

CITY OF PASADENA HILLS
PASADENA HILLS, MISSOURI

FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2005

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

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INDEPENDENT AUDITOR'S REPORT

Board of Aldermen
City of Pasadena Hills
Pasadena Hills, Missouri 63121

We have audited the accompanying basic financial statements of the City of Pasadena Hills, Missouri (City) as of and for the year ended February 28, 2005 as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

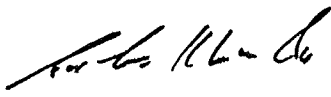
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and funds of the City as of February 28, 2005, and the changes in financial position of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, 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*, as of February 28, 2005.

In accordance with *Government Auditing Standards*, we have also issued, separately, our report dated February 17, 2006, 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 and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Sailor, Khan & Co.
February 17, 2006

City of Pasadena Hills

Management's Discussion and Analysis (MD&A) February 28, 2005 (Unaudited)

Our discussion and analysis of the City of Pasadena Hills, Missouri (the City) financial performance provides an overview of the City's financial activities for the year ended February 28, 2005 (fiscal year). Please read it in conjunction with the City's financial statements.

Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999.

FINANCIAL HIGHLIGHTS

- ▶ The City's total combined net assets of about \$1,390,000 increased about \$150,000 during the fiscal year.
- ▶ Not coincidentally, the City's total combined revenues of about \$705,000 exceeded expenses by about \$150,000.
- ▶ The City's single program activity – Sanitation, experienced revenues of about \$151,000 which were less than expenses by about \$1,000.
- ▶ The City's total assets of about \$1,500,000 consist overwhelmingly of cash and cash equivalents (58.8%) and property and equipment (36.5%).
- ▶ Liabilities increased slightly to about \$110,000 primarily as a result of increased debt, net of payments, of about \$36,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are also provided. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

REPORTING THE CITY AS A WHOLE

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

One of the most important questions asked about the City's finances is "Is the City better off or worse off as a result of the year's activities?" The statements of net assets and net revenues / expenses report information about the city as a whole and about its activities in a way that helps answer this question. These statements include the City's assets and liabilities using the accrual basis, which is similar to the accounting used by most private-sector companies. Likewise, on a combined basis, all of the fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities, as one way to measure the City financial health, or financial position. Over time, increases or decreases in the City's net assets is one indicator of whether it financial health in improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads and other capital assets, to assess the overall health of the City.

Management's Discussion and Analysis (MD&A) - Continued

During the current fiscal year, the City's net assets increased about \$150,000. Of this amount, the bond fund contributed about \$128,000. During the fiscal year, the City's voters passed Proposition S authorizing the City to incur general obligation debt up to \$2,000,000 and the City executed a bond indenture in the amount of \$1,700,000 and drew an initial amount of \$50,000. The increase in bond fund net assets was primarily the result of the City's first tax assessment in anticipation of drawing the balance of the debt and beginning debt service in fiscal year 2006. During the current fiscal year only nominal expenses were incurred. The sewer lateral fund contributed about \$8,000, as revenues of about \$11,000 exceeded expenses.

The City continues to fund capital additions as well as all governmental activities through its general fund, resulting in a deficit. The City's capital improvement fund continues to meet debt service related to debt incurred to purchase the City's city hall. The current fiscal year represents the first year the fund has made a significant increase in net assets, about \$66,000 to about \$89,000.

The City has a single program related activity – sanitation. The City and a neighboring community contract with a third party vendor for refuse removal. Generally, the City sets billing rates for this service to result in a self-funding or breakeven activity. In other words, net revenue / expense should be at or near zero in any given year. This year was no exception.

Almost 59% of the City's total assets of about \$1,500,000 are represented by cash and cash equivalents. An additional almost 37% is represented by property and equipment, either owned or as leasehold improvements. As a result the City's financial position is very strong.

