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Comprehensive Annual Financial Report, 2003

City of Arnold

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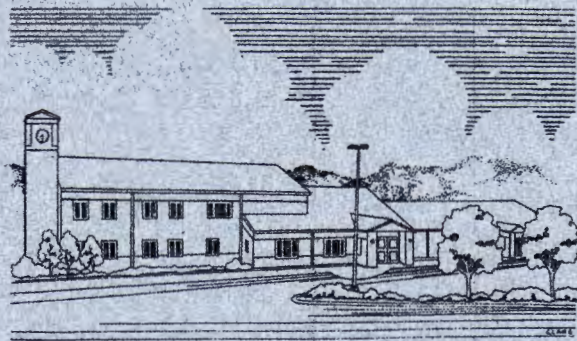
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**CITY of ARNOLD
MISSOURI**



**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

*For The Fiscal Year Ended
August 31, 2003*

CITY OF ARNOLD, MISSOURI

**Comprehensive Annual Financial Report
For The Fiscal Year Ended August 31, 2003**

Prepared by the Finance Department
JoAnne Tietjens, Finance Director

CITY OF ARNOLD, MISSOURI
FINANCIAL REPORT

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INTRODUCTORY SECTION



City of Arnold

Mark Powell, Mayor

February 24, 2004

To the Honorable Mayor, Members of the City Council and Citizens of the City of Arnold:

The comprehensive annual financial report of the City of Arnold, Missouri (the City) for the fiscal year ended August 31, 2003, is hereby submitted. This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with U.S. generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements were audited by Hochschild, Bloom & Company LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended August 31, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended August 31, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. This report is available, in the separately issued Report on Federal Awards.

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

Profile of the Government

The City, incorporated in 1972, is located on the eastern border of the State of Missouri, south of the Meramec River at its confluence with the Mississippi River. The central business district of the City of St. Louis is about 17 miles to the north. Interstate Highway 55, U.S. Highway 61-67, and State Highways 141 and 231 provide access to St. Louis City and St. Louis County.

The City has operated under the mayor-council-city administrator form of government since 1972. Policy making and legislative authority are vested in a governing council consisting of the mayor and eight council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the city administrator and city attorney. The city administrator is responsible for carrying out the policies and ordinances of the governing council and for overseeing the day-to-day operations of the government. The council is elected on a non-partisan basis. Council members serve two-year staggered terms, with four council members elected every year. The mayor is elected to serve a four-year term.

The City provides a range of services, including police protection; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural events. Trash and sewer sanitation services are provided through the City. The sewer services are reported in a proprietary fund in the City's financials statements.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriations to the finance director. These requests are then used as a starting point for developing a proposed budget. The finance director presents this proposed budget to the City Council for review prior to July 8. The City Council is required to hold a public hearing on the proposed budget and to adopt a final budget prior to September 1. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations for operating supplies within a department. Transfers of appropriations between departments, however, require approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented as part of the financial statements for the governmental funds.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The economic condition and outlook of the City has been stable in recent years. The City's housing stock, geographic location and variety of services have kept real estate marketable. Commercial vacancies remain modest while the potential for further retail and industrial development appears favorable within the next five years.

The City's tax structure relies primarily on sales taxes and utility taxes. Utility tax receipts are likely to continue to increase at a modest rate. Sales tax receipts are expected to stabilize or increase slightly in the coming year. General sales tax receipts decreased in fiscal year 2003 due to uncertainty in the economy. This was the first year in the City's history to show a decrease in sales tax revenues for the year. The City has demonstrated its ability to compress government expenditures to accommodate a tight economy or temporary downturn in revenue. It is anticipated this trait will continue.

Long-term financial planning. The Community Recreation Center is slated for completion in spring of 2005. Recreation Center operating costs will be covered by fees charged and the quarter cent sales tax enacted in 2003.

Effluent from the sanitary sewer system is treated by MSD. MSD is currently constructing a new treatment facility and the City is responsible for a share of the capital costs. When this facility comes on line in 2005, sharp increases in the sewer service fees will be required.

All stormwater projects with the Department of Natural Resources (DNR) are nearing completion, and no new grants have been accepted to date. DNR has provided 50% of the funding for these projects, with the City paying the remainder. Expenditures for stormwater projects should be minimal unless new grants are found.

The City continues to evaluate the City's transportation system. Several projects are in the planning stages. Partial funding for these is anticipated to come from grant funding.

In an effort to improve local economy, the city is working to redevelop two significant projects near the intersection of I55 & Highway 141. Use of TIF and TDD tools will be necessary to undertake these projects. Upon the completion of this redevelopment, these projects are anticipated to contribute growth to city's tax revenues.

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury and repurchase agreements. The maturities of the investments range from three months to three years, with a weighted average maturity of one year and three months. The average yield on investments was 1% for the government and an average yield of 8.5% for the police pension fund. The higher rate of return for the pension fund is attributable to the long-term character of most of its investment holdings.

Risk management. The City has been a member of Missouri Intergovernmental Risk Management Association (MIRMA) since July 1, 1983. MIRMA is a state wide governmental self-insured pool providing property, liability, and workers' compensation coverage to its members.

The City, assisted by MIRMA, has implemented a risk management program. As part of this comprehensive plan, various control techniques, including employee accident prevention training, safety meetings, and departmental first aid training have been implemented to minimize accident-related losses.

Pension and other post employment benefits. The City sponsors a single-employer defined benefit pension plan for its full-time police officers. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. The City has been able to fully fund its annual required contribution to the pension plan as determined by

the actuary in nearly every year since the plan's inception. As a result of the City's conservative funding policy, the City has succeeded as of September 30, 2003, in funding 106% of the present value of the projected benefits earned by employees.

The City also provides pension benefits for its non-police employees. These benefits are provided through LAGERS, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. For 2003, the City's annual actual pension cost was equal to the required contribution, as determined by the 2003 actuarial valuation. For the valuation year ended 2003, LAGERS has funded 85% of projected required funds with a full funding period projected at 21 years.

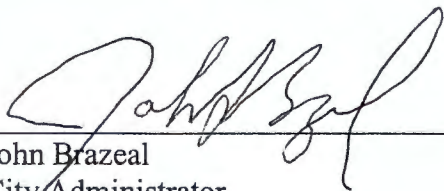
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended August 31, 2002. This is the 14th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

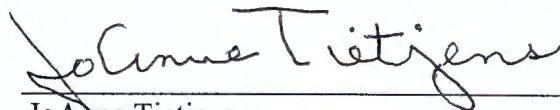
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully Submitted,



John Brazeal
City Administrator



JoAnne Tietjens
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Arnold,
Missouri

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF ARNOLD, MISSOURI
PRINCIPAL OFFICIALS

Mark Powell Mayor

Council

Michael Bonnot	Ward One
Ronald Jerger	Ward One
James Edwards	Ward Two
David Venable	Ward Two
Phillip Amato	Ward Three
Joyce Deckman	Ward Three
Alfred Ems	Ward Four
Butch Cooley	Ward Four

