<u>1,830,068</u>	<u>3,744,594</u>
EXPENSES		
General government	728,913	632,583
Road	178,818	293,475
Municipal Hall & Park	110,413	12,105
Police & Municipal Court	170,229	-
Unallocated depreciation	<u>91,926</u>	<u>6,478</u>
Total expenses	<u>1,280,299</u>	<u>944,641</u>
CHANGE IN NET ASSETS	549,769	2,799,953
NET ASSETS – BEGINNING	<u>4,045,808</u>	<u>1,197,385</u>
NET ASSETS – ENDING	<u>\$ 4,595,577</u>	<u>\$ 3,997,338</u>

**City of Dardenne Prairie, Missouri
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on inflows, outflows, and balances of available expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund equity may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The following is an analysis of fund equity:

	<u>General</u>	<u>Road</u>	<u>Parks and Recreation And Storm Water Control</u>	<u>Debt Service</u>	<u>Neighborhood Improvement District Project</u>
December 31, 2005	\$ 585,301	\$ 534,940	\$ 186,308	\$ 135,810	\$ 1,412,560
December 31, 2004	\$ 288,413	\$ 690,254	\$ 156,214	\$ -	\$ -

The General Fund is the chief operating fund of the City of Dardenne Prairie. As a measure of the General Fund's liquidity, it may be useful to compare general fund equity to general fund total expenditures. General fund equity represents 49 percent of General Fund total expenditures. The fund equity in the City's General Fund increased by \$ 296,888 from prior year fund equity.

CAPITAL ASSETS

The City has invested \$ 3,294,414 at December 31, 2005 in a broad range of capital assets, including land, building, improvements, infrastructure and construction in progress. This amount includes a net increase for the current fiscal year (including additions and deductions) of \$383,487. The City's capital assets, net of accumulated depreciation, consisted of:

	<u>December 31, 2005</u>
Land	\$ 295,421
Land Improvements	21,599
Building and improvements	67,902
Equipment	5,280
Vehicle under capital lease	23,933
Infrastructure	2,659,374
Construction in progress	<u>220,905</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 3,294,414</u>

Additional information on the City's capital assets can be found on page 18 in Note 5 in the notes to the financial statements.

LONG-TERM DEBT

Neighborhood Improvement District Limited General Obligation Bonds

During 2005, the City authorized the issuance of \$1,605,000 Neighborhood Improvement District General Obligation Bonds for the purpose of (1) paying all or part of the costs of improvements within the district's boundaries, (2) paying the costs of issuing the Bonds, and (3) establishing and funding the Bond Reserve. Principal owed at December 31, 2005 totaled \$1,605,000.

**City of Dardenne Prairie, Missouri
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Capital Lease Obligation

At December 31, 2005, the City had a capital lease obligation for governmental activities in the amount of \$17,655. This lease was effective December 31, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For year ending December 31, 2006 the City projects revenue of \$ 1,239,628 and expenditures of \$ 1,195,861, giving the City an ending fund equity of \$ 629,068 in the General Fund at December 31, 2006. We are anticipating an ending fund equity of \$ 207,031 in the Parks and Recreation/Storm Water Control Fund and \$ 629,068 in the Road Special Revenue Fund.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Kim Clark, City Treasurer
City of Dardenne Prairie
2032 Hanley Road
Dardenne Prairie, MO 63368