James P. McLaughlin, Mayor

Jeffrey B. Blume, Treasurer

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

February 28, 2005

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 882,924
Accounts Receivable - net of allowance	65,352
Abatements	3,605
Capital assets:	
Land	11,980
Other capital assets, net of depreciation and amortization	<u>536,352</u>
Total Assets	<u>1,500,213</u>
LIABILITIES	
Court bond deposits	800
Accounts Payable and other current liabilities	10,671
Accrued interest	1,078
Bond and notes payable (including current portion of note payable of \$14,930)	<u>97,613</u>
Total Liabilities	<u>110,162</u>
NET ASSETS	
Invested in capital assets net of related debt	450,719
Restricted for:	
Capital improvement	143,472
Debt service	114,431
Unrestricted	<u>681,429</u>
Total Net Assets	<u>\$ 1,390,051</u>

See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the year ended February 28, 2005

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Net (Expense) Revenue and Change in Net Assets
Primary Government:			
Governmental activities:			
General government and administration	\$ 159,118	\$ 22,099	\$ (137,019)
Public safety	94,989	----	(94,989)
Public works	140,492	----	(140,492)
Sanitation	152,669	151,267	(1,402)
Sewer Lateral	2,447	10,728	8,281
Interest on long term debt	2,846	----	(2,846)
 Total Governmental Activities	 552,561	 184,094	 (368,467)
 Total Primary Government	 \$ 552,561	 \$ 184,094	 (368,467)

General Revenues:

Taxes , levied for general purposes and debt service	163,702
Gross receipt taxes	65,590
Intergovernmental	278,421
Interest and investment earnings	3,920
Other revenue	9,441
Total General Revenues	521,074
Change in Net Assets	152,607

Net assets at beginning of year	811,737
Prior period adjustments- conversion to accrual basis	58,058
Prior period adjustment per GASB 34:	
Capitalization of note payable	(62,071)
Capitalization of capital assets	429,720
Net assets adjusted at beginning of year	1,237,444
 Net assets at end of year	 \$ 1,390,051

See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**GOVERNMENTAL FUNDS
BALANCE SHEET**

February 28, 2005

	General	Capital Improvement	Sewer Lateral	Debt Service	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 554,624	\$ 241,608	\$ 36,521	\$ 50,171	\$ 882,924
Due from other funds	29,872	----	10,810	64,260	104,942
Abatements	3,605	----	----	----	3,605
	<u>588,101</u>	<u>241,608</u>	<u>47,331</u>	<u>114,431</u>	<u>991,471</u>
Total Assets	\$ <u>588,101</u>	\$ <u>241,608</u>	\$ <u>47,331</u>	\$ <u>114,431</u>	\$ <u>991,471</u>
LIABILITIES					
Court bond	\$ 800	\$ ----	\$ ----	\$ ----	\$ 800
Accrued expenses and other current liabilities	3,194	----	----	----	3,194
Due to other funds	----	104,942	----	----	104,942
	<u>3,994</u>	<u>104,942</u>	<u>----</u>	<u>----</u>	<u>108,936</u>
Total Liabilities	<u>3,994</u>	<u>104,942</u>	<u>----</u>	<u>----</u>	<u>108,936</u>
FUND BALANCES					
Reserved for:					
Capital improvement	----	136,666	----	----	136,666
Debt service	----	----	----	114,431	114,431
Sewer lateral	----	----	47,331	----	47,331
Unreserved for:					
General	584,107	----	----	----	584,107
	<u>584,107</u>	<u>136,666</u>	<u>47,331</u>	<u>114,431</u>	<u>882,535</u>
Total Fund Balances	<u>584,107</u>	<u>136,666</u>	<u>47,331</u>	<u>114,431</u>	<u>882,535</u>
Total Liabilities and Fund Balances	\$ <u>588,101</u>	\$ <u>241,608</u>	\$ <u>47,331</u>	\$ <u>114,431</u>	\$ <u>991,471</u>

See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO STATEMENT OF NET ASSETS**