Diane Waller City Clerk

Reid Schultz Treasurer

Steve Davis Judge

Robert Sweeney City Attorney

John Brazeal City Administrator

Robert Shockey Chief of Police

JoAnne Tietjens Finance Director

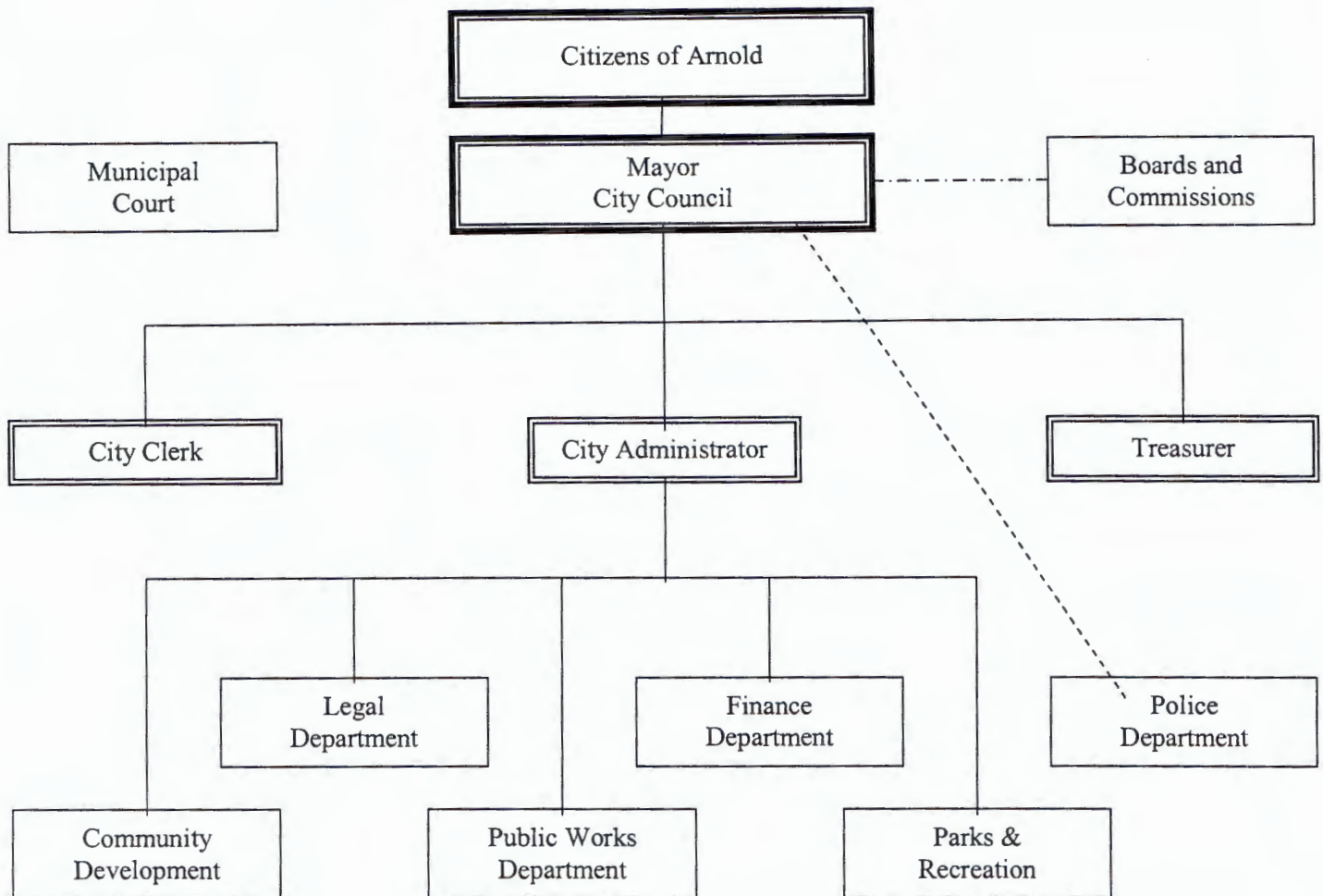
Eric Cowle Public Works Director

Mary Holden Community Development Director

Greg Hall Director of Administration

Llewellyn Lewis, Jr. Parks & Recreation Director

Organization Chart



Missouri law governing third class cities provides for direct supervision of the police chief by the Mayor.



**FINANCIAL
SECTION**



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

INDEPENDENT AUDITORS' REPORT

November 3, 2003

Honorable Mayor and City Council
CITY OF ARNOLD, MISSOURI

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **CITY OF ARNOLD, MISSOURI** (the City) as of and for the year ended August 31, 2003, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of August 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

During 2002, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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



Member: Independent Accountants International with Member Offices in Principal U.S. and International Cities.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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, Budgetary Comparison Information and Modified Approach for Infrastructure Information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by U.S generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplemental information as listed in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and, therefore, express no opinion thereon.

Hochschild, Bloom + Company LLP

CERTIFIED PUBLIC ACCOUNTANTS



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Arnold, Missouri (the City), 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 August 31, 2003. Due to the fact that this is the first year the current financial reporting model is being used, comparisons with the previous year are limited. Please read this narrative in conjunction with the letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of the City, as reported by the Statement of Net Assets, exceeded its liabilities at the close of the most recent fiscal year by \$92,555,928 (net assets). Of this amount, \$24,870,869 (unrestricted net assets) may be used to meet the City's ongoing obligations to its citizens and creditors.
- As of the close of the 2003 fiscal year, the City's Governmental Fund statements reported combined ending fund balances of \$22,312,659, an increase of \$14,536,757 in comparison with the prior year. Approximately 80% of this total amount, \$17,437,083, is available for spending at the government's discretion (unreserved fund balance), although the City Council has designated 95% of this amount for various uses throughout the City.
- The City's total debt increased by \$15,701,961 during the current fiscal year to a total of \$21,557,586. The key factor in this increase was the issuance of \$16,000,000 in bonds for the construction of a Community Recreation Complex.

Overview of Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents capital assets data. The basic financial statements include two kinds of statements that present different views of the City; which are the government-wide and fund financial statements:

1. *Government-wide financial statements* -- The first two statements provide both long-term and short-term information about the City's overall financial status.
2. *Fund financial statements* -- The remaining statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - a. The *governmental funds* statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - b. *Proprietary fund* statements offer short- and long-term financial information about the activities the government operates like businesses, such as our sewer system.
 - c. *Fiduciary fund* statements provide information about the financial relationships - like the retirement plan for the City's employees - in which the City acts solely as the trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements include notes explaining some of the information in the financial statements and providing more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Table A-1 below summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Table A-1 Major Features of City of Arnold Government-wide and Fund Financial Statements				
		Fund Statements		
	Government-wide Statements	Government Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses: the sewer system	Instances in which the City is the trustee or agent for someone else’s resources, such as the retirement plan for City employees
Required financial statements	<ul style="list-style-type: none"> * Statement of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> * Statement of net assets Statement of revenues, expenses, and changes in net assets 	<ul style="list-style-type: none"> * Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City’s fiduciary funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide financial statements. The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The two government-wide statements are the *statement of net assets* and the *statement of activities*. These statements report the City’s net assets and how they have changed.

The *statement of net assets* presents information on all of the 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. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City’s property tax base or the condition of the City’s roadway network.

The *government-wide financial statements* of the City are divided into two categories:

- **Governmental activities** -- Most of the City's basic services are included here, such as the police, public works, and parks departments, and general administration. Taxes along with state and federal grants finance most of these activities.
- **Business-type activities** -- The City's sewer system is a business-type activity. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services rendered. These activities are reported in an enterprise fund.

Fund Financial Statements

A *fund* is an accounting device the City uses to keep track of specific sources of funding and spending for particular purposes. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the information presented for governmental activities in the government-wide statements, we provide additional information on the subsequent page, that explains the relationship (or differences) between them. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions.

Proprietary funds. Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information, only with more detail. The City maintains one type of proprietary fund, the *Enterprise fund*, to account for the sewer services the City provides. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Fiduciary funds. The City is the trustee, or *fiduciary*, for its employees' pension plans. It is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

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 and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budget and actual information and data regarding the modified approach for infrastructure assets.

Government-wide Financial Analysis

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$92,555,928 at the close of the 2003 fiscal year.

Because this reporting model significantly changes both the recording and presentation of financial data, the City has not restated prior fiscal years for the purpose of providing comparative information for the management's discussion and analysis. In future years, when prior year information will be available, a comparative analysis of government-wide data will be included in this report.

Table A-2
City of Arnold Net Assets as of August 31, 2003
(in thousands)

	<i>Governmental</i>	<i>Business-type</i>	Total
	<i>activities</i>	<i>activities</i>	
	2003	2003	2003
Current and other assets	\$ 28,763	3,372	32,135
Capital assets	73,187	13,461	86,648
Total Assets	101,950	16,833	118,783
Long-term debt outstanding	17,850	2,391	20,241
Other liabilities	5,537	449	5,986
Total Liabilities	23,387	2,840	26,227
Net assets:			
Net assets invested in capital assets, net of related debt	54,617	10,864	65,481
Restricted for debt service	1,902	301	2,203
Unrestricted	22,044	2,827	24,871
Total Net Assets	\$ 78,563	13,992	92,555

The largest portion of the City's net assets (77%) reflects its investment in capital assets (e.g., land, infrastructures, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$24,870,869) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the City's net assets by \$2,035,349, thereby accounting for 105% of the total growth in net assets of the City. Key elements of this increase are as follows:

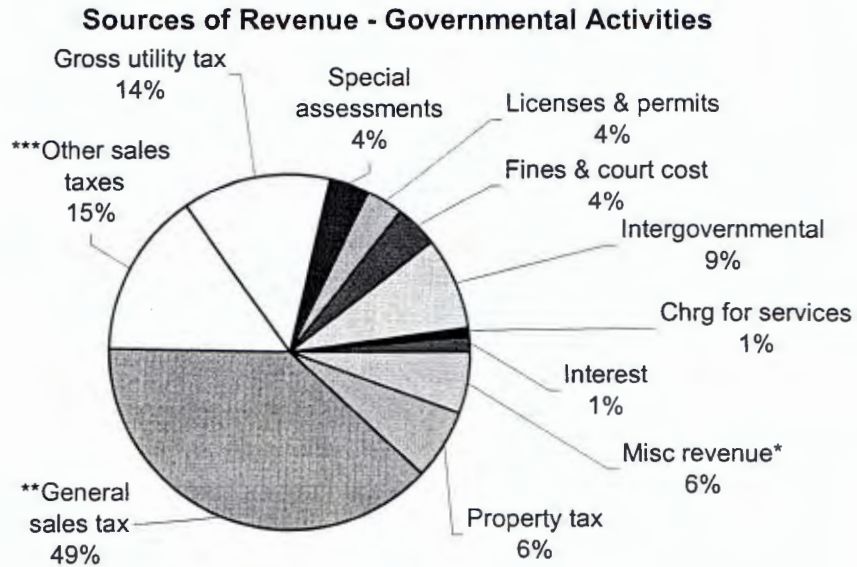
- Taxes, including property taxes, increased 2% for the year. General sales taxes decreased 2%, a change that reflects the state wide economy. Motor fuel taxes increased 3% to \$559,478. The \$71,777 increase in gas gross receipts tax was offset by the \$63,407 decrease in electric gross receipts tax. The Jefferson County capital improvements sales tax (CIP), a shared tax the City receives as a reimbursement of road construction and maintenance costs, increased \$110,000 or 13% due to an increase in road construction work. The City began the collection of a 5% tourism tax in fiscal year 2003 to be used to promote tourism in the City. A total of \$30,577 was collected, reflecting revenues for two months.

- Grants for governmental activities increased by 101% to \$1,107,080 due, in part, to the receipt of construction grants from Department of Natural Resources (DNR), Federal Surface Transportation Programs (STP) funds and sales taxes from the Jefferson County CIP tax. Major road and stormwater projects were undertaken this year which were funded with these grant funds. The CIP tax supplemented these grant funds also.
- Personnel vacancies were managed to limit the increase in personnel costs to \$93,387 over the prior year despite wage increases and higher benefit costs.

Table A-3
Change in City of Arnold Net Assets
(in thousands of dollars)

	Governmental activities	Business-type activities	Total
	2003	2003	2003
Revenues			
Program revenues:			
Charges for services	\$ 1,039	1,147	2,186
Operating grants	1,072	-	1,072
Capital grants	1,455	-	1,455
General revenues:			
Taxes	8,616	-	8,616
Licenses	251	-	251
Investment income	172	82	254
Miscellaneous	115	-	115
Total revenues	<u>12,720</u>	<u>1,229</u>	<u>13,949</u>
Expenses			
General government	2,065	-	2,065
Public safety	4,192	-	4,192
Public works	1,255	-	1,255
Highways & streets	1,191	-	1,191
Parks & recreation	564	-	564
Health & sanitation	986	-	986
Sewer system	-	1,460	1,460
Interest on long-term debt	290	-	290
Total expenses	<u>10,543</u>	<u>1,460</u>	<u>12,003</u>
Excess (deficiency) before transfers	2,177	(231)	1,946
Transfers	(142)	142	-
Increase (decrease) in net assets	<u>2,035</u>	<u>(89)</u>	<u>1,946</u>
Net Assets - September 1	<u>76,528</u>	<u>14,081</u>	<u>90,609</u>
Net Assets - August 31	<u>\$ 78,563</u>	<u>13,992</u>	<u>92,555</u>

Figure A-1



- * Misc. revenue does not include unusual items such as loan and bond proceeds.
- ** General sales tax includes the City 1% and the Recreation Center ¼%.
- *** Includes Jefferson County capital improvement sales tax, shared vehicle taxes, road and bridge tax and tourism tax.

Figure A-2

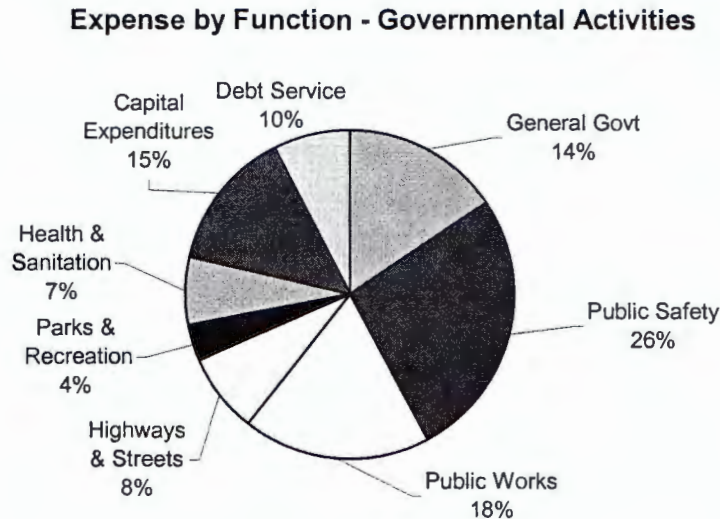


Table A-4 presents the cost of each of the City's five functions - public safety, public works, highways and streets, parks and recreation, and health and sanitation - as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. As noted previously, comparative costs between the current and previous fiscal years will be presented next year due to the new reporting model implemented this year.

- The total cost of *all activities* this year was \$12,002,495.
- The amount taxpayers paid for these activities through City taxes was \$7,290,166. Some of the costs were paid by:
 - Those who directly benefited from the programs, or
 - Other governments and organizations that subsidized certain programs with grants and contributions.

Table A-4
Net Cost of City of Arnold Activities
(in thousands of dollars)

	<u>Total Cost of Services</u> 2003	<u>Net Cost of Services</u> 2003
General Government	\$ 2,064	1,403
Public Safety	4,192	3,074
Public Works	1,255	1,047
Highways & Streets	1,191	(256)
Parks & Recreation	564	448
Health & Sanitation	986	972
Sewer System	1,460	312
Other	290	290
Total	<u>\$ 12,002</u>	<u>7,290</u>

Business-type activities. Net assets of the City's Sewer Fund decreased 1% to \$13,992,492. Factors contributing to these results included:

- The cost of services went from \$626,559 in 2002 to \$764,951 in 2003. A primary cause of the increase was for MSD sewer treatment services.
- Contracted sewer repairs because available manpower was not able to handle more maintenance work.
- A decrease in revenues due to a decrease in investment income, with investment income decreasing by \$31,645 in fiscal year 2003.
- As in the governmental fund, personnel costs increased a minimal \$26,389 due to the City's attempt to control personnel costs.

Financial Analysis of the City's Funds

As noted earlier, 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 near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City'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 year, the City's governmental funds reported combined ending fund balances of \$22,312,659. Approximately 80% of this total amount (\$17,437,083) constitutes unreserved fund balance, which is available for spending at the City's discretion. The City Council has elected to spend (1) \$13,466,819 for a new community recreation center, (2) \$1,648,157 has been set aside for the construction of sewer subdistricts and neighborhood improvement districts,

(3) \$1,240,984 is allocated for road construction and stormwater projects, (4) \$178,311 for miscellaneous reserves and (5) \$902,812 is the remaining *undesignated reserve* not allocated by City Council for other purposes. The remaining fund balance is subject to external restrictions and is committed to the following - (1) to liquidate contracts and purchase orders of the prior period (\$1,484,568), (2) to pay debt service (\$3,038,089), and (3) for a variety of other restricted purposes (\$352,919). The fund balance of the City's General Fund increased \$14,536,757 during the current fiscal year. The key factor in this change was the issuance of \$16,000,000 in bonds to finance the City's new recreation center currently being built.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at the end of the fiscal year amounted to \$2,827,318. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to an 8% increase in the original budget or \$1,355,757 and can be briefly summarized as follows:

- \$16,107 in increases in the general and administrative departments
- \$512,243 in increases allocated to the public works department for the City's share of stormwater buyouts
- \$406,795 in increases allocated for street maintenance

Of this increase, the public works stormwater funds came out of the stormwater reserve, the street maintenance came out of the street project designated reserved the remaining funds came from the technology designated reserve or the available fund balance.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of August 31, 2003 amounts to \$86,648,049 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads and bridges. The increase in the City's investment in capital assets for the current fiscal year was 4.6% (a 5% increase for governmental activities and a 1% increase for business-type activities). (See table A-5)

Major capital asset events during the current fiscal year included the following:

- The City purchased land for the Community Recreation Center for approximately \$1 million.
- A variety of stormwater properties were purchased for a total of \$1.5 million.
- The City accepted Walnut Hill Subdivision streets as City streets adding a total of \$285,697 to the City's infrastructure total.
- Sixteen police vehicles were purchased and equipped with computers for a total of \$763,811.
- Work in progress on the Recreation Center amounted to \$303,853.
- The sewer department purchased a rodder truck which will enable the department to clean the sewer lines with greater efficiency and speed which totaled \$60,000.