CITY OF DARDENNE PRAIRIE, MISSOURI

STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS

DECEMBER 31, 2005

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,857,134
Capital assets (net of accumulated depreciation):	
Land	295,421
Land improvements	21,599
Building and improvements	67,902
Equipment	5,280
Vehicle under capital lease	23,933
Infrastructure	2,659,374
Construction in progress	220,905
Bond issuance costs	<u>68,897</u>
Total assets	<u>6,220,445</u>
<u>LIABILITIES</u>	
Current liabilities	
Payroll tax liability	2,063
Court bond liability	150
Bonds and capital lease obligation current	<u>30,510</u>
Total current liabilities	<u>32,723</u>
Non-current liabilities	
Bonds payable	1,580,000
Capital lease obligation	<u>12,145</u>
Total non-current liabilities	<u>1,592,145</u>
Total liabilities	<u>1,624,868</u>
<u>NET ASSETS</u>	
Invested in capital assets	3,345,656
Restricted for:	
Road improvements	534,940
Policing and improvement of roads	53,866
Park and storm water control improvements	186,308
Unrestricted	<u>474,807</u>
Total net assets	<u>\$ 4,595,577</u>

See Notes to Financial Statements

CITY OF DARDENNE PRAIRIE, MISSOURI

STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS

YEAR ENDED DECEMBER 31, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General government	\$ 728,913	\$ 343,434	\$ -	\$ -	\$ (385,479)
Road	178,818	9,514	281,098	167,683	279,477
Park	110,413	-	-	4,297	(106,116)
Police and municipal court	170,229	20,408	181,305	-	31,484
Depreciation, unallocated	<u>91,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,926)</u>
Total governmental activities	<u>1,280,299</u>	<u>373,356</u>	<u>462,403</u>	<u>171,980</u>	<u>(272,560)</u>
Total primary government	<u>1,280,299</u>	<u>373,356</u>	<u>462,403</u>	<u>171,980</u>	<u>(272,560)</u>
		General revenues:			
		Property taxes		225,457	
		Franchise fees		34,203	
		NID assessment fees		126,666	
		Sales tax		418,922	
		Investment income restricted for debt service		13,307	
		Investment income unrestricted		2,103	
		Miscellaneous		<u>1,671</u>	
		Total general revenues		<u>822,329</u>	
		Change in net assets		549,769	
		Net assets – beginning		<u>4,045,808</u>	
		Net assets – ending		<u>\$ 4,595,577</u>	

See Notes to Financial Statements

CITY OF DARDENNE PRAIRIE, MISSOURI

STATEMENT OF ASSETS, LIABILITIES, AND FUND EQUITY
ARISING FROM CASH TRANSACTIONS – GOVERNMENTAL FUNDS

DECEMBER 31, 2005

	<u>General</u>	<u>Road</u>	<u>Parks and Recreation and Storm Water Control</u>	<u>Debt Service</u>	<u>Neighborhood Improvement District Project</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 406,984	\$ 534,940	\$ 186,308	\$ 135,810	\$ 1,412,560	\$ 2,676,602
Restricted cash and cash equivalents						
Debt service	126,666	-	-	-	-	126,666
Policing and improvement of roads	53,865	-	-	-	-	53,865
Total assets	\$ 587,515	\$ 534,940	\$ 186,308	\$ 135,810	\$ 1,412,560	\$ 2,857,133
<u>LIABILITIES AND FUND EQUITY</u>						
<u>LIABILITIES</u>						
Payroll tax liability	\$ 2,064	\$ -	\$ -	\$ -	\$ -	\$ 2,064
Court bonds liability	150	-	-	-	-	150
Total liabilities	2,214	-	-	-	-	2,214
<u>FUND EQUITY</u>						
Reserved:						
Debt service	126,666	-	-	135,810	-	262,476
NID capital improvements	-	-	-	-	1,412,560	1,412,560
Unreserved, reported in:						
General fund	458,635	-	-	-	-	458,635
Special revenue funds	-	534,940	186,308	-	-	721,248
Total fund equity	585,301	534,940	186,308	135,810	1,412,560	2,854,919
Total liabilities and fund equity	\$ 587,515	\$ 534,940	\$ 186,308	\$ 135,810	\$ 1,412,560	

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

Capital assets of \$3,399,191, net of accumulated depreciation of \$104,777, are not financial resources and, therefore, are not reported in the funds	3,294,414
Bonds payable and capital lease obligations are not reported in the funds	(1,622,655)
Unamortized bond issuance costs are considered uses of current financial resources in the governmental funds in the year paid	68,897
Net assets of governmental activities	\$ 4,595,575