February 28, 2005

	Total Governmental Funds	Adjustments to Accrual Basis (1)	Long-term Assets, Liabilities (2)	Reclassifications and eliminations	Statement of Net Assets Totals
ASSETS					
Cash and cash equivalents	\$ 882,924	----	\$ ----	\$ ----	\$ 882,924
Accounts Receivable - net of allowance	----	65,352	----	----	65,352
Due from other funds	104,942	----	----	(104,942)	----
Abatements	3,605	----	----	----	3,605
Capital assets:					
Land	----	----	11,980	----	11,980
Other capital assets, net of depreciation and amortization	----	----	536,352	----	536,352
Total Assets	\$ 991,471	\$ 65,352	\$ 548,332	\$ (104,942)	\$ 1,500,213
LIABILITIES					
Court bond deposits	\$ 800	----	\$ ----	\$ ----	\$ 800
Accounts Payable and other current liabilities	3,194	7,477	----	----	10,671
Due to other funds	104,942	----	----	(104,942)	----
Accrued interest	----	----	1,078	----	1,078
Bond and notes payable (including current portion of note payable of \$14,930)	----	----	97,613	----	97,613
Total Liabilities	108,936	7,477	98,691	(104,942)	110,162
FUND BALANCES / NET ASSETS	882,535	57,875	449,641	----	1,390,051
Total Liabilities and Fund Balances /Net Assets	\$ 991,471	\$ 65,352	\$ 548,332	\$ (104,942)	\$ 1,500,213

See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO STATEMENT OF NET ASSETS (CONTINUED)**

February 28, 2005

(1) Accrual adjustments represent the net amounts of receivables and payables of the prior and current years to convert the City's cash basis financial statements to the accrual basis.

(2) Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

\$ 1,078

When capital assets (land, buildings, leasehold improvements and equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$	644,855
Accumulated depreciation		<u>96,523</u>
	\$	<u>548,332</u>

Long term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and non-current are reported in the statement of net assets. The amount borrowed is received in the governmental funds and increases fund balance.

Current portion of note payable	\$	14,930
Long term debt- notes payable		32,683
Long term debt- bonds		<u>50,000</u>
	\$	<u>97,613</u>

See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

For the year ended February 28, 2005

	General	Capital Improvement	Sewer Lateral	Debt Service	Total Governmental Funds
Revenues:					
Property taxes	\$ 37,762	\$ -----	\$ -----	\$ 116,003	\$ 153,765
Gross receipt taxes	63,245	-----	-----	-----	63,245
Licenses and permits	9,048	-----	-----	-----	9,048
Intergovernmental	212,357	66,330	-----	-----	278,687
Court fines	13,355	-----	-----	-----	13,355
Interest and investment earnings	1,932	1,502	126	128	3,688
Other revenues	9,441	-----	-----	-----	9,441
Trash revenues	165,398	-----	-----	-----	165,398
Sewer Lateral fees	-----	-----	11,393	-----	11,393
	<u>512,538</u>	<u>67,832</u>	<u>11,519</u>	<u>116,131</u>	<u>708,020</u>
Total Revenues					
Expenditures:					
Current:					
General Government	133,227	-----	-----	1,700	134,927
Public Safety	94,989	-----	-----	-----	94,989
Public Works	144,725	-----	-----	-----	144,725
Sanitation	152,669	-----	-----	-----	152,669
Capital improvements	141,237	-----	-----	-----	141,237
Sewer Lateral	-----	-----	2,447	-----	2,447
Debt service:					
Principal	-----	-----	-----	14,458	14,458
Interest	-----	-----	-----	1,768	1,768
	<u>666,847</u>	<u>-----</u>	<u>2,447</u>	<u>17,926</u>	<u>687,220</u>
Total Expenditures					
Excess (Deficiency) of Revenues Over Expenditures	<u>(154,309)</u>	<u>67,832</u>	<u>9,072</u>	<u>98,205</u>	<u>20,800</u>
Other Financing Sources and (Uses)					
Proceeds of bond issue	-----	-----	-----	50,000	50,000
Transfers in	50,000	-----	-----	16,226	66,226
Transfers out	-----	(16,226)	-----	(50,000)	(66,226)
	<u>50,000</u>	<u>(16,226)</u>	<u>-----</u>	<u>16,226</u>	<u>50,000</u>
Total Other Financing Sources and (Uses)					
Net Change in Fund Balances	(104,309)	51,606	9,072	114,431	70,800
Fund balances at beginning of year	<u>688,416</u>	<u>85,060</u>	<u>38,259</u>	<u>-----</u>	<u>811,735</u>
Fund balances at end of year	<u>\$ 584,107</u>	<u>\$ 136,666</u>	<u>\$ 47,331</u>	<u>\$ 114,431</u>	<u>\$ 882,535</u>