Table A-5
City of Arnold Capital Assets
(net of depreciation)

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Total Capital Assets</i>	
	2003		2003		2003	
Land	\$ 25,333,952		145,118		25,479,070	
Buildings	1,717,077		-		1,717,077	
Treatment plants	-		713,741		713,741	
Machinery and equipment	464,849		182,377		647,226	
Automobiles and trucks	926,453		-		926,453	
Infrastructure	44,440,899		-		44,440,899	
Sewer lines	-		12,139,652		12,139,652	
Construction in progress	303,853		280,078		583,931	
Total	\$ 73,187,083		13,460,966		86,648,049	

Long-term debt.

At year-end the City had \$21.6 million in bonds and notes outstanding – an increase of 270% over fiscal year 2003 – as shown in Table A-6. The City’s governmental activities had obligations that increased 548% in fiscal year 2003, while the business-type activities decreased 11%. More detailed information about the City’s long-term liabilities is presented in the notes to the financial statements.

New debt resulted from issuing revenue bonds for a new Recreation Center in the amount of \$16 million, which is outstanding on August 31, 2003. Though not bonded debt, it bears mentioning that the City took on an obligation for the lease/purchase of 16 automobiles for the police department totaling \$380,000. The outstanding amount at August 31, 2003 was \$239,757.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City is \$25,018,687. The City currently has no general obligation debt outstanding.

Fiscal year 2003 was the first year the City received a rating on an outstanding bond issue. The City’s revenue bonds for the Recreation Center were rated “Aaa” by Standard & Poor’s.

Table A-6
City of Arnold Outstanding Debt
(in thousands of dollars)

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Total</i>		<i>Percentage Change</i>
	2002	2003	2002	2003	2002	2003	2003
Outstanding Debt	\$ 2,925	18,961	2,904	2,597	5,829	21,558	269.8%

Economic Factors and Next Year's Budgets and Rates

- The seasonally adjusted unemployment rate for Missouri for November 2003 was 5%, six-tenths of a point lower than in December 2002. This compares to the national unadjusted rate for December 2003 which was 5.9%.
- The Consumer Price Index indicates that inflation has increased 1.6% over the July 2002 rate for the Midwest region.

These indicators were taken into account in preparing the City's budget for the 2004 fiscal year. During the current fiscal year, unreserved fund balance in the General Fund decreased to \$902,812. The City has appropriated \$200,000 of this amount for spending in the 2004 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2004 fiscal year.

The sewer rates were not increased for the 2004 budget year although a substantial increase is projected in order to fund the MSD treatment facility. The facility costs will be shared by the City.

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 the Office of the Finance Director, 2101 Jeffco Blvd., Arnold, MO, 63010.



**BASIC FINANCIAL
STATEMENTS**

CITY OF ARNOLD, MISSOURI
STATEMENT OF NET ASSETS
AUGUST 31, 2003

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,730,602	464,946	2,195,548
Investments	1,240,080	1,509,557	2,749,637
Receivables (net of allowances for uncollectibles):			
Taxes	1,133,183	-	1,133,183
Special assessments	1,717,024	-	1,717,024
Sewer service fees	-	66,731	66,731
Intergovernmental	956,309	-	956,309
Miscellaneous	838,965	-	838,965
Internal balances	41,955	(41,955)	-
Prepaid items	352,919	8,931	361,850
Bond issue costs	391,364	-	391,364
Restricted assets:			
Cash and cash equivalents	15,063,362	1,062,753	16,126,115
Capital improvements sales tax receivable	2,591,313	-	2,591,313
Investments	2,706,341	300,905	3,007,246
Capital assets:			
Land, infrastructure and construction in progress	70,078,704	425,196	70,503,900
Other capital assets, net of accumulated depreciation	3,108,379	13,035,770	16,144,149
Total Assets	<u>101,950,500</u>	<u>16,832,834</u>	<u>118,783,334</u>
LIABILITIES			
Accounts payable	1,019,262	142,457	1,161,719
Accrued payroll and compensated absences payable	549,727	5,381	555,108
Accrued post-employment benefits	5,111	-	5,111
Due to Fiduciary Fund	61,335	-	61,335
Accrued interest payable	41,705	-	41,705
Deferred revenue	2,749,035	95,807	2,844,842
Noncurrent liabilities:			
Due within one year	1,111,199	205,775	1,316,974
Due in more than one year	17,849,690	2,390,922	20,240,612
Total Liabilities	<u>23,387,064</u>	<u>2,840,342</u>	<u>26,227,406</u>
NET ASSETS			
Invested in capital assets, net of related debt	54,617,558	10,864,269	65,481,827
Restricted for debt service	1,902,327	300,905	2,203,232
Unrestricted	22,043,551	2,827,318	24,870,869
Total Net Assets	<u>\$ 78,563,436</u>	<u>13,992,492</u>	<u>92,555,928</u>

CITY OF ARNOLD, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2003

Functions/Programs	Net Revenue (Expense) And Changes In Net Assets						
	Expenses	Program Revenues			Primary Government		Total
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities							
General government	\$ 2,064,440	129,413	-	532,174	(1,402,853)	-	(1,402,853)
Public safety	4,192,120	801,586	123,180	193,697	(3,073,657)	-	(3,073,657)
Public works	1,255,023	-	-	207,638	(1,047,385)	-	(1,047,385)
Highways and streets	1,191,238	-	926,028	521,127	255,917	-	255,917
Parks and recreation	563,526	93,075	22,600	-	(447,851)	-	(447,851)
Health and sanitation	986,340	14,763	-	-	(971,577)	-	(971,577)
Interest on long-term debt	290,267	-	-	-	(290,267)	-	(290,267)
Total Governmental Activities	10,542,954	1,038,837	1,071,808	1,454,636	(6,977,673)	-	(6,977,673)
Business-type Activities							
Sewer system	1,459,541	1,147,048	-	-	-	(312,493)	(312,493)
Total Primary Government	\$ 12,002,495	2,185,885	1,071,808	1,454,636	(6,977,673)	(312,493)	(7,290,166)
General Revenues							
Taxes					8,616,141	-	8,616,141
Licenses					251,310	-	251,310
Investment income					172,335	82,407	254,742
Miscellaneous					115,104	-	115,104
Transfers					(141,868)	141,868	-
Total General Revenues					9,013,022	224,275	9,237,297
Change in Net Assets					2,035,349	(88,218)	1,947,131
Net Assets, September 1					76,528,087	14,080,710	90,608,797
Net Assets, August 31					\$ 78,563,436	13,992,492	92,555,928

See notes to financial statements

CITY OF ARNOLD, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2003

	General
ASSETS	
Cash and cash equivalents	\$ 1,730,602
Investments	1,240,080
Receivables (net of allowances for uncollectibles):	
Taxes	1,133,183
Special assessments	1,717,024
Intergovernmental	956,309
Miscellaneous	838,965
Due from other funds	41,955
Prepaid items	352,919
Restricted assets:	
Cash and cash equivalents	15,063,362
Capital improvements sales tax receivable	2,591,313
Investments	2,706,341
	<u>\$ 28,372,053</u>
Total Assets	
 LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 1,019,262
Accrued payroll and compensated absences payable	549,727
Accrued post-employment benefits	5,111
Due to other funds	61,335
Deferred revenue	4,423,959
	<u>6,059,394</u>
Total Liabilities	
 Fund Balances	
Reserved for:	
Prepaid items	352,919
Encumbrances	1,484,568
Bond escrow deposit	126,000
Bond reserve	525,972
Debt service reserve	1,136,117
Recreational center escrow deposit	1,250,000
Unreserved:	
Designated for sewer subdistrict projects	1,067,597
Designated for street projects	373,170
Designated for trash reimbursement	90,324
Designated for road reconstruction	550,000
Designated for neighborhood improvement projects	580,560
Designated for stormwater projects	317,814
Designated for recreational center	13,770,672
Designated for technology acquisitions	87,987
Undesignated	598,959
	<u>22,312,659</u>
Total Fund Balances	
	<u>\$ 28,372,053</u>
Total Liabilities And Fund Balances	

CITY OF ARNOLD, MISSOURI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2003