See Notes to Financial Statement

CITY OF DARDENNE PRAIRIE, MISSOURI

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID
AND CHANGES IN FUND EQUITY – GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>Road</u>	<u>Parks and Recreation and Storm Water Control</u>	<u>Debt Service</u>	<u>Neighborhood Improvement District Project</u>	<u>Total Governmental Funds</u>
REVENUES COLLECTED:						
Taxes	\$ 493,309	\$ -	\$ 151,069	\$ -	\$ -	\$ 644,378
Intergovernmental	181,305	448,781	-	-	-	630,086
Licenses and permits	377,636	-	-	-	-	377,636
Court fines	20,308	-	-	-	-	20,308
Investment income	2,103	9,514	-	1,299	13,472	26,388
NID assessments	126,666	-	-	-	-	126,666
Grants	-	-	4,297	-	-	4,297
Other revenue	1,772	-	-	-	-	1,772
Total revenues collected	<u>1,203,099</u>	<u>458,295</u>	<u>155,366</u>	<u>1,299</u>	<u>13,472</u>	<u>1,831,531</u>
EXPENDITURES PAID:						
Current expenditures:						
General government	890,131	-	-	-	-	890,131
Administrative fee	-	-	-	127	912	1,039
Capital outlay	33,734	613,609	125,272	-	-	772,615
Debt service:						
Principal	6,685	-	-	-	-	6,685
Interest	-	-	-	-	-	-
Bond issuance costs	-	-	-	70,362	-	70,362
Total expenditures paid	<u>930,550</u>	<u>613,609</u>	<u>125,272</u>	<u>70,489</u>	<u>912</u>	<u>1,740,832</u>
REVENUES COLLECTED OVER (UNDER)						
EXPENDITURES PAID	272,549	(155,314)	30,094	(69,190)	12,560	90,699
OTHER FINANCING SOURCES (USES)						
Capital lease proceeds	24,339	-	-	-	-	24,339
Bond proceeds	-	-	-	205,000	1,400,000	1,605,000
CHANGE IN FUND EQUITY	296,888	(155,314)	30,094	135,810	1,412,560	1,720,038
FUND EQUITY, BEGINNING OF YEAR	288,413	690,254	156,214	-	-	1,134,881
FUND EQUITY, END OF YEAR	<u>\$ 585,301</u>	<u>\$ 534,940</u>	<u>\$ 186,308</u>	<u>\$ 135,810</u>	<u>\$ 1,412,560</u>	<u>\$ 2,854,919</u>

See Notes to Financial Statements

CITY OF DARDENNE PRAIRIE, MISSOURI

RECONCILIATION OF THE STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN FUND EQUITY OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS

YEAR ENDED DECEMBER 31, 2005

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

Change in fund equity	\$ 1,720,038
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Governmental funds report capital outlays 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 \$479,750 exceeded depreciation of \$96,262 in the current period	383,488
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The issuance of long-term debt, including bonds and leases, provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued:

Neighborhood Improvement District Bonds	(1,605,000)
Issuance costs	70,362
Capital lease proceeds	<u>(24,339)</u>
	(1,558,977)

Repayments:

Capital lease obligations	6,684
Amortization of issuance costs	<u>(1,464)</u>

(1,553,757)

Change in net assets of governmental activities	<u>\$ 549,769</u>
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See Notes to Financial Statements

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dardenne Prairie, Missouri, (the City) was incorporated as a fourth class city on June 21, 2001 and established a Mayor/Board of Aldermen form of government. The City's major operations include general administrative services and road and park development.