See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES**

For the year ended February 28, 2005

	Total Governmental Funds	Adjustments to Accrual Basis (1)	Capital related items (3)	Long-term debt transactions (4)	Statement of Activities Totals
Revenues:					
Property taxes	\$ 153,765	\$ 10,044	----	\$ ----	\$ 163,809
Gross receipt taxes	63,245	2,345	----	----	65,590
Licenses and permits	9,048	(304)	----	----	8,744
Intergovernmental	278,687	(266)	----	----	278,421
Court fines	13,355	----	----	----	13,355
Interest and investment earnings	3,688	125	----	----	3,813
Other revenues	9,441	----	----	----	9,441
Trash revenues	165,398	(14,131)	----	----	151,267
Sewer Lateral fees	11,393	(665)	----	----	10,728
	<u>708,020</u>	<u>(2,852)</u>	<u>----</u>	<u>----</u>	<u>705,168</u>
Total Revenues					
Expenditures:					
Current:					
General Government	134,927	1,565	22,626	----	159,118
Public Safety	94,989	----	----	----	94,989
Public Works	144,725	(4,233)	----	----	140,492
Sanitation	152,669	----	----	----	152,669
Capital improvements	141,237	----	(141,237)	----	----
Sewer Lateral	2,447	----	----	----	2,447
Debt service:					
Principal	14,458	----	----	(14,458)	----
Interest and other charges	1,768	----	----	1,078	2,846
	<u>687,220</u>	<u>(2,668)</u>	<u>(118,611)</u>	<u>(13,380)</u>	<u>552,561</u>
Total Expenditures					
Excess (Deficiency) of Revenues Over Expenditures	<u>20,800</u>	<u>(184)</u>	<u>118,611</u>	<u>13,380</u>	<u>152,607</u>
Other Financing Sources and (Uses)					
Proceeds of bond issue	50,000	----	----	(50,000)	----
Transfers in	66,226	----	----	(66,226)	----
Transfers out	(66,226)	----	----	66,226	----
	<u>50,000</u>	<u>----</u>	<u>----</u>	<u>(50,000)</u>	<u>----</u>
Total Other Financing Sources and (Uses)					
Net Change in Fund Balances	<u>\$ 70,800</u>	<u>\$ (184)</u>	<u>\$ 118,611</u>	<u>\$ (36,620)</u>	<u>\$ 152,607</u>

See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES (CONTINUED)**

For the year ended February 28, 2005

(1) See explanation on page 5

(3) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decreases by the amount of depreciation expense charged for the year.

Capital outlay	\$	141,237
Depreciation expense		<u>(22,626)</u>
Difference	\$	<u><u>118,611</u></u>

(4) Interest expense in the statement of activities differs from the amount reported in governmental funds because additional accrued interest was calculated for bonds.

	\$	<u>1,078</u>
--	----	--------------

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increase long-term liabilities in the statement of net assets and does not affect the statement of activities.

Proceeds from bond issue	\$	<u>50,000</u>
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Repayment of notes payable is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used, for the city as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Principal payment on note payable	\$	<u>14,458</u>
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See Notes to Basic Financial Statements

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS

February 28, 2005

NOTE 1 - Summary of Significant Accounting Policies:

A. General Statement

The City of Pasadena Hills, Missouri (the City) was incorporated in 1982. The City operates under a Mayoral form of government. The Board of Aldermen consists of four aldermen and the Mayor. The City functions under a constitutional charter approved by its citizens in 1982.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board (GASB)*, the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below. For the fiscal year ended February 28, 2005, the City implemented the new financial reporting requirements of GASB Statement No 34. As a result, an entirely new financial presentation format has been implemented.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City has no component units.