Total Fund Balances - Governmental Funds	\$ 22,312,659
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$76,155,892 and the accumulated depreciation is \$2,968,809.	73,187,083
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,674,924
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:	
Accrued interest payable	(41,705)
Capital lease obligations payable outstanding	(18,464,757)
Unamortized bond premium for new debts issued in the current year	(496,132)
Unamortized bond issuance cost for new debts issued in the current year	391,364
	391,364
Net Assets Of Governmental Activities	\$ 78,563,436

CITY OF ARNOLD, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2003

	General
REVENUES	
Taxes	\$ 9,542,169
Special assessments	475,833
Licenses and permits	444,745
Fines and court costs	501,000
Intergovernmental	1,107,081
Charges for services	119,825
Investment income	172,335
Miscellaneous	339,681
Total Revenues	12,702,669
EXPENDITURES	
Current:	
General government	1,910,074
Public safety	3,915,183
Public works	2,705,462
Highways and streets	1,143,693
Parks and recreation	549,509
Health and sanitation	983,565
Capital outlay	2,338,215
Debt service:	
Principal	840,243
Interest	264,736
Debt issuance costs	391,364
Total Expenditures	15,042,044
REVENUES OVER (UNDER) EXPENDITURES	(2,339,375)
OTHER FINANCING SOURCES	
Proceeds from capital lease obligations	16,876,132
NET CHANGE IN FUND BALANCES	14,536,757
FUND BALANCES, SEPTEMBER 1	7,775,902
FUND BALANCES, AUGUST 31	\$ 22,312,659

CITY OF ARNOLD, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2003

Net Change In Fund Balances - Governmental Funds \$ 14,536,757

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays over the capitalization threshold (\$3,626,755) exceeded depreciation (\$475,609) in the current period. 3,151,146

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (268,195)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets. 285,697

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal 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, premiums, discounts and similar items 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:

Capital lease obligations payable	(16,380,000)	
Premium	(496,132)	
Issuance costs	391,364	
Total	(16,484,768)	

Repayments:

Capital lease obligations payable	840,243	
Net Adjustment		(15,644,525)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Accrued interest on bonds. (25,531)

Change In Net Assets Of Governmental Activities \$ 2,035,349

See notes to financial statements _____

CITY OF ARNOLD, MISSOURI
STATEMENT OF NET ASSETS - ENTERPRISE FUND
AUGUST 31, 2003

ASSETS

Current Assets

Cash and cash equivalents	\$ 464,946
Investments	1,509,557
Sewer service fees (net of allowances for uncollectibles)	66,731
Prepaid items	8,931
Total Current Assets	2,050,165

Restricted assets

Cash and cash equivalents	1,062,753
Investments	300,905
Total Restricted Assets	1,363,658

Capital assets

Land and construction in progress	425,196
Other capital assets, net of accumulated depreciation	13,035,770
Total Capital Assets	13,460,966

Total Assets	16,874,789
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LIABILITIES

Current Liabilities

Accounts payable	142,457
Accrued payroll and compensated absences payable	5,381
Due to other funds	41,955
Deferred revenues	95,807
Revenue bonds payable - current	205,775
Total Current Liabilities	491,375

Noncurrent Liabilities

Revenue bonds payable	1,448,822
Notes payable	942,100
Total Noncurrent Liabilities	2,390,922

Total Liabilities	2,882,297
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NET ASSETS

Invested in capital assets, net of related debt	10,864,269
Restricted for debt service	300,905
Unrestricted	2,827,318
Total Net Assets	\$ 13,992,492

CITY OF ARNOLD, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - ENTERPRISE FUND
FOR THE YEAR ENDED AUGUST 31, 2003

OPERATING REVENUES	
Charges for services	<u>\$ 1,147,048</u>
OPERATING EXPENSES	
Cost of services	764,951
Administration	126,000
Depreciation and amortization	<u>455,477</u>
Total Operating Expenses	<u>1,346,428</u>
OPERATING LOSS	<u>(199,380)</u>
NONOPERATING REVENUE (EXPENSE)	
Investment income	82,407
Interest expense	<u>(113,113)</u>
Total Nonoperating Revenue (Expense)	<u>(30,706)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(230,086)
CAPITAL CONTRIBUTIONS - SEWER LINES FROM GENERAL FUND	<u>141,868</u>
CHANGE IN NET ASSETS	(88,218)
NET ASSETS, SEPTEMBER 1	<u>14,080,710</u>
NET ASSETS, AUGUST 31	<u><u>\$ 13,992,492</u></u>

CITY OF ARNOLD, MISSOURI
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
FOR THE YEAR ENDED AUGUST 31, 2003

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Receipts from customers and users	\$ 1,125,141
Payments to suppliers	(542,057)
Payments to employees	(264,667)
Net Cash Provided By Operating Activities	318,417

Cash flows used in noncapital financing activities:

Due from other funds	(15,999)
----------------------	----------

Cash flows used in capital and related financing activities:

Purchase of equipment	(111,029)
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Cash flows from investing activities:

Principal payments on notes payable	(62,500)
Principal payments on bonds	(249,250)
Investment income	84,391
Purchase of investments	(6,719,347)
Proceeds from sale of investments	6,707,084
Interest expense	(97,106)
Net Cash Used In Investing Activities	(336,728)

NET DECREASE IN CASH AND CASH EQUIVALENTS

(145,339)

CASH AND CASH EQUIVALENTS, SEPTEMBER 1

1,673,038

CASH AND CASH EQUIVALENTS, AUGUST 31

\$ 1,527,699

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (199,380)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	455,477
(Increase) decrease in:	
Receivables	(25,927)
Increase (decrease) in:	
Accounts payable	85,172
Accrued payroll and compensated absences payable	(945)
Deferred revenues	4,020
Total Adjustments	517,797
Net Cash Provided By Operating Activities	\$ 318,417

Noncash operating, financing and investing activities:

Contributed capital assets	\$ 141,868
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CITY OF ARNOLD, MISSOURI
STATEMENT OF FIDUCIARY NET ASSETS -
PENSION TRUST FUND
AUGUST 31, 2003

ASSETS

Deposit administration contracts	\$ 4,511,131
Due from other funds	61,335
Total Assets	<u>4,572,466</u>

NET ASSETS

Held in trust for pension benefits	<u>\$ 4,572,466</u>
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CITY OF ARNOLD, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PENSION TRUST FUND
FOR THE YEAR ENDED AUGUST 31, 2003

ADDITIONS

Contributions:

Employer contributions	\$ 278,498
Employee contributions	137,170
Total Contributions	415,668

Investment income:

Net appreciation in fair value of investments, interest and dividends	388,701
Less - Investment expense	(18,882)
Net Investment Income	369,819
Total Additions	785,487

DEDUCTIONS

Benefits	321,439
Refund of contributions	46,463
Total Deductions	367,902

CHANGE IN NET ASSETS

417,585

NET ASSETS HELD IN TRUST FOR PENSION
 BENEFITS, SEPTEMBER 1

4,154,881

NET ASSETS HELD IN TRUST FOR PENSION
 BENEFITS, AUGUST 31

\$ 4,572,466

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the **CITY OF ARNOLD, MISSOURI** (the City) in the preparation of the accompanying financial statements are summarized below:

1. Reporting Entity

The financial statements of the City present the financial activities of the City and any component units. The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The City is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's Board or because the component unit will provide a financial benefit or impose a financial burden on the City. The City does not have any component units.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current fixed period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - The 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.

The government reports the following major proprietary fund:

Sewer Fund - This fund is used to account for operations of the City's sewer department.

Additionally, the government reports the following fund type:

Pension Trust Fund - This fund is used to account for assets held in a trustee capacity for the City's eligible employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Fund, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer function and various other func-

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

tions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contribution and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Enterprise Fund are charges for services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

4. Budgetary Data

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

- a. On or before July 8, all departments submit requests for appropriations to the City's budget committee so that a budget may be prepared.
- b. During August, the operating budget is presented to the City Council for review. The operating budget includes proposed expenditures for the General and Enterprise Funds and the means of financing them.
- c. Public hearing meetings are held to obtain taxpayer comments.
- d. Prior to September 1, the budget is adopted by the City Council.
- e. Budgets are adopted on a basis generally consistent with U.S. generally accepted accounting principles. Expenditures modified for some year-end accruals may not legally exceed budgeted appropriations at the department level. The revenue and expenditures related to the Community Recreation Center debt is not budgeted.
- f. Current year budget includes amendments. Budget amendments at the department level must be approved by the City Council. Management may authorize transfers of appropriations within a department.
- g. Appropriations lapse at year-end.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Cash, Cash Equivalents and Investments

For cash flow statement purposes, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. State statutes authorize the City to invest in obligations of the U.S. Treasury, federal agencies, commercial paper, corporate bonds and repurchase agreements. The Pension Trust Fund is also authorized to invest in corporate common or preferred stocks, bonds and mortgages, real or personal property and other evidence of indebtedness or ownership, but excluding any debt of the City itself and individual insurance policies. Investments are stated at fair value.