The City defines its financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity (GASB 14). GASB 14 requirements for inclusion of component units are based primarily upon whether the City's governing body has any significant amount of financial accountability for potential component units (PCU). The city is financially accountable if it appoints a voting majority of a PCU's governing body and is able to impose its will on that PCU, or there is a potential for the PCU to provide specific financial benefits to, or impose specific financial burdens on, the City.

Based on the foregoing definition, the City's financial statements include all funds, agencies, boards, commissions, and authorities that are controlled by or dependent on the City.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities arising from cash transactions. These statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Individual funds are not displayed but the statements distinguish *governmental activities*, which normally are supported by taxes and City general revenues, from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. The City has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The City maintains its records and budget, and presents the government-wide financial statements and governmental fund financial statements in accordance with the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

If the City utilized generally accepted accounting principles, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Under the modified accrual basis revenues are recognized when measurable and available. Measurable means being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Under the accrual basis revenues are recognized when earned. Expenses (including depreciation and amortization) are recorded when the liability is incurred or the economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Therefore, the financial statements are not intended to reflect the financial position or results of operations of the City in conformity with generally accepted accounting principles.

The City reports the following major governmental funds:

General Fund – is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Road Special Revenue Fund – is used to account for certain tax and intergovernmental revenues legally restricted to expenditures for road improvements.

Park and Recreation and Storm Water Control Special Revenue Fund – is used to account for certain fees restricted for parks and recreation and storm water control expenditures.

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

Debt Service Fund – is used to account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Neighborhood Improvement District Project Fund – is used too account for bond proceeds to be used for certain capital improvements within the Bryant Road Neighborhood Improvement District boundaries.

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

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

The surplus funds of the City may be legally invested in any of the securities identified as eligible in Section 30.270 of Missouri State Statutes.

E. Capital Assets, Depreciation and Amortization

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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 City elected not to report general infrastructure assets retroactively. Therefore, no general infrastructure assets purchased or constructed prior to January 1, 2004 are included in the statement of net assets arising from cash transactions.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	40
Building improvements	20
Road infrastructure	30
Park equipment	10
Heavy maintenance equipment	10
Vehicles	5
Office equipment	5
Computer equipment	5-10

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets arising from cash transactions. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount.

In the fund financial statements, governmental funds 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 costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

G. Property Taxes

Property tax revenues are recorded when received. The City's property taxes are levied each September based on the assessed value at January 1 for all real and personal property located in the City. The City's property tax rate for 2005 was \$.1238 per \$100 of assessed valuation, all of which was allocated to the general fund. Taxes are due and payable on November 1 and delinquent after December 31.

All property tax assessment, billing, and collection functions are handled by the St. Charles County Government. Taxes collected are remitted to the City by the St. Charles County Collector in the month following the actual collection date.

H. Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires the City to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2: BUDGET POLICY AND PRACTICE

The Board of Aldermen adopt an annual budget for the General Fund and Special Revenue Funds in accordance with the modified cash basis of accounting. All budget appropriations lapse at year end.

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 3: CASH AND CASH EQUIVALENTS

Deposits

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

As of December 31, 2005, the City's demand deposits were entirely secured or collateralized with securities held by the City or by its agent in the City's name.

Investment Policies

At December 31, 2005, the City had the following investments (considered cash and cash equivalents):

U.S. Treasury money market funds	<u>\$1,548,370</u>
----------------------------------	--------------------

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City 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 City 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 City's investment in a single issuer. The City does not have a written investment policy covering concentration of credit risk.

NOTE 4: RESTRICTED ASSETS

Restricted assets are reported in various funds for cash deposited legally restricted for specific uses such as road improvements and park expenditures. See Note 1.c describing the priority for use of restricted and unrestricted assets.