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

February 28, 2005

NOTE 1 - Summary of Significant Accounting Policies: (Continued)

C. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental activities columns, has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The City receives no operating or capital grants or contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

As it is statutorily required, the City maintains its books and records using the cash basis of accounting. In total, the City's financial statements are prepared in accordance with generally accepted accounting principles using the accrual basis of accounting. This is accomplished by making certain adjustments. The following adjustments have been made:

- Accrued expenses – costs the City is obliged to pay but for which it has not been billed or the bill was received after year end
- Taxes and other revenues receivable – revenues billed by and or collected by other governmental entities for which the City has a right of receipt
- All plant property and equipment acquired

As necessary, the City's various funds enter into transactions with or for the benefit of one another. The balances resulting from these transactions are eliminated as adjustments.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements. All funds are considered major funds.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

February 28, 2005

NOTE 1 - Summary of Significant Accounting Policies: (Continued)

C. Basis of Presentation (Continued)

General Fund

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to another fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Improvement Fund

This fund is used to account for resources and expenditures of the half cent Capital Improvement Tax.

Sewer Fund

This fund is used to account for the resources and expenditures of the Lateral Sewer Tax.

Debt Service Fund

Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The payment of principal and interest on the note payable is shown on the debt service fund and the corresponding amount is shown as a transfer from the Capital Improvement Fund to finance the payment. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

February 28, 2005

NOTE 1 - Summary of Significant Accounting Policies: (Continued)

D. Measurement Focus/Basis of Accounting (Continued)

Governmental fund financial statements are reported on the cash basis and the reconciliation adjustments as presented convert the combined governmental funds to amounts shown on the government-wide statements.

E. Budgetary Control

The City establishes the fiscal year as the twelve-month period beginning March 1. The City maintains a cash basis budget for revenues and expenditures. The treasurer proposes the budget to the Board of Alderman for review, usually each January. The Board then reviews, recommends, as it deems appropriate, changes, additions or deletions and approves the budget. Under Missouri law, expenditures may not legally exceed budgeted appropriations at the fund level. If expenditures for a fund exceed the budget, either the budget must be amended or the Board of Aldermen must pass a resolution authorizing the expenditures in excess of the budget. Budgeted amounts are as originally adopted or as amended by the Board of Aldermen.

F. Cash and Investments

Excess funds are invested in the City's money market accounts or short-term time deposits. All cash and short term time deposits are entirely insured with securities pledged to the City by the holding institution. Investments are included at fair value.

G. Interfund Due To / From

Interfund due to/from outstanding between the funds have been eliminated.

H. Transactions Between Funds

Interfund transfers are included in the fund balance statements between the Capital Improvement Fund and the Debt Service Fund to finance the payment of principal and interest on the note payable. In addition, the bond proceeds recorded in the Debt Service fund are shown as a transfer to the General fund. These transfers have been eliminated.

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

February 28, 2005

NOTE 1 - Summary of Significant Accounting Policies: (Continued)

I. Capital Assets

Capital assets, which includes land, building, equipment and leasehold improvements are reported in the governmental activities in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$500 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Land improvements	20	years
Buildings and improvements	40	years
Equipment	10	years
Leasehold improvements	20-40	years

J. Compensated Absences

The City does not accrue compensated absence liability since it is not considered material.

K. Nature and Purpose of Reservations and Designations of Fund Balances

The fund balance reserve for Capital Improvements and Sewer represent the availability of funds earmarked for capital outlay and sewer lateral repairs, respectively. The fund balance reserve for Debt Service fund represents the amount available for the purpose of paying the principal and interest on the bonds as they become due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 2 - Budget Basis of Accounting:

The City of Pasadena Hills prepares its annual budget on a cash basis, which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual to provide a meaningful comparison of actual results with the budget.

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

February 28, 2005

NOTE 3 - Deposits:

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U S. Government obligations or its agencies and instrumentalities or direct obligations of Missouri or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by the state statutes at February 28, 2005. At year-end, the carrying amount of the City's deposits was \$882,774, excluding petty cash of \$150, and the respective bank balances totaled \$914,467.

