

CITY OF FENTON, MISSOURI

Annual Financial Report

For the year ended

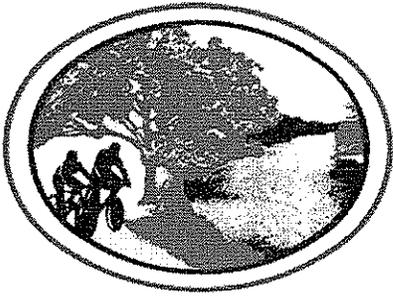
December 31, 2007

Prepared By The Finance Department
Art DeWitt, CPFO
Finance Director

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INTRODUCTORY SECTION



FENTON
CITY OF PARKS
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April 18, 2008

To the Honorable Mayor, Members of the Board of Aldermen, and the Citizens of the City of Fenton, Missouri:

Missouri Revised Statutes Section 67.1978 requires that every local government annually publish a complete set of audited financial statements. This report is published to fulfill that requirement for the year ended December 31, 2007.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Schowalter & Jabouri, P.C., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Fenton's financial statements for the year ended December 31, 2007. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD & A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD & A complements this letter of transmittal and should be read in conjunction with it.

Profile of The City of Fenton

The City of Fenton was founded on the banks of the Meramec River in 1874 and is the fourth oldest community in St. Louis County. The original town consisted of eight square blocks, which are currently known as Olde Towne. The City was formally organized as a fourth class city in 1959. The current permanent population is 4,300 with a daytime average population of almost 25,000 due to the influx of workers in the industrial park and commercial areas of Fenton.

A Mayor and eight Aldermen govern the City. The Mayor is elected at large and serves a two-year term. The City is divided into 4 wards, with each ward electing two Aldermen. Aldermen serve alternating two year terms such that one alderman from each ward stands for election each year. Board meetings are held on the third Monday of each month. Committee meetings are held on the first Thursday and last Wednesday of each month. The Board appoints the City Administrator, City Clerk and each department head upon recommendation of the Mayor.

The City of Fenton operates on a calendar year budget cycle. The Board of Aldermen adopts a budget for the upcoming year in December of each year through the passage of a budget resolution. The budget then becomes effective on January 1. The budget is developed based on fund, function (e.g., Administration) and department (e.g., City Clerk). Any changes to the budget require formal action by the Board of Aldermen through a budget amendment resolution.

The City of Fenton provides a wide range of services, which includes, but is not limited to, maintenance of streets and roads, recreational and cultural activities, and planning and zoning functions. Police services are provided through a contract with St. Louis County. The residents of the City of Fenton are provided with a broad spectrum of services, which include free trash, yard waste and bulk pickups, curbside recycling and street lighting. The City also pays \$10 per month towards each resident's sewer bill. These combined services save the homeowner an average \$700 per year.

The City of Fenton is known as "The City of Parks" because of its extensive park and recreation system. The City has eight fully developed parks developed over 350 acres, which include soccer fields, ball diamonds, sand volleyball courts, basketball courts, tennis courts, playgrounds, fishing ponds and over eight miles of bike/pedestrian paths. In addition, the City is developing plans for the Fabick Nature Preserve (located in the heart of Fenton) to include nature trails and passive recreational uses.

Economic Factors

The City of Fenton is located in Southern St. Louis County bounded by Interstate 44 on the North and State Highway 141 on the South. Interstate 270 is just east of the City and State Highway 30 runs throughout the City. This highway infrastructure provides Fenton with excellent access to the entire St. Louis metropolitan area.

Due to the industrial park, Gravois Bluffs, and Fenton Crossing shopping centers, the City enjoys a solid financial position. Government operations are funded primarily by a 1% countywide sales tax, a ½% Storm Water/Parks sales tax and a 5% commercial gross receipts tax on utilities. The City does not charge businesses with any merchants, manufacturers, municipal real estate or personal property tax. Residents pay no municipal real estate or personal property taxes. No gross receipts taxes on utilities are levied on residential use.

The Countywide sales tax is distributed based on two methods – (1) The point of sale method and (2) The pool method. All business located on the east side of Highway 141 are considered point of sale stores and those sales taxes are distributed 58% to the City of Fenton and 42% to the County. All stores located on the west side of Highway 141 (which includes all of the Fenton Crossing shopping center and more than half of the Gravois Bluffs shopping center) are considered pool stores. Those receipts are distributed 4% to the City of Fenton and 96% to St Louis County for redistribution to other cities within the county. In total, more than half of all sales tax receipts generated within Fenton are redistributed to St Louis County and other cities within the county.

The industrial expansion in Fenton began in 1959 with the construction of the Daimler Chrysler Assembly Plant located along Interstate 44. Home to 594 companies, the current industrial park encompasses 12,205,000 square feet of space. The occupancy rate in the industrial park was 93.2% in 2003, 93.6% in 2004 and 2005, and 93.8% in 2006 and 2007.

Fenton's diverse housing base is relatively new with most of the 1,400 plus homes having been built within the last 20 years.

As a result of redevelopment efforts undertaken over the past 10 years, Fenton is home to Fenton Crossing and Gravois Bluffs shopping centers. As of December 31, the two centers together total 1,565,000 square feet of retail space.

Long-Term Planning

Unreserved, undesignated fund balance in the General Fund was approximately \$2,658,000 at the end of 2007, which represents 50% of year 2007 operating expenditures. This is in keeping with the fund balance policy adopted by the Board in 2003 wherein 50% of annual operating expenditures are to be kept for emergency uses. Any money above this 50% level is placed into the capital reserve account to be used for capital projects as designated by the Board. At the end of 2007, the capital reserve account balance in General Fund was approximately \$5,530,000.

Reserved fund balance in the Storm Water/Parks Fund was approximately \$1,469,000, which is also 50% of 2007 operating expenditures. In addition, the capital reserve account in this fund was approximately \$466,000 at the end of 2007.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated service of city employees. We wish to extend our appreciation and thanks to all employees who assisted in the preparation of this document. Credit must also be given to the Mayor and Board of Aldermen for their dedication in establishing sound financial policies and for the time they spend in reviewing all financial reports to ensure that all policies are being carried out.

Respectfully submitted,

Mark Sartors
City Administrator

Arthur H. DeWitt CPFO
Finance Director

City of Fenton, Missouri
Principal Elected & Appointed Officials
As of December 31, 2007

ELECTED OFFICIALS

| TITLE | NAME |
|-------------------|------------------------------------|
| Mayor | Dennis Hancock |
| Alderman – Ward 1 | Michael Polizzi Kevin Yarbrough |
| Alderman – Ward 2 | Joe Maurath Mike Beiser |
| Alderman – Ward 3 | Tim Trego Chris Clauss |
| Alderman – Ward 4 | Lisa Horn James Mauller |
| City Collector | Sharon Moss |

APPOINTED OFFICIALS

| TITLE | NAME |
|--|------------------|
| City Attorney | Jerome Wallach |
| Municipal Court Judge | Charles Billings |
| Prosecuting Attorney | Stan Wallach |
| City Administrator | Mark Sartors |
| City Clerk | Diane Monteleone |
| Community Development Director | Gary Crabtree |
| Court Clerk | Jan Fischer |
| Finance Director | Arthur DeWitt |
| Human Resources Manager | Janet Skelton |
| Information Systems Manager | Leigh Dohack |
| Parks & Recreation Director | Nancy Battersby |
| Project Manager | Dan Howard |
| Public Works – Operations Superintendent | Dale Oberhaus |
| St. Louis County Police – Precinct Captain | Jack Webb |

FINANCIAL SECTION

SCHOWALTER & JABOURI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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ST. LOUIS, MISSOURI 63127
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FAX (314) 849-3486

FINANCIAL SERVICES
COMPUTER SOLUTIONS
ADMINISTRATIVE OFFICES

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(314) 842-2929
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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the Board of Aldermen
The City of Fenton, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The City of Fenton, Missouri, as of and for the year ended December 31, 2007, which collectively comprise The City of Fenton, Missouri's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The City of Fenton, Missouri's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Fenton, Missouri's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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.

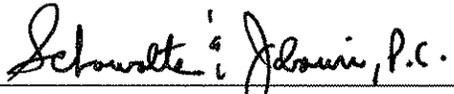
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information of The City of Fenton, Missouri, as of December 31, 2007 and the respective changes in financial position and the respective budgetary comparison for the General and Storm Water/Parks funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 18, 2008 on our consideration of The City of Fenton, Missouri's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 7 through 17 and the Schedule of Funding Progress on page 50 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The City of Fenton, Missouri's basic financial statements. The accompanying additional supplementary information on pages 51 through 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.


SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
April 18, 2008

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

As management of the City of Fenton, we offer this narrative overview and analysis of the financial activities of the City of Fenton for the year ended December 31, 2007. We have prepared this discussion and analysis of the city's financial activities to add additional information to the basic financial statements presented in the next section of this report.