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 295,421	\$ -	\$ -	\$ 295,421
Construction in progress	<u>48,270</u>	<u>172,635</u>	<u>-</u>	<u>220,905</u>
Total capital assets, not being depreciated	<u>343,691</u>	<u>172,635</u>	<u>-</u>	<u>516,326</u>
Capital assets being depreciated:				
Land improvements	23,688	-	-	23,688
Buildings and improvements	56,240	14,860	-	71,100
Equipment	-	5,760	-	5,760
Vehicle under capital lease	-	24,339	-	24,339
Infrastructure	<u>2,495,623</u>	<u>262,156</u>	<u>-</u>	<u>2,757,779</u>
Total capital assets being depreciated	<u>2,575,551</u>	<u>307,115</u>	<u>-</u>	<u>2,882,666</u>
Less accumulated depreciation for:				
Land improvements	(1,095)	(1,194)	-	(2,289)
Buildings	(942)	(2,256)	-	(3,198)
Equipment	-	(480)	-	(480)
Vehicle under capital lease	-	(406)	-	(406)
Infrastructure	<u>(6,478)</u>	<u>(91,926)</u>	<u>-</u>	<u>(98,404)</u>
Total accumulated depreciation	<u>(8,515)</u>	<u>(96,262)</u>	<u>-</u>	<u>(104,777)</u>
Total capital assets being depreciated, net	<u>2,567,036</u>	<u>210,853</u>	<u>-</u>	<u>2,777,889</u>
Governmental activities capital assets, net	<u>\$2,910,727</u>	<u>\$ 383,488</u>	<u>\$ -</u>	<u>\$3,294,215</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 4,336
Unallocated	<u>91,926</u>
Total depreciation expense governmental activities	<u>\$ 96,262</u>

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT

Neighborhood Improvement District Limited General Obligation Bonds

During 2005, the City authorized the issuance of \$1,605,000 Neighborhood Improvement District General Obligation Bonds for the purpose of (1) paying all or part of the costs of improvements within the district's boundaries, (2) paying the costs of issuing the Bonds, and (3) establishing and funding the Bond Reserve.

Capital Lease Obligation

Effective December 2005, the City leased a vehicle pursuant which meets the criteria for capitalization.

The following is a summary of changes in long-term debt for the year ending December 31, 2005.

	<u>Balance</u> <u>12-31-04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12-31-05</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities:					
Neighborhood Improvement District Bonds; variable interest rates 3.8% to 4.9%	\$ -	\$ 1,605,000	\$ -	\$ 1,605,000	\$ 25,000
Capital lease obligation	-	24,339	6,684	17,655	5,510
	<u>\$ -</u>	<u>\$ 1,629,339</u>	<u>\$ 6,684</u>	<u>\$ 1,622,655</u>	<u>\$ 30,510</u>

The annual principal and interest requirements to maturity of long-term debt as of December 31, 2005 are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 30,510	\$ 79,630	\$ 110,140
2007	55,877	71,786	127,663
2008	61,268	69,400	130,668
2009	55,000	66,893	121,893
2010	60,000	64,708	124,708
2011-2015	330,000	284,497	614,497
2016-2020	405,000	202,529	607,529
2021-2025	625,000	91,265	716,265

CITY OF DARDENNE PRAIRIE, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 7: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for all risks of loss.

There was no significant reductions in insurance coverage during 2005 and settlement amounts have not exceeded insurance coverage for the current or three prior years.

NOTE 8 CONTINGENCIES

The City may be subject to claims and legal proceedings covering various matters that arise in the ordinary course of its activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of the City.

CITY OF DARDENNE PRAIRIE, MISSOURI

REQUIRED SUPPLEMENTARY SCHEDULE 1

GENERAL FUND

SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID
AND CHANGES IN FUND EQUITY – BUDGET AND ACTUAL (BUDGET BASIS)