NOTE 4 - Capital Assets:

Capital asset activity for the year ended February 28, 2005 was as follows:

<u>Description</u>	<u>Balance March 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance February 28, 2005</u>
Land	\$ 11,980	\$ -----	\$ -----	\$ 11,980
<i>Total Capital Assets not being depreciated</i>	<u>11,980</u>	<u>-----</u>	<u>-----</u>	<u>11,980</u>
Land improvements	7,187	-----	-----	7,187
Building and improvements	154,272	-----	-----	154,272
Equipment	5,303	-----	-----	5,303
Leasehold improvements	324,875	141,237	-----	466,112
<i>Total Capital Assets being depreciated</i>	491,637	141,237	-----	632,874
Total accumulated depreciation and amortization	<u>(73,896)</u>	<u>(22,626)</u>	<u>-----</u>	<u>(96,522)</u>
<i>Total capital assets being depreciated, net</i>	<u>417,741</u>	<u>118,611</u>	<u>-----</u>	<u>536,352</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 429,721</u>	<u>\$ 118,611</u>	<u>\$ -----</u>	<u>\$ 548,332</u>

Depreciation and amortization expenses of \$22,626 was charged as direct expense to the general government and administration program of the primary government.

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

February 28, 2005

NOTE 5 - Long-Term Debt:

At February 28, 2005 note and bond payable consisted of the following:

- a) On April 4, 2004, the City's citizens approved Proposition S, authorizing the City to incur indebtedness in the form of general obligation bonds in an amount not to exceed \$2,000,000 for the purpose of repairing and restoring city streets and appurtenances. On August 30, 2004, the Board of Aldermen passed an ordinance authorizing execution of a bond indenture with a bank in the amount of \$1,700,000. This bond bears interest at a rate of 4.705% with semi-annual payments for a term of 20 years beginning on March 1, 2005. The bond indenture is secured by the full faith and credit of the City. On September 14, 2004, the City executed the bond indenture and immediately drew \$50,000 thereon. The structure of the bond indenture is such that only interest will be paid until the entire amount is withdrawn, at which time the principal will be amortized over the remaining term.

- b) In March 1998, the City purchased property for use as its City Hall. The property was purchased in part with funds from a bank loan which is secured by a first deed of trust. The loan matures in March 2008. It is a variable rate loan. During fiscal year 2005, this note had an interest rate of 3.5%.

Principal maturities over the next 4 years until maturity is as follows:

2006	\$	14,930
2007		15,422
2008		15,931
2009		<u>1,330</u>
	\$	<u><u>47,613</u></u>

Changes in Outstanding Debt

Transactions for the year ended February 28, 2005 are summarized as follows:

	Balance at February 29, 2004	Additions	Retirements or Payments	Balance at February 28, 2005	Due Within One Year
General Obligation Bonds	\$ ----	\$ 50,000	\$ ----	\$ 50,000	\$ ----
Note payable	<u>62,071</u>	<u>----</u>	<u>14,458</u>	<u>47,613</u>	<u>14,930</u>
Total	<u><u>\$ 62,071</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 14,458</u></u>	<u><u>\$ 97,613</u></u>	<u><u>\$ 14,930</u></u>

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

February 28, 2005

NOTE 6 - Property Tax:

Annual tax assessments are based on assessed valuation for real, personal and commercial property of record within the City on the first day of January of each year. Annual tax assessments become delinquent on the thirty-first day of December of the respective year.

Property taxes at the fund level are recorded on the cash basis converted on a combined fund bases as noted in Note 1D.

NOTE 7 - Pension Plan:

The City does not provide a pension plan for its employees.

NOTE 8 - Insurance Risks:

The City is exposed to various risks of litigation and casualties. The City manages these risks by purchasing insurance. The Coverage of the policies has not changed significantly from the prior year. The City has a substantial portion of its insurance policies through self-insured pools. As a member of the self-insured pool, the City may become liable for deficits of the pool created if claims should exceed existing reserves. This would be paid through additional assessment by pool to members. There were no settlements in excess of insurance for the past three years.

NOTE 9 - Commitments and Contingent Liabilities:

The City is subject to examination by Federal and State authorities who determine compliance with laws, conditions and laws and regulations governing other grants given to the City in the current and prior years. There is no such examination currently pending, contemplated or, to the best of the City's knowledge, planned.