6. Deposit Administration Contracts

Deposit administration contracts are pooled funds maintained by Metropolitan Life Insurance Company and are carried at contract value. Contract value consist of contributions made under the contract plus investment income, less funds used to pay benefits and investment expenses.

7. Allowance for Doubtful Accounts

The allowance for uncollectible receivables is as follows:

	<u>August 31</u> <u>2003</u>
General Fund	\$12,119
Enterprise Funds	<u>26,360</u>
	<u>\$38,479</u>

8. Due To/From Other Funds

Current portions of long-term interfund loans receivable (reported in "due from" asset accounts) are considered "available spendable resources" and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statements as "internal balances".

9. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid items. Prepaid items are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Restricted Assets

Certain funds generated by the sewer system are classified as restricted assets on the balance sheet because their use is limited by the sewer system revenue bond ordinances. The bond account is used only for the payment of principal and interest on the revenue bonds. The depreciation and replacement account is to be expended only for repairs or replacements to the sewer system. The bond reserve account is to be used only to pay bonds at maturity or interest as it accrues when and to the extent other funds are not available for this purpose.

Certain General Fund monies are classified as restricted assets on the balance sheet because their use is limited by covenants of the capital lease agreement. The reserve account is to be used solely for the purpose of making lease payments on the applicable due dates when and to the extent other funds are not available for this purpose. The lease payment account is used only for the payment of the principal and interest on the lease obligation.

Certain capital improvement sales tax receivables are classified as restricted assets on the balance sheet because their use and availability is limited by the sales tax agreement with Jefferson County. The funds are to be used for capital improvements to publicly maintained roads and become available upon the City's request for reimbursement of expenditures on approved projects.

11. Capital Assets

Capital assets, which include property, equipment and infrastructure (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the governmental-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. However, the street network infrastructure is not depreciated. The City has elected to use the modified method in accounting for its streets. The modified method allows governments to report as expenses in lieu of depreciation infrastructure expenditures which maintain the asset but do not add nor improve the asset. Additions and improvements to the street network are capitalized.

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

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Capital Assets (Continued)

Assets	Years
Machinery and equipment	3 - 15
Buildings, treatment plant and other improvements	10 - 30
Sewer lines	50
Automotive equipment	3 - 5

12. Accrued Vacation

City employees generally earn vacation at the rate of .83 working days per month or 10 days per year. Regular full-time employees having completed 6 years of service earned vacation leave at the rate of 1.25 days per month or 15 days per year. Regular full-time employees having completed 15 years of service earned vacation leave at the rate of 1.67 working days per month or 20 days per year. Regular full-time employees who are separated from service are compensated for vacation accrued up to the date of separation. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

13. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

14. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for subsequent year appropriations or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Since appropriations lapse at year-end, the subsequent fiscal year's budget specifically provides for reappropriation of outstanding encumbrances to honor the prior commitments. Encumbrances do not constitute current year expenditures or liabilities.

16. Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

1. Deposits

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 August 31, 2003, the City's bank deposits were fully insured or collateralized with securities held by the City or its agent in the City's name.

2. Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end as: 1) insured or registered with securities held by the City or its agent in the City's name, 2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name or 3) uninsured and unregistered for which the securities are held by the counterparty or by its trust department or agent, but not in the City's name.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

2. Investments (Continued)

	August 31, 2003			Carrying Amount/ Fair Value
	Categories			
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Treasury securities	\$ 525,972	-	-	525,972
Government agencies	5,040,911	-	-	5,040,911
Repurchase agreements	-	612,000	-	612,000
	<u>\$5,566,883</u>	<u>612,000</u>	<u>-</u>	<u>6,178,883</u>
Guaranteed investment contracts				15,046,867
Amounts to reconcile to statement of net assets:				
Certificates of deposit classified as investments				190,000
Investments classified as cash equivalents				(15,658,867)
Total Investments				<u>\$ 5,756,883</u>

NOTE C - CAPITAL ASSETS

The City has reported all capital assets including infrastructure in the government-wide statement of net assets. The City elected to use the modified approach for infrastructure reporting of its street network. As a result, no accumulated depreciation or depreciation expense has been recorded for this infrastructure. A more detailed discussion of the modified approach is presented in the required supplementary information section of this report. All other capital assets including other infrastructure systems were reported using the basic approach whereby accumulated depreciation and depreciation expense have been recorded.

Capital asset activity was as follows:

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE C - CAPITAL ASSETS (Continued)

	<u>For The Year Ended August 31, 2003</u>			
	<u>Balance</u> <u>August 31</u> <u>2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>August 31</u> <u>2003</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$22,857,309	2,476,643	-	25,333,952
Infrastructure	44,155,202	285,697	-	44,440,899
Construction in progress	-	303,853	-	303,853
Total Capital Assets, Not Being Depreciated	<u>67,012,511</u>	<u>3,066,193</u>	<u>-</u>	<u>70,078,704</u>
Capital assets, being depreciated:				
Buildings and other improvements	3,163,328	30,065	-	3,193,393
Automotive equipment	1,061,834	763,811	126,969	1,698,676
Machinery and equipment	1,132,736	52,383	-	1,185,119
Total Capital Assets, Being Depreciated	<u>5,357,898</u>	<u>846,259</u>	<u>126,969</u>	<u>6,077,188</u>
Less - Accumulated depreciation for:				
Building and other improvements	1,385,925	90,391	-	1,476,316
Automotive equipment	652,309	246,883	126,969	772,223
Machinery and equipment	581,935	138,335	-	720,270
Total Accumulated Depreciation	<u>2,620,169</u>	<u>475,609</u>	<u>126,969</u>	<u>2,968,809</u>
Total Capital Assets, Being Depreciated, Net	<u>2,737,729</u>	<u>370,650</u>	<u>-</u>	<u>3,108,379</u>
 Governmental Activities Capital Assets, Net	 <u>\$69,750,240</u>	 <u>3,436,843</u>	 <u>-</u>	 <u>73,187,083</u>

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE C - CAPITAL ASSETS (Continued)

	For The Year Ended August 31, 2003			Balance August 31 2003
	Balance August 31 2002	Additions	Deletions	
	Business-type Activities			
Capital assets, not being depreciated:				
Land	\$ 145,118	-	-	145,118
Construction in progress	138,211	141,867	-	280,078
Total Capital Assets, Not Being Depreciated	283,329	141,867	-	425,196
Capital assets, being depreciated:				
Buildings and treatment plants	2,168,329	43,375	-	2,211,704
Machinery and equipment	498,221	67,655	-	565,876
Sewer lines	17,499,884	-	-	17,499,884
Total Capital Assets, Being Depreciated	20,166,434	111,030	-	20,277,464
Less - Accumulated depreciation for:				
Buildings and treatment plants	1,430,739	67,224	-	1,497,963
Machinery and equipment	342,083	41,416	-	383,499
Sewer lines	5,018,126	342,106	-	5,360,232
Total Accumulated Depreciation	6,790,948	450,746	-	7,241,694
Total Capital Assets, Being Depreciated, Net	13,375,486	(339,716)	-	13,035,770
Business-Type Activities Capital Assets, Net	\$13,658,815	(197,849)	-	13,460,966

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

Governmental activities:	
General government	\$119,988
Public safety	268,071
Public works	23,922
Highways and streets	46,836
Parks and recreation	14,017
Health and sanitation	2,775
Total Depreciation Expense - Governmental Activities	\$475,609
Business-type activities:	
Sewer	\$450,746

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT

Changes in Long-term Liabilities

Long-term liability activity was as follows:

	For The Year Ended August 31, 2003				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital lease obligations payable	\$2,925,000	16,380,000	(840,243)	18,464,757	1,111,199
Plus premium	<u>-</u>	<u>496,132</u>	<u>-</u>	<u>496,132</u>	<u>-</u>
Total Governmental Activities	<u>\$ 2,925,000</u>	<u>16,876,132</u>	<u>(840,243)</u>	<u>18,960,889</u>	<u>1,111,199</u>
Business-type activities:					
Revenue bonds payable	\$1,926,025	-	(249,250)	1,676,775	205,775
Less - Discounts	(26,908)	-	4,730	(22,178)	-
Notes payable	<u>1,004,600</u>	<u>-</u>	<u>(62,500)</u>	<u>942,100</u>	<u>-</u>
Total Business-Type Activities	<u>\$2,903,717</u>	<u>-</u>	<u>(307,020)</u>	<u>2,596,697</u>	<u>205,775</u>

Capital Lease Obligations Payable

In December 1997, the City issued \$3,635,000 in Leasehold Revenue Bonds (Series 1997) which represent proportionate interest in base rentals to be paid by the City pursuant to an annually renewable lease/purchase agreement dated December 1, 1997 between the City and UMB Bank, N.A. Company of Missouri (the trustee/lessor). The trustee has agreed to execute and deliver the bonds pursuant to a declaration and indenture of trust to finance the City's acquisition of the Collins Tract Park. The base rentals constitute rent for the park pursuant to the lease. The Leasehold Revenue Bonds bear interest ranging from 4.1% to 5%.