FINANCIAL HIGHLIGHTS

- As of December 31, 2007, the city's assets exceeded liabilities by approximately \$11,011,000. Included in this amount is approximately \$18,425,000 of resources that are restricted by law to specific projects or purposes. The city has a deficit in unrestricted net assets of approximately \$37,959,000 due to \$51,620,000 in TIF Bonds outstanding at year-end that were issued for economic development costs on property not owned by the City.
- Cash and investment balances as of December 31, 2007 were approximately \$22,617,000 and current liabilities were approximately \$1,521,000. Federal and State laws restrict approximately \$13,750,000 of the cash and investments on hand to the repayment of outstanding debt.
- Net assets increased by approximately \$3,936,000 during fiscal year 2007. A \$6,300,000 decrease in outstanding long-term debt was the major reason for the increase.
- Fund balances, which are a measure of current financial resources in the governmental funds, increased by approximately \$770,000 to an ending balance of approximately \$27,608,000. Approximately \$2,658,000 is unreserved in governmental funds and is available for future appropriation by the Board of Aldermen.
- The General Fund fund balance was approximately \$8,319,000, or about 156% of 2007 operating expenditures. Approximately \$5,530,000 of this balance has been designated by the Board of Aldermen for use on future capital projects; while another \$94,000 is shown as designated for 2008 budget items prepaid in 2007. Another \$37,000 is designated for 2007 projects not completed by year-end and will be carried over to the 2008 budget. The General Fund unreserved, undesignated fund balance was therefore approximately \$2,658,000 or 50% of 2007 operating expenditures.
- The city's gross outstanding debt was \$68,790,000. Of this amount \$51,620,000 is due on TIF bonds that are repayable only from sales tax revenues generated by the TIF District and are not a claim on general resources of the City of Fenton. \$4,460,000 is due on the PFA Bonds issued to buy Fabick Nature Preserve. \$12,710,000 is due on Certificates of Participation used to build RiverChase, remodel City Hall and make storm water improvements. Net long-term liabilities were approximately \$64,419,000. Net long-term liabilities take into account \$4,541,000 in deferred charges on bonds that will be amortized over the remaining life of the bonds as well as \$170,000 in compensated absences outstanding at year-end.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The *Statement of Net Assets* presents information on all of the city's assets and liabilities, including long-term debt and capital assets as part of the governmental funds. The difference between assets and liabilities is reported as *Net Assets*. Over time, increases or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Fenton is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the year ended 2007. All changes in net assets are reported as soon as transactions occur, *regardless of when the related cash flows are reported*. Therefore, some revenues and expenses included in this statement may reflect cash flows that will actually occur in future periods.

Government-wide statements are separated into two major categories: (1) *governmental activities* that are principally supported by taxes and intergovernmental revenues, and (2) *business type activities* that are supported mainly by user fees and charges. The City of Fenton has no business type activities and so the government-wide statements only reflect governmental activities. Governmental activities include such services as administration, finance, planning, economic development, municipal court, public works, human resources, city clerk, police and recreation.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been designated for specific programs or activities. The City of Fenton, like other state and local governments, uses fund accounting to demonstrate compliance with the laws, regulations and contractual agreements that establish the authority for the city's programs and services. The City of Fenton has two types of funds: 1) governmental and 2) fiduciary.

Governmental funds are used to account for the city's basic services, which are the same services that are included in the governmental activities on the government-wide financial statements. However, the information contained in the fund statements is measured differently. Government funds focus on current financial resources rather than economic resources. Therefore, these statements only include short-term resources, such as cash, investments and receivables that will be collected within the first two months of 2008 and short-term liabilities that will be retired with these monies. This information is important for assessing the city's current financial resources.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the two statements. A reconciliation is presented after each of the two fund statements to explain the difference between the *governmental funds* as presented in the fund statements and the *governmental activities* presented in the government-wide financial statements.

The City of Fenton used the following governmental funds during 2007:

1. General Fund
2. Storm Water/Parks Fund
3. Gravois Bluffs TIF Bonds Debt Service Fund
4. Fenton Crossing TIF Bonds Debt Service Fund
5. Olde Towne Capital Improvements Fund

These five funds are considered major funds and are reported separately in the fund financial statements.

The City of Fenton adopts an annual budget for all governmental funds in accordance with Missouri Revised Statutes Section 67.010. The fund financial statements include budget to actual comparisons for the General Fund and the Parks/Storm Water Fund as part of the basic financial statements.

Fiduciary funds are used to account for assets held by the City of Fenton in a trustee capacity or as a collection agent for others. The City of Fenton has one fiduciary fund - (1) The Police Pension Fund. The Police Pension Fund accounts for the retirement accounts held for former Police Department employees that have not yet retired. All of the fiduciary activities of the city are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are excluded from the government-wide financial statements because these assets cannot be used to finance city operations.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Fenton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found immediately after the notes to the financial statements.

Immediately after the required supplementary information are presented budget to actual comparisons for the Gravois Bluffs TIF Fund, the Fenton Crossing TIF Fund and the Olde Towne Capital Improvements Fund. These schedules are considered as *additional supplemental information* not subject to audit review.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fenton, assets exceeded liabilities by \$11,011,000 at the end of fiscal year 2007.

The largest portion of the City of Fenton's net assets (62%) reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Fenton uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. It should be noted that the resources needed to repay this debt must be provided from current resources due to the fact that the investment in capital assets is reported net of related debt. The capital assets themselves cannot be used to liquidate these particular liabilities.

The following table summarizes the Statement of Net Assets:

| | <u>Governmental Activities</u> | |
|--|--------------------------------|---------------------|
| | 2007 | 2006 |
| Current assets | \$ 28,265,157 | \$ 27,680,175 |
| Deferred charges - bond issue and refunding costs | 971,779 | 1,051,113 |
| Capital assets | 47,714,379 | 50,471,097 |
| Total Assets | <u>76,951,315</u> | <u>79,202,385</u> |
| Long-term debt outstanding (Net of Deferred Charges) | 64,419,612 | 70,344,466 |
| Other liabilities | 1,520,949 | 1,782,772 |
| Total Liabilities | <u>65,940,561</u> | <u>72,127,238</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 30,544,379 | 31,816,097 |
| Restricted | 18,425,530 | 18,743,282 |
| Unrestricted | (37,959,155) | (43,484,232) |
| Total Net Assets | <u>\$ 11,010,754</u> | <u>\$ 7,075,147</u> |

Provisions of various laws, regulations and contractual agreements restrict approximately \$18,425,000 of net assets for use solely on storm water or parks activities (approximately \$2,138,000), capital projects (approximately \$175,000) or future debt service payments (approximately \$16,112,000). Another \$30,544,000 of net assets is invested in capital assets, net of related debt. This means that unrestricted net assets are a *negative* \$37,959,000 because of \$51,620,000 in outstanding TIF bonds that were issued providing resources for the Gravois Bluffs and Fenton Crossing shopping centers. This debt did not result in capital assets being provided to the City as a result of the investment.

Net assets increased by \$3,936,000 during 2007 as a result of debt service payments made during 2007.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

The next government-wide statement is the Statement of Activities. The following table outlines the major components of this statement:

| | Governmental Activities - 2007 | Governmental Activities - 2006 | Differences | Percentage |
|---|-----------------------------------|-----------------------------------|---------------------|------------|
| REVENUES | | | | |
| Program Revenues: | | | | |
| Charges For Services | \$ 2,539,100 | \$ 2,412,933 | \$ 126,167 | 5% |
| Capital Grants & Contributions | 66,316 | 189,257 | (122,941) | -65% |
| General Revenues: | | | | |
| Sales Taxes | 11,397,017 | 11,070,440 | 326,577 | 3% |
| Gross Receipts Tax | 1,997,616 | 1,857,572 | 140,044 | 8% |
| Intergovernmental | 3,538,443 | 3,635,386 | (96,943) | -3% |
| Investment Earnings | 1,193,037 | 1,038,892 | 154,145 | 15% |
| Other General Revenues | 164,299 | 130,453 | 33,846 | 26% |
| Total Revenues | <u>20,895,828</u> | <u>20,334,933</u> | <u>560,895</u> | <u>3%</u> |
| PROGRAM EXPENSES | | | | |
| General Government | 1,899,658 | 1,940,822 | (41,164) | -2% |
| Community Development | 326,694 | 441,228 | (114,534) | -26% |
| Storm Water/ Parks | 3,447,141 | 3,225,339 | 221,802 | 7% |
| Police Services | 2,157,407 | 2,085,059 | 72,348 | 3% |
| Public Works | 2,562,548 | 2,907,203 | (344,655) | -12% |
| Debt Service Expenditures | 3,708,970 | 4,003,048 | (294,078) | -7% |
| Total Expenses | <u>14,102,418</u> | <u>14,602,699</u> | <u>(500,281)</u> | <u>-3%</u> |
| Excess (deficiency) Before Transfers and Special Items | | | | |
| | 6,793,410 | 5,732,234 | 1,061,176 | |
| Insurance Proceeds | 21,151 | 11,887 | 9,264 | |
| Special Item - Loss on Land Transfer | <u>(2,878,954)</u> | - | <u>(2,878,954)</u> | |
| Increase In Net Assets | 3,935,607 | 5,744,121 | (1,808,514) | |
| Net Assets - Beginning of Year | <u>7,075,147</u> | <u>1,331,026</u> | <u>5,744,121</u> | |
| Net Assets - End of Year | <u>\$ 11,010,754</u> | <u>\$ 7,075,147</u> | <u>\$ 3,935,607</u> | |

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

Some observations about 2007 revenues and program expenses compared to 2006:

- Revenues were up by \$561,000 or 3%. Revenues changed as follows:
 - Sales tax revenues increased by \$327,000. This increase was caused by a change in procedures wherein estimated December sales taxes were accrued in order to reduce the impact of timing differences. This difference occurs when December receipts from a retailer show up on the February sales tax report in 2007, but does not in 2008. This would cause revenues from some retailers to report 11 months of receipts in 2007 and 13 months worth of receipts in 2008. By estimating receipts for those retailers that were not on the February 2008 report, but were on the February 2007 report, revenues between years will be more comparable going forward. Receipts were accrued based on 90% of the amount reported on the February 2007 report.
 - Investment earnings increased by \$154,000 due to higher interest rates enjoyed for most of 2007.
 - Gross receipt taxes increased by \$140,000 due to receipt of \$100,000 in deferred revenue from Chrysler. This money was received as part of the 2005 Chrysler IDA bond issuance and went to offset the loss of revenue from utility taxes for the four months the Chrysler plant was shut down during 2007 while plant upgrades were installed.
 - Other general revenues increased by \$34,000 due to administrative fees received in 2007 related to the 2005 issuance of the Chrysler IDA bonds.
 - Grants and contributions decreased by \$(123,000) due to streets donated to the City in 2006 from new development.
 - Property tax protests filed in 2007 that were not resolved until 2008 decreased intergovernmental revenues by \$(97,000).
- Program expenses were down by \$(500,000) or (3)%. This was due to the following items:
 - Storm water/parks expenditures increased by \$222,000 as follows:
 - Utility costs increased by \$26,000
 - A tree study grant was completed in 2007 at a cost of \$12,000. \$10,000 of this was repaid through a state grant.
 - The Parks portion of police service costs increased by \$32,000 per the terms of the contract with St Louis County.
 - Public Works charges increased by \$36,000 based on merit increases, benefit increases and more supplies being utilized throughout the year.
 - Salaries and benefits increased by \$50,000 based on all positions being filled during the year as opposed to 2006 when several positions were open.
 - The cost for lifeguards increased by \$10,000. We experienced a hot summer and fewer rain days that caused the outdoor pool to be closed less.
 - Instructor costs increased by \$11,000 due to higher participation in some classes. This was offset by increased revenue from these particular classes.
 - \$38,000 was spent to replace the boiler at RiverChase as well as water seal the parking lot at RiverChase.
 - Police service costs in the General Fund increased by \$72,000 per the terms of the contract with St Louis County wherein such costs may increase by up to 5% per year.
 - Public Works costs decreased by \$(345,000) due to one-time storm water projects done in 2006.
 - Debt service costs decreased by \$(294,000) due to the refunding of the Gravois Bluffs TIF bonds in April 2006.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

- Community Development expenditures decreased by \$(114,000) due to the reorganization of the department that occurred in mid-year 2006. This reorganization led to several positions being combined while other positions were eliminated.

ANALYSIS OF THE FUND FINANCIAL STATEMENTS

The focus of the City of Fenton'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 of Fenton'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.

Financial information for the governmental funds is summarized in two statements: 1) The Balance Sheet and 2) The Statement of Revenues, Expenditures and Changes in Fund Balance. As of December 31, 2007, the City of Fenton's governmental funds reported combined ending fund balances of approximately \$27,608,000. This was an increase of approximately \$770,000, with approximately \$1,165,000 of that increase being in the General Fund. Citywide fund balance increased by less than General Fund due to the use of \$1,700,000 of fund balance in the Olde Towne Capital Improvements Fund for improvements to Old Highway 141, the completion of Gravois Bluffs Blvd East, and construction of the Summit Road extension.

While ending fund balance in the General Fund increased by approximately \$1,165,000, compared to the budgeted fund balance General Fund was approximately \$737,000 above budget expectations. Approximately \$46,000 of this was due to capital projects that finished under budget or were carried over to the 2008 fiscal year. In terms of operating performance, operating revenues in General Fund exceeded budget expectations by approximately \$267,000; operating expenditures were approximately \$(419,000) under budgeted amounts.

As a result of the above budget performance, the balance of \$5,530,000 in the capital reserve account at the end of 2007 is approximately \$914,000 above the amount that was projected during development of the 2008 budget. These funds will be available at the 2008 mid-year budget review for appropriation by the Board of Aldermen.

The Storm Water/Parks Fund capital reserve balance was \$466,000, which was \$286,000 above the amount projected during the development of the 2008 budget. These funds will also be available for appropriation by the Board of Aldermen during the 2008 mid-year budget review process.

REVENUE ANALYSIS

| Fund | 2006 Revenues | 2007 Revenues | Dollar Change | % Change |
|-----------------------------|---------------|---------------|---------------|----------|
| General Fund | \$ 6,351,614 | \$ 6,737,025 | \$ 385,411 | 6% |
| Storm Water/Parks Fund | 5,362,467 | 5,561,464 | 198,997 | 4% |
| Gravois Bluffs TIF Fund | 7,064,793 | 7,199,651 | 134,858 | 2% |
| Fenton Crossing TIF Fund | 1,282,654 | 1,364,722 | 82,068 | 6% |
| Olde Towne Improvement Fund | 75,766 | 23,459 | -52,307 | -69% |
| Total Revenues | \$ 20,137,294 | \$ 20,886,321 | \$ 749,027 | 4% |

Citywide revenues were \$20,886,000 in 2007, an increase of \$749,000 or 4%.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

General Fund revenues increased by \$385,000 or 6% as follows:

- Gross receipts taxes increased by \$138,000. \$100,000 of this was from deferred revenues received from Chrysler at the time of the 2005 Chrysler bond issuance. This money was designed to replace revenues lost during the 4-month period of 2007 that the Chrysler plant was shut down to make equipment upgrades.
- Sales taxes increased by \$72,000 due to accrual of estimated sales taxes at year-end. In prior years, sales taxes were accrued based solely on receipts reported on the February report from the state. The February report does not always include all December sales as receipts from some retailers are not received by the State prior to the cut-off date. Thus, some retailers have 11 months of sales in one fiscal year and 13 months of sales in another fiscal year. By estimating receipts for those retailers that were not on the February 2008 State report, this timing difference would not be as significant, making comparisons between years more accurate. For 2007, sales taxes were accrued based on 90% of the amount received in December 2006.
- Capital grants increased by \$56,000 due to one-time receipts of grant funds for the Yarnell/Larkin Williams intersection improvement project.
- Municipal Court receipts increased by \$48,000, in part because of new procedures installed by the new Judge and the new Court Clerk. These procedures streamlined the processing of tickets and have led to fewer cases being continued.
- Investment earnings increased by \$44,000 due to a combination of a higher fund balance at the end of 2006 and higher interest rates during 2007. For most of 2007, average interest rates exceeded 4% on City investments.

Storm Water/Parks Fund revenues increased by \$199,000 or 4%:

- Sales taxes increased by \$93,000 due to the accrual of estimated tax receipts. Please see the note under the General Fund for more detail on this process.
- RiverChase increased their marketing efforts during 2007; thus, memberships increased by \$53,000. However, the opening of Gold's Gym in June 2007 has had a negative impact on memberships. The extent of memberships lost to Gold's Gym is reflected in the deferred revenue account, which decreased from \$280,000 on December 31, 2006 to \$222,000 on December 31, 2007.
- Investment earnings increased by \$40,000 for the same reasons as noted under General Fund.
- Program revenues increased by \$18,000 due to increased marketing efforts, which led to higher enrollment in many classes. The opening of Gold's Gym will also impact this area since Gold's offers aerobic classes as part of the basic membership fee. RiverChase charges extra for such classes. The full impact of Gold's will not be felt until early 2008.

Revenues in both the Fenton Crossing and Gravois Bluffs TIF Funds increased due to the accrual of estimated sales tax receipts as noted above. Revenues in the Olde Towne Capital Improvements Fund decreased due to the expenditure of fund balance for capital projects.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

EXPENDITURE ANALYSIS

| Fund | 2006 Expenditures | 2007 Expenditures | Dollar Change | % Change |
|-----------------------------|-------------------|-------------------|---------------|----------|
| General Fund | \$ 6,589,213 | \$ 5,603,126 | \$ (986,087) | -15% |
| Storm Water/Parks Fund | 5,279,648 | 5,231,694 | (47,954) | -1% |
| Gravois Bluffs TIF Fund | 6,067,558 | 6,302,375 | 234,817 | 4% |
| Fenton Crossing TIF Fund | 1,274,105 | 1,286,317 | 12,212 | 1% |
| Olde Towne Improvement Fund | 689,896 | 1,723,168 | 1,033,272 | 150% |
| Total Expenditures | \$ 19,900,420 | \$ 20,146,680 | \$ 246,260 | 1% |

Citywide expenditures were \$20,147,000, an increase of \$246,000 or 1.2% compared to 2006 expenditures.

General Fund expenditures decreased by \$(986,000) or (15)% compared to 2006 due to \$1,183,000 spent for major capital projects constructed during 2006. Two major projects completed during 2006 were Somerset subdivision street improvement project and Woodway subdivision street improvement project.

Through the use of fund balance to pay down debt service, expenditures for the Gravois Bluffs TIF Fund increased by \$235,000 or 4%. Per the terms of the bond agreements, the debt service reserve account must be maintained at a certain level and all amounts above this minimum level must be used for debt retirement.

The Old Highway 141 project, Gravois Bluffs Blvd East project, and Summit Road extension project increased 2007 expenditures in the Olde Towne Capital Improvement Fund.