The City has a contingent liability which consists of estimated repairs of sewer lateral of private homes within the City limits that have claims under the sewer lateral program that have been incurred but not reported. The City is obligated to reimburse sewer lateral repair costs to a maximum of \$2,500 per residence in return for collecting a fee that was approved by a vote of the Citizens. The amount of the contingent liability has not been determined. However, it is not expected to be material.

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND EXPENDITURES
AND NET CHANGE IN FUND BALANCES
BUDGET TO ACTUAL (CASH BASIS)**

For the year ended February 28, 2005

General Fund	Actual	Original and Final Budget
Revenues		
Property Taxes:		
Real Estate Taxes	\$ 30,816	\$ 25,500
Personal Property Tax	6,137	6,200
Railroad & Utilities Tax	702	800
Total Property Taxes (1)	37,655	32,500
Gross Receipt Taxes:		
St Louis Water Co	4,352	5,500
Telephone	8,315	8,900
Laclede Gas	28,921	25,400
Union Electric	21,657	24,200
Total Gross Receipt Taxes	63,245	64,000
Licenses & Permits:		
Auto License Stickers	3,398	4,200
Merchants Licenses	6	-----
Permits & Inspections	5,540	3,600
Dog Tags	104	100
Total Licenses & Permits	9,048	7,900
Intergovernmental Taxes:		
Sales Tax	140,040	137,200
Gasoline Tax	33,543	32,700
Cigarette Tax	4,221	4,500
Motor Vehicle Sales Tax	14,424	14,200
Road & Bridge Tax	12,062	10,600
Local Option Use Tax	8,067	6,200
Total Intergovernmental Taxes	212,357	205,400

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND EXPENDITURES
AND NET CHANGE IN FUND BALANCES
BUDGET TO ACTUAL (CASH BASIS) (CONTINUED)**

For the year ended February 28, 2005

	<u>Actual</u>	<u>Original and Final Budget</u>
Court Fines:		
Court Fine	12,180	14,300
Bond Forfeiture	1,175	-----
Total Court Fines	13,355	14,300
Miscellaneous Revenue and Interest Income:		
Cable TV Franchise	9,416	8,700
Interest Income	2,039	5,200
Other Income	25	100
Total Miscellaneous Revenue and Interest Income	11,480	14,000
Trash Account:		
Trash Contract Pasadena Park	51,681	52,500
Trash Fees	110,027	84,800
Penalty Fees	3,267	-----
Trash Recycling Grant	423	-----
Total Trash Account	165,398	137,300
Total Revenues	512,538	475,400
Expenditures :		
Personnel Services:		
Clerical Salary	31,108	29,000
Government Salaries	14,721	17,400
Payroll Taxes	3,831	3,800
Total Personnel Services:	49,660	50,200

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND EXPENDITURES
AND NET CHANGE IN FUND BALANCES
BUDGET TO ACTUAL (CASH BASIS) (CONTINUED)**

For the year ended February 28, 2005

	Actual	Original and Final Budget
Operating Costs:		
Auto Stickers	441	500
Computer Expenses	205	1,100
Election Expense	643	700
Website Expense	495	1,400
Insurance	7,254	6,500
Maintenance	2,841	1,725
Postage Meter Expenses	1,519	800
Copier Lease	2,656	1,700
Professional Organization Exp	1,518	2,300
Codification	-----	2,500
Miscellaneous - Other	2,095	2,300
Newspaper Announcements	184	600
Office Supplies	2,140	1,800
Printing	-----	5,000
Postage	2,392	2,100
Community Events	4,737	5,000
Telephone	1,994	2,200
Historical Preservation	6,341	12,000
Utilities	7,805	11,200
Office Furnishings	517	1,000
City Hall Supplies	144	300
	45,921	62,725
Total Operating Costs:		
Contractual:		
Audit expense	3,150	3,150
Building Inspections	3,435	3,300
City Attorney	6,000	6,000
Judge	1,800	1,800
Attorney's Fees	19,361	15,900
Accounting	3,900	3,900
	37,646	34,050
Total Contractual		