In July 2001, the City issued \$1,260,000 in Certificates of Participation (Series 2001) which the City and the Trustee-UMB Bank, N.A. Company of Missouri have entered into a base lease, pursuant to which the City, as lessor, has leased to the Trustee, as lessee, the real estate on which the City's municipal building complex is located, together with all improvements now or to be situated thereon for rent. The Series 2001 Certificates of Participation have been delivered and sold for the purpose of providing funds to pay the costs of (1) refunding \$1,170,000 outstanding principal amount of Certificates of Participation (Series 1986), which were issued to provide funds to acquire and construct a new municipal building for the City; and (2) pay the costs of delivering the Certificates. The Certificates of Participation bear interest ranging from 3.2% to 4.3%.

In May 2003, the City issued \$16,000,000 in Leasehold Revenue Bonds (Series 2003) which represent proportionate interest in base rentals to be paid by the City pursuant to an annually renewable lease/purchase agreement dated May 1, 2003 between the City and UMB Bank, N.A. Company of Missouri

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

(the trustee/lessor). The trustee has agreed to execute and deliver the bonds pursuant to a declaration and indenture of trust to finance the City's acquisition and construction of the recreation center. The base rentals constitute rent for the facility pursuant to the lease. The Leasehold Revenue Bonds bear interest ranging from 2% to 5%.

During 2003, the City has entered into a lease agreement as lessee for financing the acquisition of police vehicles.

The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2003, were as follows:

<u>For The Years</u> <u>Ended August 31</u>	<u>Governmental Activities</u>				
	<u>Collins</u> <u>Tract</u> <u>Park</u>	<u>Municipal</u> <u>Building</u> <u>Complex</u>	<u>Community</u> <u>Recreation</u> <u>Center</u>	<u>Police</u> <u>Vehicles</u>	<u>Total</u>
2004	\$ 602,965	240,730	853,089	195,578	1,892,362
2005	876,750	237,530	879,489	48,894	2,042,663
2006	-	458,920	905,289	-	1,364,209
2007	-	-	935,489	-	935,489
2008	-	-	959,989	-	959,989
2009 - 2013	-	-	5,159,401	-	5,159,401
2014 - 2018	-	-	5,833,160	-	5,833,160
2019 - 2023	-	-	6,550,000	-	6,550,000
2024 - 2027	-	-	5,731,376	-	5,731,376
Total Minimum Lease Payments	1,479,715	937,180	27,807,282	244,472	30,468,649
Less - Amount represent- ing interest	<u>109,715</u>	<u>82,180</u>	<u>11,807,282</u>	<u>4,715</u>	<u>12,003,892</u>
Present Value Of Minimum Lease Payments	<u>\$1,370,000</u>	<u>855,000</u>	<u>16,000,000</u>	<u>239,757</u>	<u>18,464,757</u>

Revenue Bonds Payable

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt services. The original amount outstanding at the end of the current fiscal year related to bonds issued in prior years was \$1,676,775. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Sewerage system - Series 1992	4.25 - 6.55%	\$785,000
Sewerage system - Series 1993	3.4 - 5.4	741,775
Sewerage system - Series 1994	3 - 5.3	150,000

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

The revenue bonds dated June 1, 1992 maturing after January 1, 2002 may be called for redemption and payment prior to maturity in whole or in part on each June 1 and December 1 commencing June 1, 2002, at redemption prices set forth below (expressed as percentages of principal amount) plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
June 1, 2002 and December 1, 2002	102%
June 1, 2003 and December 1, 2003	101
June 1, 2004 and thereafter	100

The revenue bonds dated June 1, 1993 maturing after January 1, 2003 may be called for redemption and payment prior to maturity in whole or in part on each June 1 and December 1 commencing June 1, 2003, at redemption prices set forth below (expressed as percentages of principal amount) plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
June 1, 2003 and December 1, 2003	102%
June 1, 2004 and December 1, 2004	101
June 1, 2005 and thereafter	100

The revenue bonds dated March 1, 1994 maturing after September 1, 2001 may be called for redemption and payment prior to maturity in whole or in part of any interest payment date commencing September 1, 1999, at a redemption price equal to 100% of the principal amount plus accrued interest thereon to the date of redemption.

The bond ordinances required that the City establish rates and charges for its sewer services, such that the revenues derived from the sewage system are sufficient to provide for the payment of principal and interest on the revenue bonds and for the operation and maintenance of the sewage system.

Revenue bond debt service requirements to maturity are as follows:

<u>For The Years</u> <u>Ending August 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 205,775	99,820
2005	120,000	85,291
2006	128,000	78,187
2007	136,000	70,553
2008	144,000	62,382
2009 - 2013	855,000	169,200
2014 - 2018	<u>88,000</u>	<u>4,752</u>
Total	<u>\$1,676,775</u>	<u>570,185</u>

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT (Continued)

Notes Payable	August 31 2003
SRF - 1992, no interest	\$415,000
SRF - 1993, no interest	<u>527,100</u>
	<u>\$942,100</u>

In conjunction with the bonds dated June 1, 1992, a reserve account has been established with a no-interest loan funded with federal capitalization grants and matching funds from the state of Missouri. When fully funded, this loan (reserve account) will be funded in an amount equal to 50% of the outstanding principal amount of such bonds. The reserve account is held in trust. As the principal amount of such bonds is repaid, the amounts held in the reserve account will be reduced such that the reserve account will equal 50% of the remaining principal balance of such bonds.

In conjunction with the bonds dated August 1, 1993, a reserve account has been established with a no-interest loan funded with federal capitalization grants and matching funds from the State of Missouri. When fully funded, this loan (reserve account) will be funded in an amount equal to 70% of the outstanding principal amount of such bonds. The reserve account is held in trust. As the principal amount of such bonds is repaid, the amounts held in the reserve account will be reduced such that the reserve account will equal 70% of the remaining principal balance of such bonds.

The City is in compliance with significant requirements regarding deposits and debt service payments.

NOTE E - EMPLOYEE RETIREMENT SYSTEMS AND PLANS

The City maintains a single-employer, defined benefit pension plan (City of Arnold, Missouri Police Pension Plan) which covers all members of the organized police force and participates in the state-wide Missouri Local Government Retirement System, an agent multiple-employer, defined benefit pension plan which covers all of the City's full-time employees except for members of the police force.

1. City of Arnold, Missouri Police Pension Plan

Plan Description and Provisions

The Plan is a single-employer, defined benefit pension plan that covers all of the City's full-time police employees. The Plan was created and is governed by City ordinance. The payroll for employees covered by the Plan for the year ended August 31, 2002, which is the date of the latest actuarial valuation available, was \$1,712,714 and the City's total payroll was \$4,247,620.

The Plan does not issue a separate stand-alone financial report. The financial information is included as a Trust Fund in the City's basic financial statements. Information about the Plan is provided in a summary plan description.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE E - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

1. City of Arnold, Missouri Police Pension Plan (Continued)

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Membership in the Plan is comprised of the following:

<u>Group</u>	<u>August 31 2002</u>
Retirees and beneficiaries currently receiving benefits	1
Vested terminated employees and active employees	45

Employees attaining the age of 55 who have completed five or more years of service are entitled to benefits based upon average earnings and years of service. The Plan also provides early retirement, death and disability.

City ordinance requires each member to contribute 8½% of gross salary. The ordinance requires the City to contribute the actuarially computed amounts, which together with employee contributions and investment income, will cover the costs of the Plan.