YEAR ENDED DECEMBER 31, 2005

	Actual (Budget Basis)	Original Budget	Final Budget	Favorable (Unfavorable) Variance
REVENUES COLLECTED				
Taxes				
Property tax	\$ 225,457	\$ 201,307	\$ 201,307	\$ 24,150
Sales tax	<u>267,852</u>	<u>300,000</u>	<u>300,000</u>	<u>(32,148)</u>
Total taxes	<u>493,309</u>	<u>501,307</u>	<u>501,307</u>	<u>(7,998)</u>
Intergovernmental				
Motor fuel tax	<u>181,305</u>	<u>180,000</u>	<u>180,000</u>	<u>1,305</u>
Licenses and Permits				
Fireworks permits	6,100	9,000	9,000	(2,900)
Business and liquor licenses	4,450	2,650	2,650	1,800
Franchise fees	34,202	10,000	10,000	24,202
Building and related permits	<u>332,884</u>	<u>343,400</u>	<u>343,400</u>	<u>(10,516)</u>
Total licenses and permits	<u>377,636</u>	<u>365,050</u>	<u>365,050</u>	<u>12,586</u>
Court fines	<u>20,308</u>	<u>10,000</u>	<u>10,000</u>	<u>10,308</u>
Investment income	<u>2,103</u>	<u>1,500</u>	<u>1,500</u>	<u>603</u>
NID assessments	<u>126,666</u>	<u>128,000</u>	<u>128,000</u>	<u>(1,334)</u>
Other Revenue	<u>1,772</u>	<u>2,000</u>	<u>2,000</u>	<u>(228)</u>
Total revenues collected	<u>1,203,099</u>	<u>1,187,857</u>	<u>1,187,857</u>	<u>15,242</u>
EXPENDITURES PAID:				
General government				
Salaries and payroll tax	139,300	179,770	179,770	40,470
Accounting and auditing	8,387	4,300	4,300	(4,087)
Alarm service	483	500	500	17
Codification	2,724	2,500	2,500	(224)
Dues	1,227	2,150	2,150	923
Elections	4,914	5,000	5,000	86
Engineering	412,108	394,100	394,100	(18,008)
Insurance	16,520	15,048	15,048	(1,472)
Law enforcement	127,439	175,000	175,000	47,561
Legal	100,871	110,000	110,000	9,129
Maintenance	1,013	7,600	7,600	6,587
Medical insurance	17,683	18,064	18,064	381
Meeting meals expense	1,174	1,500	1,500	326
Miscellaneous	5,337	2,050	2,050	(3,287)
Mosquito control	1,971	2,500	2,500	529
Municipal court	14,975	2,700	2,700	(12,275)
Newsletter	1,438	3,500	3,500	2,062
NID professional fees	1,049	128,000	128,000	126,951
Office supplies	4,122	3,000	3,000	(1,122)
Postage	1,049	1,300	1,300	251
Publications	1,543	2,500	2,500	957
Recording fees	194	500	500	306
Retirement plan expense	-	6,550	6,550	6,550
Seminars/training	9,828	12,500	12,500	2,672
Telephones, pagers and internet	2,038	3,000	3,000	962
Utilities	10,347	6,020	6,020	(4,327)
Vehicles expense	2,397	4,400	4,400	2,003
Website	<u>-</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Total general government	<u>890,131</u>	<u>1,095,052</u>	<u>1,095,052</u>	<u>204,921</u>

See Independent Auditors' Report

CITY OF DARDENNE PRAIRIE, MISSOURI
REQUIRED SUPPLEMENTARY SCHEDULE 1
GENERAL FUND

SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID
AND CHANGES IN FUND EQUITY – BUDGET AND ACTUAL (BUDGET BASIS)

YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u> <u>(Budget Basis)</u>	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Favorable</u> <u>(Unfavorable)</u> <u>Variance</u>
Capital outlay	33,734	26,709	26,709	(7,025)
Debt service:				
Principal	6,685	-	-	(6,685)
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures paid	<u>930,550</u>	<u>1,121,761</u>	<u>1,121,761</u>	<u>191,211</u>
REVENUES COLLECTED OVER				
EXPENDITURES PAID	272,549	66,096	66,096	206,453
OTHER FINANCING SOURCES (USES)				
Capital lease proceeds	<u>24,339</u>	<u>-</u>	<u>-</u>	<u>24,339</u>
CHANGE IN FUND EQUITY	296,888	66,096	66,096	230,792
FUND EQUITY, BEGINNING OF YEAR	<u>288,413</u>	<u>288,413</u>	<u>288,413</u>	<u>-</u>
FUND EQUITY, END OF YEAR	<u>\$ 585,301</u>	<u>\$ 354,509</u>	<u>\$ 354,509</u>	<u>\$ 230,792</u>