BUDGETARY HIGHLIGHTS

The fund financial statements for 2007 include information about both the original budget as adopted by the Board of Aldermen and the final budget as amended during the year. During 2007, the Board amended the budget on three occasions for the following purposes:

1. To appropriate money for capital projects originally included in the 2006 budget that would not be completed until 2007. Resolution 07-03 increased citywide budgeted expenditures by \$2,237,700.
2. To adjust the budget at mid-year to update estimates based on the results of operations for the first six months of 2007. Resolution 07-05 increased budgeted citywide revenues by \$442,500 while increasing budgeted expenditures by \$352,000.
3. To adjust the final year-end budget to account for unplanned expenditures and revenues. Resolution 08-02 increased citywide budgeted revenues by \$25,000 and increased citywide budgeted expenditures by \$25,000.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

CAPITAL ASSET AND DEBT ADMINISTRATION

As of December 31, 2007, the City of Fenton's investment in capital assets was approximately \$47,714,000 (net of accumulated depreciation), a decrease of \$(2,757,000) or (5.5%). This decrease results from the transfer of land valued at \$2,879,000 to the developer of the Gravois Bluffs Shopping Center. As part of a lawsuit settlement agreement, the City transferred this land to the developer to be used for right-of-way for the new Summit Road extension. In return, the developer agreed to build the road extension.

| City of Fenton, Missouri | | |
|--------------------------------------|-------------------------|----------------------|
| Capital Assets (Net of Depreciation) | | |
| | Governmental Activities | |
| | 2007 | 2006 |
| Land | \$ 13,100,099 | \$ 15,839,053 |
| Land Improvements | 1,123,339 | 1,218,646 |
| Buildings | 15,914,299 | 16,484,739 |
| Building Improvements | 145,925 | 151,139 |
| Machinery and equipment | 464,485 | 452,845 |
| Infrastructure | 15,704,641 | 14,144,025 |
| Construction in progress | 1,261,591 | 2,180,650 |
| Total Net Assets | <u>\$ 47,714,379</u> | <u>\$ 50,471,097</u> |

At December 31, 2007, the total long-term debt of the city was \$68,790,000:

| Debt Series | Governmental Activities | |
|---|-------------------------|----------------------|
| | 2007 | 2006 |
| Fenton Crossing TIF Bonds - Series 2000 | \$ 7,085,000 | \$ 7,800,000 |
| Gravois Bluffs TIF Refunding Bonds - Series 2006 | 44,535,000 | 48,635,000 |
| PFA Bonds - Series 2003 | 4,460,000 | 4,890,000 |
| Certificates of Participation - Series 1997 | - | 935,000 |
| Certificates of Participation - Refunding Series 2003 | 12,710,000 | 12,830,000 |
| Total Outstanding Debt | <u>\$ 68,790,000</u> | <u>\$ 75,090,000</u> |

State statutes limit the amount of general obligation bonds a governmental entity may issue to 10% of its total assessed value. Based on a 2007 assessed value of approximately \$401,620,000, the City of Fenton's legal debt limit is \$40,162,000. None of the above listed debt is included in the calculation of the city's legal debt margin because none of the above debt is general obligation debt. All of the above debt is payable solely from specific revenue sources such as sales taxes.

Total debt outstanding decreased by \$6,300,000 during 2007.

CITY OF FENTON, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007 – UNAUDITED

2008 BUDGET

The 2008 budget, as approved in December 2007, designated \$3,940,000 from the General Fund Capital Reserve Account to be used for one-time capital projects within the next three fiscal years. This leaves approximately \$1,590,000 in the General Fund Capital Reserve Account for future capital projects. The 2008 budget projects ending unreserved, undesignated fund balance in General Fund will be approximately \$2,905,000.

The 2008 budget designated \$166,000 from the Storm Water/Parks Fund Capital Reserve Account to be used for capital items over the next three years. This leaves approximately \$300,000 in the Storm Water/Parks Capital Reserve Account for future capital projects. The 2007 budget projects ending fund balance reserved for Storm Water/Parks usage will be approximately \$1,546,000.

REQUESTS FOR INFORMATION

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

Art DeWitt CPFO
Finance Director
City of Fenton, Missouri
625 New Smizer Mill Road
Fenton, Missouri 63026
Phone 636-343-2080 Ext. 1106

BASIC FINANCIAL STATEMENTS

CITY OF FENTON, MISSOURI

Statement of Net Assets

December 31, 2007

| | | <u>Governmental Activities</u> |
|--|-------------------|--------------------------------|
| ASSETS | | |
| Cash | | \$ 45,345 |
| Investments | | 8,821,624 |
| Receivables | | 2,151,105 |
| Prepaid items | | 133,496 |
| Restricted assets | | |
| Cash | | 1,111,017 |
| Investments | | 12,639,120 |
| Receivables | | 3,363,450 |
| Deferred charges - bond issue costs | | 971,779 |
| Capital assets not subject to depreciation | | |
| Land | | 13,100,099 |
| Construction in progress | | 1,261,591 |
| Capital assets - net of accumulated depreciation | | |
| Land improvements | | 1,123,339 |
| Buildings | | 15,914,299 |
| Building improvements | | 145,925 |
| Machinery and equipment | | 464,485 |
| Infrastructure | | 15,704,641 |
| | Total Assets | <u>\$ 76,951,315</u> |
| LIABILITIES | | |
| Accounts payable and other current liabilities | | \$ 303,964 |
| Deposits | | 109,420 |
| Accrued interest payable | | 864,138 |
| Unearned revenue | | 243,427 |
| Non-current liabilities: | | |
| Due within one year | | 5,115,724 |
| Due in more than one year | | 59,303,888 |
| | Total Liabilities | <u>\$ 65,940,561</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | | \$ 30,544,379 |
| Net assets restricted for: | | |
| Storm water/parks and recreation | | 2,138,215 |
| Debt service | | 16,111,670 |
| Capital projects | | 175,645 |
| Unrestricted | | (37,959,155) |
| | Total Net Assets | <u>\$ 11,010,754</u> |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI
Statement of Activities
For The Year Ended December 31, 2007

| <u>Functions/Programs</u> | Expenses | Program Revenues | | | Net Revenue (Expense) and Changes in Net Assets |
|--|----------------------|-------------------------|--|-----------------------------------|--|
| | | Charges For Services | Operating Grants & Contributions | Capital Grants & Contributions | Total Governmental Activities |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| General Government | \$ 1,899,658 | \$ 56,897 | \$ - | \$ 56,316 | \$ (1,786,445) |
| Community Development | 326,694 | 68,217 | | | (258,477) |
| Public Safety | 2,157,407 | 390,543 | | | (1,766,864) |
| Public Works | 2,562,548 | | | | (2,562,548) |
| Storm Water/Parks and Recreation | 3,447,141 | 2,023,443 | 10,000 | | (1,413,698) |
| Debt Service Expenditures | 3,708,970 | | | | (3,708,970) |
| Total Governmental Activities | <u>\$ 14,102,418</u> | <u>\$ 2,539,100</u> | <u>\$ 10,000</u> | <u>\$ 56,316</u> | <u>\$ (11,497,002)</u> |
| General Revenues: | | | | | |
| | | | | | 26,562 |
| | | | | | 11,397,017 |
| | | | | | 1,997,616 |
| | | | | | 3,538,443 |
| | | | | | 1,193,037 |
| | | | | | 137,737 |
| | | | | | 21,151 |
| Special Item - Loss on Transfer of Land to Developer | | | | | (2,878,954) |
| Total General Revenues and Special Item | | | | | <u>15,432,609</u> |
| Change in Net Assets | | | | | 3,935,607 |
| Net Assets - Beginning of Year | | | | | <u>7,075,147</u> |
| Net Assets - End of Year | | | | | <u>\$ 11,010,754</u> |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI

Balance Sheet

Governmental Funds

As of December 31, 2007

| | General Fund | Storm Water/Parks Fund | Gravois Bluffs TIF Fund | Fenton Crossing TIF Fund | Olde Towne Improvements Fund | Total Governmental Funds |
|--|---------------------|------------------------------|----------------------------|--------------------------------|------------------------------------|--------------------------------|
| ASSETS & OTHER DEBITS | | | | | | |
| Cash & Investments | \$ 6,976,544 | \$ 1,797,936 | \$ - | \$ - | \$ - | \$ 8,774,480 |
| Cash & Investments - Restricted | 100,069 | 2,596,105 | 9,595,123 | 1,375,684 | 175,645 | 13,842,626 |
| Accrued Interest | 99,914 | 59,377 | 34,035 | 21,683 | - | 215,009 |
| Accounts Receivable | | | | | | |
| Sales Taxes | 699,377 | 597,083 | 830,259 | 186,702 | - | 2,313,421 |
| Road & Bridge Taxes/Property Taxes | 303,070 | - | 1,986,221 | 304,550 | - | 2,593,841 |
| Gross Receipts Taxes | 232,499 | - | - | - | - | 232,499 |
| Miscellaneous | 147,730 | 12,055 | - | - | - | 159,785 |
| Due From Other Funds | 27,848 | - | 31,353 | 7,856 | - | 67,057 |
| Prepaid Items | 93,652 | 39,844 | - | - | - | 133,496 |
| TOTAL ASSETS | \$ 8,680,703 | \$ 5,102,400 | \$ 12,476,991 | \$ 1,896,475 | \$ 175,645 | \$ 28,332,214 |
| LIABILITIES & FUND EQUITY | | | | | | |
| Liabilities | | | | | | |
| Accounts Payable | | | | | | |
| Vendor Accounts | \$ 107,403 | \$ 66,805 | \$ - | \$ - | \$ - | \$ 174,208 |
| Protested Tax Payments | 60,241 | - | - | - | - | 60,241 |
| Payroll Related Payables | 15,393 | - | - | - | - | 15,393 |
| Miscellaneous | 5,082 | 3,688 | - | - | - | 8,770 |
| Due to Other Funds | 39,209 | 27,848 | - | - | - | 67,057 |
| Accrued Payroll | 34,628 | 10,724 | - | - | - | 45,352 |
| Deposits Payable | 100,069 | 9,351 | - | - | - | 109,420 |
| Deferred Revenue | - | 243,427 | - | - | - | 243,427 |
| Total Liabilities | 362,025 | 361,843 | - | - | - | 723,868 |
| Fund Equity | | | | | | |
| Fund Balances: | | | | | | |
| Reserved: | | | | | | |
| Prepaid Items | 93,652 | 39,844 | - | - | - | 133,496 |
| Storm Water/Parks | - | 1,469,167 | - | - | - | 1,469,167 |
| Debt Service | - | 2,602,342 | 12,476,991 | 1,896,475 | - | 16,975,808 |
| Designated: | | | | | | |
| Capital Projects | 5,529,743 | 466,204 | - | - | - | 5,995,947 |
| Projects to be Carried to 2008 | 37,000 | 163,000 | - | - | 175,645 | 375,645 |
| Unreserved/Undesignated | 2,658,283 | - | - | - | - | 2,658,283 |
| Total Fund Balance | 8,318,678 | 4,740,557 | 12,476,991 | 1,896,475 | 175,645 | 27,608,346 |
| TOTAL LIABILITIES & FUND EQUITY | \$ 8,680,703 | \$ 5,102,400 | \$ 12,476,991 | \$ 1,896,475 | \$ 175,645 | \$ 28,332,214 |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI
 Reconciliation of the Balance Sheet
 of Governmental Funds to the
 Statement of Net Assets
 As of 12/31/2007

| | | |
|--|----|------------|
| Total Fund Balance of All Governmental Funds | \$ | 27,608,346 |
|--|----|------------|