Funding Status and Progress

<u>Pension Plan</u>			
<u>Valuation For The Actuarial Years Ended August 31</u>	<u>Actuarial Value Of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>
2002	\$4,174,590	\$3,945,846	(\$228,744)
2001	3,932,302	3,931,837	(465)
2000	3,310,083	3,895,918	585,835
1999	2,525,265	3,239,830	714,565
1998	2,830,169	3,679,937	849,768
1997	2,871,681	3,702,791	831,110

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE E - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

1. City of Arnold, Missouri Police Pension Plan (Continued)

<u>Pension Plan</u>			
<u>Valuation For The Actuarial Years Ended August 31</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL As A Percentage Of Covered Payroll</u>
2002	105.8%	\$1,712,714	(13.4%)
2001	100.0	1,692,864	-
2000	85.0	1,596,144	36.7
1999	77.9	1,367,738	52.2
1998	76.9	1,436,227	59.2
1997	77.6	1,389,449	59.8

<u>Schedule Of Employer Contributions</u>			
<u>For The Years Ended August 31</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2002	\$194,114	\$333,911	172.0%
2001	248,759	349,958	140.7
2000	239,086	299,407	125.2
1999	279,684	265,166	94.8
1998	262,268	198,073	75.5
1997	236,162	222,077	94.0

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Frozen entry age
Amortization method	Using assumed rate of 8% over various years
Amortization period	Closed
Asset valuation method	At contract value and market value
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.5%
Inflation rate	N/A

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE E - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

1. City of Arnold, Missouri Police Pension Plan (Continued)

Annual Pension Cost

Current year annual pension costs for the Plan are shown in the trend information. Annual required contributions were made by the Plan. There is no net pension obligation for the Plan.

Trend Information

The historical trend information about the Plan is presented herewith to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparison with other Public Employee Retirement Systems (PERS). The information provided is the latest information available.

Pension Plan			
<u>Valuation For The Actuarial Years Ended August 31</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2002	\$194,114	172.0%	(\$205,114)
2001	248,759	140.7	(60,479)
2000	239,086	125.2	37,967
1999	279,684	94.8	91,644
1998	262,268	75.5	72,080
1997	236,162	94.0	7,335
<u>Valuation For The Actuarial Years Ended August 31</u>	<u>Net Pension Obligation (Asset) Beginning Of Year</u>	<u>Interest Net Pension Obligation (Asset)</u>	<u>Annual Required Contribution</u>
2002	(\$60,479)	(\$4,838)	\$194,114
2001	37,967	2,753	248,759
2000	91,644	6,644	239,086
1999	72,080	5,046	279,684
1998	7,335	550	262,268
1997	(6,308)	(442)	236,162

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE E - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

1. City of Arnold, Missouri Police Pension Plan (Continued)

Pension Plan		
Valuation For The Actuarial Years Ended August 31	Actual Contribution	Net Pension Obligation (Asset) End Of Year
2002	\$333,911	(\$205,114)
2001	349,958	(60,479)
2000	299,407	37,967
1999	265,166	91,644
1998	198,073	72,080
1997	222,077	7,335

2. Missouri Local Government Employees Retirement System (LAGERS)

Plan Description

The City participates in LAGERS, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, Section RSMo 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and it is tax exempt.

LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

Funding Policy

The City's full-time employees do not contribute to the pension plan. The City is required by state statute to contribute at an actuarially determined rate; the current rate is 11.7% (general) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the City. The contribution provisions of the City are established by state statute.

Annual Pension Cost

For 2003, the City's annual pension cost of \$234,701 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2001 and/or 2002 annual actuarial valuation using the entry age actuarial cost method. The

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE E - EMPLOYEE RETIREMENT SYSTEMS AND PLANS (Continued)

2. Missouri Local Government Employees Retirement System (LAGERS) (Continued)

actuarial assumptions included a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually; b) projected salary increases of 4% per year, compounded annually, attributable to inflation; c) additional projected salary increases ranging from 0% to 4.2% per year, depending on age, attributable to seniority/merit; d) pre-retirement mortality based on the 1983 Group Annuity Mortality table; and e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at February 28, 2003 was 21 years.

Three-year trend information follows:

<u>For The Years Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>
2003	\$234,701	100%
2002	256,620	100
2001	261,030	100

Schedule of funding progress follows:

<u>For The Valuation Years Ended February 28</u>	<u>Actuarial Value Of Assets</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>
2003	\$3,801,666	\$4,474,840	\$673,174
2002	3,534,683	4,196,464	661,781
2001	3,254,438	3,869,440	615,002

<u>For The Valuation Years Ended February 28</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL As A Percentage Of Covered Payroll</u>
2003	85%	\$1,906,063	35%
2002	84	1,995,830	33
2001	84	1,836,757	33

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2001 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE F - INTERFUND ASSETS/LIABILITIES

Individual interfund assets and liabilities are as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>August 31</u> <u>2003</u>
General Fund	Sewer Fund	\$ 41,955
Police Pension Trust Fund	General Fund	<u>61,335</u>
		<u>\$103,290</u>

NOTE G - PROPERTY TAXES

Property taxes are recorded as revenue in the fiscal year in which they are levied. Taxes levied and uncollected are carried as an asset of the General Fund. An allowance has been established for the estimated uncollectible property taxes.

The City's property tax calendar is as follows:

- a. Property is assessed by the County on January 1 each year.
- b. The tax levy ordinance is adopted and filed with the county clerk on or before September 1.
- c. Property taxes are due to be collected on or before December 31.
- d. Property taxes attach as an enforceable lien on property as of January 1.

NOTE H - INSURANCE

The City is a member of the Missouri Intergovernmental Risk Management Association (MIRMA), a state-wide governmental self-insurance pool which provides property, liability and workers' compensation coverages to its participating members in a single comprehensive multiline package. The various lines of coverage are not available individually and the membership is limited to municipalities and municipally owned utilities. The City's policy covers all real and personal property owned by the City except sewer lines. The policy is for replacement cost and expires June 30, 2004.

MIRMA is funded by annual member assessments calculated at a rate per \$100 of annual payroll which applies to all lines of coverage on a composite basis. These funds are used to pay losses within specific risk retention limits shared equally by all members; purchase excess insurance which provides a transfer of catastrophic risk to private insurance carriers; purchase services such as claims administration, loss prevention and data processing; and pay administrative expenses. Should actual insurance losses exceed MIRMA's estimates, the City could be required to contribute additional funds. Management believes the risk of additional loss is minimal and any additional contributions that may be required would not materially impact the overall operations of the City. The City paid an assessment totaling \$477,602 for MIRMA's fiscal years ended June 30, 2003. Settled claims resulting in these risks have not exceeded coverage in any of the past three years.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE I - INTERFUND ADMINISTRATION FEE

During the year, the Sewer System Fund paid \$126,000 to the General Fund for administrative costs incurred by the General Fund relating to the operation of the Sewer System Fund. This fee is included in miscellaneous revenue in the General Fund.

NOTE J - CONTINGENCIES AND COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is subject to various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have material adverse effect on the financial condition of the City.

NOTE K - ACCOUNTING CHANGE AND RESTATEMENT OF FUND BALANCE

During fiscal year 2002, the City adopted GASB Statement No. 34 (GASB No. 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37 (GASB No. 37), *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38 (GASB No. 38), *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB No. 34 (as amended by GASB No. 37) represents a very significant change in the financial reporting model used by state and local governments.

GASB No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities on the statement of net assets and statement of activities. Additionally, the City's statement of net assets includes capital assets and long-term liabilities of the City which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, respectively. In addition to the fixed assets previously recorded in the General Fixed Assets Account Group, the City retroactively capitalized infrastructure assets. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting for the City's General Fund, which is similar to that previously presented for these funds in the City's financial statements, although the format of financial statements has been modified by GASB No. 34.

CITY OF ARNOLD, MISSOURI
NOTES TO FINANCIAL STATEMENTS

NOTE K - ACCOUNTING CHANGE AND RESTATEMENT OF FUND BALANCE (Continued)

GASB No. 34 also includes, as required supplementary information, Management's Discussion and Analysis (MD&A), which provides an analytical overview of the City's financial activities. In addition, budgetary comparison schedules are presented which compare the original and final revised budget with actual results for the General Fund.

GASB No. 38 requires certain disclosures to be made in the notes to the basic financial statements concurrent with the implementation of GASB No. 34. While this statement did not affect amounts reported in the financial statements of the City, certain note disclosures have been added and amended including descriptions of activities of major funds, future debt service and lease obligations in five year increments and interfund balances and transactions.

These statements had a significant effect on the City's financial reporting model. All statements were retroactively applied to September 1, 2002. Restatement of net assets within the government-wide financial statements is as follows:

General Fund - Total Fund Equity, August 31, 2002	\$ 7,775,902
Required GASB No. 34 adjustments:	
Capital assets, net accumulated depreciation	69,750,240
Long-term and other liabilities	(2,941,174)
Revenue recognition	<u>1,943,119</u>
Total Net Assets, August 31, 2002	<u>\$76,528,087</u>