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND EXPENDITURES
AND NET CHANGE IN FUND BALANCES
BUDGET TO ACTUAL (CASH BASIS) (CONTINUED)**

For the year ended February 28, 2005

	Actual	Original and Final Budget
Police Protection	94,989	89,000
Sanitation:		
Trash Contract	152,100	152,100
Bank Service Charges	421	400
Miscellaneous Trash Expense	148	-----
Total Sanitation	152,669	152,500
Ground Maintenance / Snow Removal	74,435	78,400
Repairs and Maintenance:		
Street Light Utility	4,711	5,500
Street Light Repair	45,055	50,000
Street Repair/Maintenance	6,715	1,900
City Beautification	451	6,300
Tower Maintenance	5,064	-----
Pond Maintenance	2,421	-----
Fountain Repair	4,410	-----
Mosquito Control	821	800
Supplies	642	-----
Total Repairs and Maintenance	70,290	64,500
Capital Additions:		
Street Improvements	22,088	67,000
Fountain & Tower Improvements	15,072	-----
Street Light Improvements	88,208	88,000
City Hall	-----	3,500
Pond Improvements	-----	5,000
Fountain Repair	-----	10,000
Tower	2,486	4,000
Other	13,383	3,100
Total Capital Additions	141,237	180,600

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND EXPENDITURES
AND NET CHANGE IN FUND BALANCES
BUDGET TO ACTUAL (CASH BASIS) (CONTINUED)**

For the year ended February 28, 2005

	<u>Actual</u>	<u>Original and Final Budget</u>
Total Expenditures	666,847	711,975
Excess (Deficiency) of Revenues Over Expenditures	(154,309)	(236,575)
Other Financing Sources and (Uses):		
Transfer in	50,000	----
Total Other Financing Sources and (Uses)	50,000	----
Excess (deficiency) of Revenues Over Expenditures and Other Financing Sources and (Uses)- Net Change in Fund Balance	<u>\$ (104,309)</u>	<u>\$ (236,575)</u>

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND EXPENDITURES
AND NET CHANGE IN FUND BALANCES
BUDGET TO ACTUAL (CASH BASIS) (CONTINUED)**

For the year ended February 28, 2005

	<u>Actual</u>	<u>Original and Final Budget</u>
Special Revenue Fund		
Revenues-		
Capital Improvement Tax	\$ 66,330	\$ 62,000
Interest	1,502	----
Sewer lateral fees	11,393	1,100
Interest	126	----
Total Revenues	79,351	63,100
Expenditures-		
Sewer lateral	2,447	7,500
Total Expenditures	2,447	7,500
Excess (Deficiency) of Revenues Over Expenditures	76,904	55,600
Other Financing Sources and (Uses):		
Transfer out	(16,226)	----
Total Other Financing Sources and (Uses)	(16,226)	----
Excess (deficiency) of Revenues Over Expenditures and Other Financing Sources and (Uses)- Net Change in Fund Balance	\$ 60,678	\$ 55,600

CITY OF PASADENA HILLS
Pasadena Hills, Missouri

**REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND EXPENDITURES
AND NET CHANGE IN FUND BALANCES
BUDGET TO ACTUAL (CASH BASIS) (CONTINUED)**

For the year ended February 28, 2005

	Actual	Original and Final Budget
Debt Service Fund		
Revenues-		
Property Taxes:		
Real Estate Taxes	\$ 101,863	\$ ----
Personal Property Tax	14,140	----
Interest income	128	----
	116,131	----
Total Revenues		
Expenditures-		
Debt service		
Principal	14,458	----
Interest	1,768	2,500
Taxes and assessments	1,700	100
	17,926	2,600
Total Expenditures		
Excess (Deficiency) of Revenues Over Expenditures	98,205	(2,600)
Other Financing Sources and (Uses):		
Proceeds of bond issue	50,000	----
Transfer in	16,226	----
Transfer out	(50,000)	----
	16,226	----
Total Other Financing Sources and (Uses)		
Excess (deficiency) of Revenues Over Expenditures and Other Financing Sources and (Uses)- Net Change in Fund Balance	\$ 114,431	\$ (2,600)