Amounts Reported on The Statement of Net Assets Differ Because:

| | | |
|---|--|------------|
| Capital assets used in governmental activities are not financial resources; therefore, the assets are not reported in the funds balance sheet. The cost of capital assets was \$75,076,426 and the accumulated depreciation was \$27,362,047. | | 47,714,379 |
|---|--|------------|

| | | |
|---|--|---------|
| Deferred charges for bond issue costs are not current financial resources; therefore, deferred charges are not reported in the funds balance sheet. These charges will be amortized as interest expense over the life of the bonds. | | 971,779 |
|---|--|---------|

| | | |
|--|--|-----------|
| Deferred charges for bond refunding costs are not current financial resources; therefore, these deferred charges are not reported in the funds balance sheet. These costs will be amortized as interest expense over the life of the debt. | | 4,540,528 |
|--|--|-----------|

| | | |
|---|--|-----------|
| Compensated Absences are not due and payable in the current period; therefore, compensated absences are not reported as liabilities in the funds balance sheet. | | (170,140) |
|---|--|-----------|

Certain long-term liabilities are not due and payable in the current period; therefore, these liabilities are not reported as liabilities in the funds balance sheet.

Long-term liabilities at the end of 2007 consisted of:

| | | |
|---------------------------------------|--|--------------|
| Accrued interest payable | | (864,138) |
| TIF bonds payable | | (51,620,000) |
| Certificates of participation payable | | (12,710,000) |
| PFA bonds payable | | (4,460,000) |
| | | (16,597,592) |

| | | |
|-----------------|--|--------------|
| Net Adjustments | | (16,597,592) |
|-----------------|--|--------------|

| | | |
|---|----|------------|
| Net Assets of Governmental Activities Per Statement of Net Assets | \$ | 11,010,754 |
|---|----|------------|

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI
Statement of Revenues, Expenditures and Changes In Fund Balance
Governmental Funds
For The Year Ended December 31, 2007

| | General Fund | Storm Water/Parks Fund | Gravois Bluffs TIF Fund | Fenton Crossing TIF Fund | Olde Towne Improvements Fund | Total Governmental Funds |
|--|--------------|------------------------------|----------------------------|--------------------------------|------------------------------------|--------------------------------|
| REVENUES | | | | | | |
| Licenses & Permits | \$ 94,779 | \$ - | \$ - | \$ - | \$ - | \$ 94,779 |
| Gross Receipts Taxes | 1,958,407 | - | 31,353 | 7,856 | - | 1,997,616 |
| Sales Taxes | 2,911,425 | 3,277,581 | 4,296,369 | 911,642 | - | 11,397,017 |
| County Road & Bridge Tax | 450,157 | - | - | - | - | 450,157 |
| Intergovernmental | 316,574 | - | 2,467,162 | 304,550 | - | 3,088,286 |
| Grants | 56,316 | 10,000 | - | - | - | 66,316 |
| Municipal Court Fines & Fees | 390,543 | - | - | - | - | 390,543 |
| Charges For Services | 56,897 | 2,023,443 | - | - | - | 2,080,340 |
| Investment Income | 373,697 | 250,440 | 404,767 | 140,674 | 23,460 | 1,193,038 |
| Miscellaneous | 128,230 | - | - | - | - | 128,230 |
| Total Revenues | 6,737,025 | 5,561,464 | 7,199,651 | 1,364,722 | 23,460 | 20,886,322 |
| EXPENDITURES | | | | | | |
| Current Expenditures | | | | | | |
| General Governmental | 1,700,713 | - | 80,000 | 30,000 | - | 1,810,713 |
| Community Development | 288,957 | - | - | - | - | 288,957 |
| Public Safety | 2,157,407 | - | - | - | - | 2,157,407 |
| Public Works | 1,169,488 | - | - | - | - | 1,169,488 |
| Storm Water Improvements | 52,768 | 71,709 | - | - | - | 124,477 |
| Storm Water Maintenance | - | 46,126 | - | - | - | 46,126 |
| Parks & Recreation | - | 2,892,207 | - | - | - | 2,892,207 |
| Debt Service | - | - | - | - | - | - |
| Principal | - | 1,485,000 | 4,100,000 | 715,000 | - | 6,300,000 |
| Interest | - | 664,270 | 2,120,233 | 537,869 | - | 3,322,372 |
| Trustee Fees | - | 20,010 | 2,142 | 3,448 | - | 25,600 |
| Capital Outlay | 233,793 | 52,372 | - | - | 1,723,168 | 2,009,333 |
| Total Expenditures | 5,603,126 | 5,231,694 | 6,302,375 | 1,286,317 | 1,723,168 | 20,146,680 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,133,899 | 329,770 | 897,276 | 78,405 | (1,699,708) | 739,642 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Sale of Assets | 9,507 | - | - | - | - | 9,507 |
| Insurance Reimbursements | 21,151 | - | - | - | - | 21,151 |
| Total Other Financing Sources and Uses | 30,658 | - | - | - | - | 30,658 |
| Net Changes In Fund Balance | 1,164,557 | 329,770 | 897,276 | 78,405 | (1,699,708) | 770,300 |
| Fund Balance - Beginning | 7,154,121 | 4,410,787 | 11,579,715 | 1,818,070 | 1,875,353 | 26,838,046 |
| Fund Balance - Ending | \$ 8,318,678 | \$ 4,740,557 | \$ 12,476,991 | \$ 1,896,475 | \$ 175,645 | \$ 27,608,346 |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance of Governmental Funds
 To the Statement of Activities
 For The Year Ended 12/31/2007

Net Changes In Fund Balance Per Statement of Revenues and Expenditures \$ 770,300

Amounts reported for governmental activities in the state of activities differ because:

Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of these assets is allocated over their estimated useful life and reported as depreciation expense. This is the amount by which capital outlay costs (\$2,009,333) exceeded depreciation costs (\$1,887,098) in the current period. 122,235

Bond issue costs are reported in governmental funds as expenditures in the year the bonds are issued. In the statement of activities, the cost of this action is allocated over the life of the bonds and reported annually as interest expense. This is the amount reported as interest expense in 2007 that relates to bond issue costs from prior years. (437,506)

Assets that were retired before the end of their useful lives have no impact on the governmental funds. However, this action is reported as a loss on disposal of assets in the statement of activities. (2,878,954)

Compensated absences are reported in the Statement of Activities, but do not require the use of current financial resources; therefore compensated absences are not reported as expenditures in governmental funds (16,974)

The repayment of debt consumes the current financial resources of governmental funds, however, it has no effect on net assets. The net effect of these transactions is:

| | |
|--------------------------|--------------|
| Accrued interest payable | 76,506 |
| Bond principal payments | 6,300,000 |
| Net Adjustments | \$ 3,165,307 |

Changes In Net Assets Per The Statement of Activities \$ 3,935,607

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI
 General Fund
 Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual
 For The Year Ended December 31, 2007