See Independent Auditors' Report

CITY OF DARDENNE PRAIRIE, MISSOURI
REQUIRED SUPPLEMENTARY SCHEDULE 2
ROAD FUND

SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID
AND CHANGES IN FUND EQUITY – BUDGET AND ACTUAL (BUDGET BASIS)

YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u> <u>(Budget Basis)</u>	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Favorable</u> <u>(Unfavorable)</u> <u>Variance</u>
REVENUES COLLECTED				
Intergovernmental	\$ 448,781	\$ 755,000	\$ 1,105,000	\$(656,219)
Investment income	<u>9,514</u>	<u>4,400</u>	<u>4,400</u>	<u>5,114</u>
Total revenues collected	<u>458,295</u>	<u>759,400</u>	<u>1,109,400</u>	<u>(651,105)</u>
EXPENDITURES PAID				
Capital outlay:				
Road improvements	<u>613,609</u>	<u>822,290</u>	<u>1,172,290</u>	<u>558,681</u>
Total expenditures paid	<u>613,609</u>	<u>822,290</u>	<u>1,172,290</u>	<u>558,681</u>
REVENUES COLLECTED OVER (UNDER) EXPENDITURES PAID	(155,314)	(62,890)	(62,890)	(92,424)
FUND EQUITY, BEGINNING OF YEAR	<u>690,254</u>	<u>690,254</u>	<u>690,254</u>	<u>-</u>
FUND EQUITY, END OF YEAR	<u>\$ 534,940</u>	<u>\$ 627,364</u>	<u>\$ 627,364</u>	<u>\$(92,424)</u>

See Notes to Financial Statements

CITY OF DARDENNE PRAIRIE, MISSOURI

REQUIRED SUPPLEMENTARY SCHEDULE 3

PARKS AND RECREATION AND STORM WATER CONTROL FUND

SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID
AND CHANGES IN FUND EQUITY – BUDGET AND ACTUAL (BUDGET BASIS)

YEAR ENDED DECEMBER 31, 2005

	<u>Actual</u> <u>(Budget Basis)</u>	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Favorable</u> <u>(Unfavorable)</u> <u>Variance</u>
REVENUES COLLECTED				
Taxes	\$ 151,069	\$ 166,000	\$ 166,000	\$(14,931)
Grant	4,297	139,048	139,048	(134,751)
Investment income	<u>-</u>	<u>3,000</u>	<u>3,000</u>	<u>(3,000)</u>
Total revenues collected	<u>155,366</u>	<u>308,048</u>	<u>308,048</u>	<u>(152,682)</u>
EXPENDITURES PAID				
Capital outlay:				
Municipal hall and park improvements	<u>125,272</u>	<u>392,098</u>	<u>392,098</u>	<u>266,826</u>
Total expenditures paid	<u>125,272</u>	<u>392,098</u>	<u>392,098</u>	<u>266,826</u>
REVENUES COLLECTED OVER (UNDER) EXPENDITURES PAID	30,094	(84,050)	(84,050)	114,144
FUND EQUITY, BEGINNING OF YEAR	<u>156,214</u>	<u>156,214</u>	<u>156,214</u>	<u>-</u>
FUND EQUITY, END OF YEAR	<u>\$ 186,308</u>	<u>\$ 72,164</u>	<u>\$ 72,164</u>	<u>\$ 114,144</u>

See Notes to Financial Statements