| | Original Budget | Final Budget | Actual Amounts | Variance With Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| REVENUES | | | | |
| Licenses & Permits | \$ 63,400 | \$ 78,500 | \$ 94,779 | \$ 16,279 |
| Gross Receipts Taxes | 2,002,600 | 1,900,000 | 1,958,407 | 58,407 |
| Sales Taxes | 2,907,700 | 2,870,000 | 2,911,425 | 41,425 |
| County Road & Bridge Tax | 408,000 | 420,000 | 450,157 | 30,157 |
| Intergovernmental | 336,900 | 336,900 | 316,574 | (20,326) |
| Municipal Court Fines & Fees | 271,800 | 355,000 | 390,543 | 35,543 |
| Investment Income | 135,000 | 295,000 | 373,697 | 78,697 |
| Charges For Services | 36,000 | 36,000 | 56,897 | 20,897 |
| One Time Revenues - Telephone Suit Settlement | - | - | 46,386 | 46,386 |
| Miscellaneous | 83,400 | 118,400 | 81,844 | (36,556) |
| Grants | 60,000 | 60,000 | 56,316 | (3,684) |
| Total Revenues | <u>6,304,800</u> | <u>6,469,800</u> | <u>6,737,025</u> | <u>267,225</u> |
| EXPENDITURES | | | | |
| General Government | | | | |
| Board of Aldermen | 44,000 | 46,000 | 43,387 | 2,613 |
| City Administrator | 1,068,000 | 1,051,600 | 978,890 | 72,710 |
| City Clerk | 82,000 | 82,000 | 81,756 | 244 |
| Human Resources | 110,000 | 113,000 | 96,095 | 16,905 |
| Municipal Court | 199,000 | 198,500 | 173,653 | 24,847 |
| Finance | 170,000 | 172,900 | 166,480 | 6,420 |
| Information Services | 187,000 | 192,000 | 160,452 | 31,548 |
| Total General Government | <u>1,860,000</u> | <u>1,856,000</u> | <u>1,700,713</u> | <u>155,287</u> |
| Community Development | <u>318,000</u> | <u>323,800</u> | <u>288,957</u> | <u>34,843</u> |
| Public Safety | <u>2,157,000</u> | <u>2,157,500</u> | <u>2,157,407</u> | <u>93</u> |
| Public Works | <u>1,373,000</u> | <u>1,398,200</u> | <u>1,169,488</u> | <u>228,712</u> |
| Total Operating Expenditures | <u>5,708,000</u> | <u>5,735,500</u> | <u>5,316,565</u> | <u>418,935</u> |
| Storm Water Improvements | - | - | 52,768 | (52,768) |
| Capital Expenditures | 147,000 | 333,000 | 233,793 | 99,207 |
| Total Capital Expenditures | <u>147,000</u> | <u>333,000</u> | <u>286,561</u> | <u>46,439</u> |
| Total Expenditures | <u>5,855,000</u> | <u>6,068,500</u> | <u>5,603,126</u> | <u>465,374</u> |
| Excess of Revenues Over (Under) Expenditures | <u>449,800</u> | <u>401,300</u> | <u>1,133,899</u> | <u>732,599</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Assets | 5,000 | 5,000 | 9,507 | 4,507 |
| Insurance Proceeds | 7,200 | 21,200 | 21,151 | (49) |
| Total - Other Financing Sources (Uses) | <u>12,200</u> | <u>26,200</u> | <u>30,658</u> | <u>4,458</u> |
| Net Change in Fund Balance | 462,000 | 427,500 | 1,164,557 | 737,057 |
| Fund Balance - Beginning | 5,984,778 | 5,984,778 | 7,154,121 | 1,169,343 |
| Fund Balance - Ending | <u>\$ 6,446,778</u> | <u>\$ 6,412,278</u> | <u>\$ 8,318,678</u> | <u>\$ 1,906,400</u> |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI

Storm Water/Parks Fund

Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual
For The Year Ended December 31, 2007

| | Original Budget | Final Budget | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|--------------------|---------------------|--------------------|--|
| REVENUES | | | | |
| Sales Taxes | \$3,285,800 | \$ 3,230,200 | \$3,277,581 | \$ 47,381 |
| Parks and Recreation Fees | 294,800 | 292,000 | 312,338 | 20,338 |
| RiverChase Revenues | 1,646,300 | 1,651,700 | 1,701,897 | 50,197 |
| Special Events | 11,100 | 11,100 | 9,208 | (1,892) |
| Investment Income | 95,000 | 125,000 | 250,440 | 125,440 |
| Grants | 10,000 | 10,000 | 10,000 | - |
| Total Revenues | <u>5,343,000</u> | <u>5,320,000</u> | <u>5,561,464</u> | <u>241,464</u> |
| EXPENDITURES | | | | |
| Parks and Recreation | 832,000 | 839,500 | 838,564 | 936 |
| RiverChase | 2,044,000 | 1,998,400 | 1,965,971 | 32,429 |
| Building Maintenance | 60,000 | 123,700 | 38,196 | 85,504 |
| Special Events | 57,000 | 57,000 | 49,476 | 7,524 |
| Storm Water Maintenance | 47,000 | 47,000 | 46,126 | 874 |
| Total Operating Expenditures | <u>3,040,000</u> | <u>3,065,600</u> | <u>2,938,333</u> | <u>127,267</u> |
| Debt Service Payments | <u>2,162,000</u> | <u>2,170,100</u> | <u>2,169,280</u> | <u>820</u> |
| Storm Water Improvements | - | 76,000 | 71,709 | 4,291 |
| Capital Expenditures | 15,000 | 120,000 | 52,372 | 67,628 |
| Total Non Operating Expenditures | <u>15,000</u> | <u>196,000</u> | <u>124,081</u> | <u>71,919</u> |
| Total Expenditures | <u>5,217,000</u> | <u>5,431,700</u> | <u>5,231,694</u> | <u>200,006</u> |
| Excess of Revenues Over (Under) Expenditures | 126,000 | (111,700) | 329,770 | 441,470 |
| Fund Balance - Beginning | <u>4,063,668</u> | <u>4,063,668</u> | <u>4,410,787</u> | <u>347,119</u> |
| Fund Balance - Ending | <u>\$4,189,668</u> | <u>\$ 3,951,968</u> | <u>\$4,740,557</u> | <u>\$ 788,589</u> |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI
Statement of Net Assets - Fiduciary Fund Types
Police Pension Trust Fund
As Of December 31,2007

| | <u>Police Pension Fund</u> |
|---|----------------------------|
| ASSETS | |
| Deposits Held With Trustees | \$ 20,068 |
| TOTAL ASSETS | <u>\$ 20,068</u> |
| NET ASSETS | |
| Held in trust for police pension benefits | <u>\$ 20,068</u> |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI
Statement of Changes In Fiduciary Net Assets
Police Pension Trust Fund
For The Year Ended December 31, 2007

| | |
|------------------------|-------------------------|
| <hr/> | |
| ADDITIONS | |
| Investment Earnings | <u>\$ 1,131</u> |
| | |
| DEDUCTIONS | |
| Administrative Fees | \$ 596 |
| Plan Distributions | <u>5,721</u> |
| Total Deductions | <u>\$ 6,317</u> |
| | |
| Changes in Net Assets | \$ (5,186) |
| Net assets - beginning | <u>\$ 25,254</u> |
| Net assets - ending | <u><u>\$ 20,068</u></u> |

The notes to the financial statements are an integral part of this statement

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Fenton, Missouri (the "City") was incorporated as a town within St. Louis County, Missouri on December 28, 1874. In April 1959, the residents voted to approve the town becoming a fourth-class city as provided by the Missouri state statutes. The City operates under a Mayor – Board of Aldermen form of government, which consists of the Mayor and eight members serving on the Board of Aldermen. The City's major operations include street maintenance and improvements, parks and recreation activities and general administrative services. St. Louis County provides police protection on a contract basis.

The financial statements of the City have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles.

The financial statements of the City include 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 GASB Statement # 14 and Statement # 39. The City is the primary government unit. Component units are those entities, which are financially accountable to the primary government, either because the component unit will provide a financial benefit to, or impose a financial burden on, the primary government. The City of Fenton has one component unit as noted below.

Blended Component Unit: The City of Fenton, Missouri Public Facilities Authority is included in the financial statements of the City of Fenton as a blended component unit. Criteria for including an entity as a blended component unit includes the governing body's ability to exercise financial accountability. Financial accountability includes control or dependence over budget adoption, taxing authority, funding and appointment of the respective board. Based upon the application of these criteria, the Public Facilities Authority has been determined to be a component unit of the City of Fenton. Its purpose is to act on behalf of the City in its acquisition, construction, improvement, extension, repair, remodeling and financing of capital improvement projects. The financial information of the Authority has been incorporated into the City's financial statements using the blending method. Under the blending method, transactions of a component unit are presented as if they were executed directly by the primary government.

B. 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 non-fiduciary activities of the City of Fenton and its component units. *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.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

The *statement of activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from the 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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. 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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 city considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the city.

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

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

The city reports the following major governmental funds:

The General Fund is the city's primary operating fund. It accounts for all financial resources of the city, except for those that are required to be accounted for in another fund.

The Storm Water/Parks Fund is a special revenue fund and accounts for the resources accumulated for the operations and capital needs of the city's parks and storm water systems. This fund also supplies the financial resources accumulated to make the debt service payments on the Certificates of Participation and PFA bonds issued by the City. The major funding source for this fund is a ½% sales tax that is restricted by law to only be used for parks operations or storm water improvements.

The Gravois Bluffs TIF Debt Service Fund accounts for the resources accumulated and the payments made for principal and interest on the TIF bonds that were issued for the Gravois Bluffs shopping center project.

The Fenton Crossing TIF Debt Service Fund accounts for the resources accumulated and the payments made for principal and interest on the TIF bonds that were issued for the Fenton Crossing shopping center project.

The Olde Towne Capital Improvements Fund accounts for the proceeds of the TIF bonds issued to pay for improvements to the Olde Towne road system and the extension of Summit Road.

Additionally, the city reports the following fund types:

Police Employees Pension Trust Fund – This fund is used to account for a deposit administration contract with the Equitable Life Assurance Society of the United States. The value of the assets and changes therein has been reported at an amount that represents contributions to the plan plus investment income credited, less benefit and termination payments and administration charges.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

The effect of inter-fund activity has been eliminated from the government-wide financial statements.

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

1. Deposits and Investments

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

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

The City's investment policies conform to Missouri Statute 30.260 that authorize the deposit of funds in banks and trust companies or investment in United States Treasury bills, notes, bonds, government agency and instrumentality obligations, repurchase agreements collateralized by government securities, time certificates of deposit, bankers' acceptances issued by domestic commercial banks, and commercial paper issued by domestic corporations.

Investments are recorded at their fair market value, which is determined based on the last reported sales price as noted on the national exchange.

There is additional information regarding deposits and investments under Footnote Section III A of this report.

2. Due To/From Other Funds

All outstanding balances between funds outstanding at the end of the year are referred to as "due to/from other funds". As of December 31, 2007, the City had the following due to/from other funds:

| Fund | Due From Other Funds | Due To Other Funds |
|---------------------------------|-------------------------|-----------------------|
| General Fund | | |
| Due From Storm Water/Parks Fund | \$ 27,848 | \$ - |
| Due To Gravois Bluffs TIF Fund | | 31,353 |
| Due to Fenton Crossing TIF Fund | | 7,856 |
| | <u>\$ 27,848</u> | <u>\$ 39,209</u> |
| Storm Water/Parks Fund | | |
| Due To General Fund | <u>\$ -</u> | <u>\$ 27,848</u> |
| Gravois Bluffs TIF Fund | | |
| Due From General Fund | <u>\$ 31,353</u> | <u>\$ -</u> |
| Fenton Crossing TIF Fund | | |
| Due From General Fund | <u>\$ 7,856</u> | <u>\$ -</u> |
| Totals | <u>\$ 67,057</u> | <u>\$ 67,057</u> |

The due to/from reported by the General Fund and the Storm Water/Parks Fund are for services rendered by the Public Works department for such items as cleaning RiverChase, mowing parks land and other similar services. These services were performed during December 2007, but not billed until after January 1.

The due to/from reported by the General Fund and the Gravois Bluffs and Fenton Crossing TIF funds are for gross receipts taxes collected by the City during 2007, but not paid until after January 1. The amount due represents the portion of gross receipts taxes that are attributed to gross receipts taxes on utilities that are generated by these two shopping centers.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

3. Inventories and Prepaid Items

Certain payments made to vendors during 2007 reflect costs that are applicable to future accounting periods and recorded as prepaid items in both the government-wide and fund financial statements.

The City had no material inventory of supplies on hand as of December 31, 2007.

4. Restricted Assets

Certain proceeds and resources of the City are classified as restricted assets on the balance sheet because these resources are maintained in separate bank accounts or their use is restricted by applicable bond covenants. The General Fund reports restricted resources that represent bonds received from defendants in Municipal Court pending a hearing before the Municipal Court judge and for deposits received from developers for permits that will be refunded upon completion of the construction covered by the permit. The Storm Water/Parks Fund reports restricted resources that are set aside for debt service payments on the series 1997 and series 2004 certificates of participation and the series 2003 PFA bonds. The Gravois Bluffs TIF Fund is used to account for resources set aside for debt service payments on the series 2007 Gravois Bluffs TIF refunding bonds. The Fenton Crossing TIF Fund is used to account for resources set aside for debt service payments on the series 2000 Fenton Crossing TIF bonds. The Olde Towne Capital Project Fund is used to account for the proceeds of TIF bonds issued that are restricted for use solely on capital improvements related to Olde Towne road system and extension of Summit Road.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The City defines capital assets as assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriated price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs. These costs are amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

In the case of donations, the City values these capital assets at the estimated fair value of the item at the date of donation.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

| <u>Asset</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 50 |
| Building Improvements | 5 - 25 |
| Land Improvements | 10 - 25 |
| Machinery & Equipment | 4 - 20 |
| Infrastructure | 7 - 50 |

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits.

All permanent employees with twelve continuous months of service are entitled to paid vacation based on their continuous length of service to the City as follows:

| <u>Years of Service</u> | <u>Weeks of Vacation</u> |
|-------------------------|--------------------------|
| 1 to 4 | 2 |
| 5 to 14 | 3 |
| 15 to 19 | 4 |
| 20 or more | 5 |

Vacation time must be taken in the 12 months following the year in which it was earned. Therefore, unused earned vacation time is reflected as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured (for example, as a result of employee resignations and/or retirements).

Sick leave accrues at the rate of 80 hours per year of continuous service. Employees with less than one year of continuous service are entitled to sick leave prorated at the rate of 6.66 hours per month. Sick leave may be accrued to a maximum of 960 hours. On December 1 of each year, employees with two or more years of continuous service may sell back to the City up to one-third of their unused sick leave for the period of December 1 of the prior year through November 30 of the current year. These hours are then subtracted from the accrued sick leave balance for that employee. An employee who retires, resigns or is terminated after five years of continuous service is paid for one-half of their accrued sick leave (computed at the employee's current rate of pay), up to a maximum of 480 hours. Accordingly, one-half of the accrued sick leave for employees with five or more years of continuous service has been recorded as a liability in the government-wide financial statements.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as any bond issue costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges 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 issue costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. In addition, payments made to an escrow agent for advance refunding of bonds are reported as other financing uses. Bond issue costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balance

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

9. Net Assets

In the government-wide financial statements, net assets is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds. All annual appropriations lapse at the end of each year.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

Department heads prepare the appropriated budget by fund, function, and department. Department heads are responsible for keeping expenditures within the confines of the total department budget although individual line items may exceed budget so long as the total appropriations for the department are not exceeded. The legal level of budgetary control is the fund level.

During 2007, the Board of Aldermen made the following budget amendments:

Resolution # 07-03 - Increased the expenditure budget by \$2,237,700 for projects originally included in the 2006 budget that were not completed by the end of 2006.

Resolution # 07-05 – Increased budgeted citywide revenues by \$442,500 and increased budgeted citywide expenditures by \$352,000 to modify the 2007 budget based on the mid-year review of activity through June 30. This is an annual process that the Board of Aldermen performs to try and match budget expectations with on-going performance.

Resolution # 08-02 - Increased budgeted citywide revenues by \$25,000 and increased budgeted citywide expenditures by \$25,000 to account for revenues and expenditures not included in the original budget. This is an annual year-end process the Board of Aldermen performs to ensure that revenues and expenditures remain in balance based on actual results of operations.

Encumbrance accounting is employed in all funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end lapse and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Excess of Expenditures Over Appropriations

Because of Resolution 08-02, expenditures did not exceed appropriations in any fund during 2007.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Missouri state law governs the deposit and investment limitations of the City of Fenton. As allowed under state law, the City's written investment policy authorizes the following type of investments:

- a. United States Treasury Securities for which the full faith and credit of the United States are pledged for the payment of principal and interest.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

- b. United States Government Agency Obligations, including:
 - U.S. Government Agency Discount Notes purchased at a discount with maximum maturities of ten (10) years.
 - U.S. Government Agency Callable Securities with maximum maturities of ten (10) years.
- c. Repurchase agreements with commercial banks or government securities dealers. The purchaser in a repurchase agreement enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.
- d. Collateralized public deposits (Certificates of Deposit) issued by financial institutions, which state that specified sums have been deposited for specified periods of time, for specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by state statute.
- e. Insured money market accounts that are collateralized by acceptable collateral as dictated by state statute.
- f. Bank Acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc or Standard and Poor's Corporation and that do not exceed ninety (90) days in length.
- g. Governmental Mutual Funds that invest solely in government backed securities and that have an average short-term investment horizon of less than one year. Investment in such funds cannot exceed 25% of the total investment portfolio.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

The deposits and investments held at December 31, 2007, and reported at fair value, are as follows:

Deposits:

| | |
|---------------------------------------|------------------|
| Demand Deposits | \$ 59,021 |
| Cash on Hand | 3,250 |
| Money Market Accounts | 175,648 |
| Overnight Sweep Account | 707,074 |
| Nonnegotiable Certificates of Deposit | 3,180,000 |
| | <u>4,124,993</u> |

Investments:

| | |
|---|-------------------|
| Federal Home Loan Bank (FHLB) | 6,947,977 |
| Fidelity Treasury Fund | 3,197,443 |
| Federal Home Loan Mortgage Corporation (FHLMC) | 5,185,914 |
| Guaranteed Investment Contract (GIC) | 1,708,400 |
| Goldman Sachs Ultra Short Duration Government Mutual Fund | 567,439 |
| Federal Farm Credit Bank (FFCB) | 508,719 |
| Financial Square Treasury Trust Fund | 376,221 |
| | <u>18,492,113</u> |

Total Deposits and Investments \$ 22,617,106

Reconciliation to the Financial Statements:

| | |
|-------------------------|-------------------|
| Statement of Net Assets | |
| Cash and Investments | \$ 8,866,969 |
| Restricted Cash | 1,111,017 |
| Restricted Investments | <u>12,639,120</u> |

Total Deposits and Investments Per The Statement of Net Assets \$ 22,617,106

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, City deposits may not be returned. Per state law and the City investment policy, all demand deposits or certificates of deposit must be collateralized by government securities for all amounts in excess of the FDIC insurance limit. As of December 31, 2007, all City deposits were either insured or collateralized.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or the collateral securities that are in the possession of the outside party. The City's policy to minimize credit risk is to pre-qualify the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business. The City's investments were not exposed to custodial credit risk this year.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

Investment Interest Rate Risk – As of December 31, 2007 the City had the following investments and maturities:

| Investment Type | Fair Value | Less Than 3 Yrs | 4 -7 Yrs | Over 8 Yrs |
|----------------------------------|---------------|-----------------|----------|------------|
| Government and Agency Securities | \$ 12,642,610 | \$ 11,653,921 | \$ - | \$ 988,689 |
| Mutual Funds | \$ 4,141,103 | 4,141,103 | - | - |
| Guaranteed Investment Contract | \$ 1,708,400 | 1,708,400 | - | - |
| Totals | \$ 18,492,113 | \$ 17,503,424 | \$ - | \$ 988,689 |
| Percentage | 100.00% | 94.65% | 0.00% | 5.35% |

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the maturities of operating fund investments in the portfolio as follows:

| Maturity | Minimum | Maximum |
|-----------------------|---------|---------|
| One to Three Years | 25.00% | 100.00% |
| Four to Seven Years | 0.00% | 50.00% |
| More Than Eight Years | 0.00% | 25.00% |

Investment Credit Risk – As documented on previous pages, City investment policy and state law limit its investment choices. At December 31, 2007, the City's investments in U.S. Agency obligations not directly guaranteed by the U.S. Government and investments in money market accounts were rated as follows:

| Investment Type | Credit Rating | Amount |
|---------------------------------------|---------------|---------------|
| Government Agency Securities | AAA | \$ 12,642,610 |
| Fidelity Treasury Mutual Fund | AAA | 3,197,443 |
| Guaranteed Investment Contract | Unrated | 1,708,400 |
| Goldman Sachs Mutual Fund | AAA | 567,439 |
| Financial Square Treasury Mutual Fund | Aaa | 376,221 |
| Total | | \$ 18,492,113 |

Concentration of Investment Credit Risk – Concentration of credit risk is required to be disclosed by the City for any single investment that represents 5% or more of total investments (excluding investments issued by or explicitly guaranteed by the U.S. Government, investments in mutual funds, investments in external investment pools and investments in other pooled investments).

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

The City places no limits on the amount it may invest in any one issuer; however, it is the City's policy to diversify the portfolio so that potential losses on individual securities will be minimized. At December 31, 2007, the City had the following investments that were more than 5% of the City's total investments:

| Investment | Amount | Percent |
|---------------------------------|--------------|---------|
| Federal Home Loan Mortgage Corp | \$ 2,440,847 | 13.20% |
| Guaranteed Investment Contract | \$ 1,708,400 | 9.24% |
| Federal Home Loan Mortgage Corp | \$ 1,181,080 | 6.39% |
| Federal Home Loan Bank Note | \$ 1,018,015 | 5.51% |
| Federal Home Loan Bank Note | \$ 1,003,890 | 5.43% |
| Federal Home Loan Bank Note | \$ 1,001,880 | 5.42% |
| Federal Home Loan Bank Note | \$ 994,690 | 5.38% |

B. Receivables and Deferred Revenue

As of December 31, 2007 citywide receivables are as follows:

| Receivable | General Fund | Fenton | | | Total |
|----------------------|---------------------|---------------------------|----------------------------|----------------------|---------------------|
| | | Parks/Storm Water Fund | Gravois Bluffs TIF Fund | Crossing TIF Fund | |
| Miscellaneous | \$ 147,730 | \$ 38 | \$ - | \$ - | \$ 147,768 |
| Sales Taxes | 699,377 | 597,083 | 830,259 | 186,702 | 2,313,421 |
| Road & Bridge Taxes | 303,070 | - | - | - | 303,070 |
| Grants | - | - | - | - | - |
| Gross Receipts Taxes | 232,499 | - | - | - | 232,499 |
| Accrued Interest | 99,914 | 59,377 | 34,035 | 21,683 | 215,009 |
| Customer Accounts | - | 12,017 | - | - | 12,017 |
| Property Taxes | - | - | 1,986,221 | 304,550 | 2,290,771 |
| Total | \$ 1,482,590 | \$ 668,515 | \$ 2,850,515 | \$ 512,935 | \$ 5,514,555 |

Governmental funds report *deferred revenue* in connection with resources that have been received, but not yet earned. As of December 31, 2007, the Storm Water/Parks Fund reported approximately \$243,000 in money that had been received from customers for classes to be held in 2008 and for memberships that will be consumed during 2008.

C. Property Taxes

The City's property tax is levied each September based on the assessed value listed by St. Louis County as of the prior January 1 for all real and personal property located in the City. As of January 1 of each year, property taxes attach as an enforceable lien. The City has historically voluntarily reduced the property tax rate to zero. Therefore, there are no outstanding taxes receivable as of December 31, 2007.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

D. Insurance Programs

The City, along with various other local municipal governments, participates in an insurance trust – the St. Louis Area Insurance Trust (SLAIT). The purpose of this trust is to distribute the cost of self-insurance over similar entities. The trust requires an annual premium payment and prorated expenses to cover the estimated costs of claims and establish reserves for claims from each participant in the trust. The members of the trust have no legal interest in the assets, liabilities or fund balances of the insurance trust. However, the City has a contingent liability to fund its pro-rata share of any deficit incurred by the trust, should the trust cease operations at some future date. The trust has contracted with The Daniel and Henry Company to handle all administrative matters, including processing of claims filed. Within the last three years, settled claims have not exceeded the City's commercial coverage.

E. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

| Account | Balance | | 2007 | |
|--------------------------------|------------------------|-----------------------|-----------------------|------------------------|
| | 01/01/2007 | 2007 Additions | Deletions | Ending Balance |
| Land | \$ 15,839,053 | \$ 140,000 | \$ (2,878,954) | \$ 13,100,099 |
| Construction In Progress | 2,180,650 | 1,882,221 | (2,801,280) | \$ 1,261,591 |
| Land Improvements | 2,509,049 | - | - | \$ 2,509,049 |
| Buildings | 21,509,418 | - | - | \$ 21,509,418 |
| Building Improvements | 190,219 | - | - | \$ 190,219 |
| Machinery & Equipment | 1,652,972 | 127,113 | (49,052) | \$ 1,731,033 |
| Infrastructure | 32,113,737 | 2,661,280 | - | \$ 34,775,017 |
| Total Assets | \$ 75,995,098 | \$ 4,810,614 | \$ (5,729,286) | \$ 75,076,426 |
| Acc Deprec - Land Improvements | \$ (1,290,403) | \$ (95,307) | \$ - | \$ (1,385,710) |
| Acc Deprec - Buildings | (5,024,679) | (570,440) | - | \$ (5,595,119) |
| Acc Deprec - Bldg Improvements | (39,079) | (5,215) | - | \$ (44,294) |
| Acc Deprec - M & E | (1,200,127) | (115,473) | 49,052 | \$ (1,266,548) |
| Acc Deprec - Infrastructure | (17,969,713) | (1,100,663) | - | \$ (19,070,376) |
| | \$ (25,524,001) | \$ (1,887,098) | \$ 49,052 | \$ (27,362,047) |
| Capital Assets, Net | \$ 50,471,097 | \$ 2,923,516 | \$ (5,680,234) | \$ 47,714,379 |

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

| Function | 2007 Depreciation |
|-----------------------|---------------------|
| General Government | \$ 71,969 |
| Community Development | 37,738 |
| Public Works | 1,222,457 |
| Parks and Recreation | 554,934 |
| | <u>\$ 1,887,098</u> |

GASB Statement 34 requires the City to report and depreciate new infrastructure assets, effective with fiscal year 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. As of December 31, 2007, the retroactive reporting has been completed for all infrastructure assets.

F. Construction Commitments

The City had no active construction projects as of December 31, 2007.

G. Lease Commitments

The City leases three office copiers under non-cancelable operating leases. The lease for the copier located at City Hall costs \$216 per month and runs from May 19, 2003 to May 19, 2008. The lease for the copier at RiverChase costs \$216 per month and runs from March 15, 2004 to March 15, 2009. On December 17, 2007, the City entered into a lease agreement for a copier at the Public Works facility. The lease costs \$127 per month and runs from January 13, 2008 through January 13, 2013.

The City also leases a postage meter and scale for \$179 per month with the agreement running from April 1, 2007 to March 31, 2011.

Total costs for such leases were \$7,332 for the year ended December 31, 2007. The future minimum lease payments on these leases is as follows:

| Year Ending December 31 | Amount |
|-------------------------|----------|
| 2008 | \$ 7,344 |
| 2009 | \$ 4,320 |
| 2010 | \$ 3,672 |
| 2011 | \$ 2,240 |
| 2012 | \$ 1,524 |
| 2013 | \$ 127 |

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

H. Long-Term Debt

As of December 31, 2007 the City has the following outstanding long-term liabilities:

CITY OF FENTON, MISSOURI
RECAP OF LONG-TERM LIABILITIES
AS OF 12/31/2007

| Name | Balance 01/01/2007 | Additions | Retirements | Balance 12/31/2007 | Due Within One Year |
|--------------------------------------|-----------------------|-------------------|---------------------|-----------------------|------------------------|
| Gravois Bluffs TIF - Series 2006 | 48,635,000 | - | 4,100,000 | 44,535,000 | 3,410,000 |
| Fenton Crossing TIF - Series 2000 | 7,800,000 | - | 715,000 | 7,085,000 | 260,000 |
| Total - TIF Debt | 56,435,000 | - | 4,815,000 | 51,620,000 | 3,670,000 |
| PFA Bonds | 4,890,000 | - | 430,000 | 4,460,000 | 460,000 |
| Certificates of Participation | 13,765,000 | - | 1,055,000 | 12,710,000 | 1,100,000 |
| Total - Other Debt | 18,655,000 | - | 1,485,000 | 17,170,000 | 1,560,000 |
| Unamortized Premium (net) | 446,960 | - | 31,366 | 415,594 | 23,524 |
| Deferred Amount on Refunding | (5,345,660) | - | (389,537) | (4,956,123) | (307,940) |
| Compensated Absences | 153,166 | 154,052 | 137,078 | 170,140 | 170,140 |
| Total - Other Liabilities | (4,745,534) | 154,052 | (221,093) | (4,370,389) | (114,276) |
| TOTAL - LONG-TERM LIABILITIES | \$ 70,344,466 | \$ 154,052 | \$ 6,078,907 | \$ 64,419,611 | \$ 5,115,724 |

State statutes limit the amount of general obligation bonds a governmental entity may issue to 10% of its total assessed value. Based on a 2007 assessed value of \$401,620,000, the City of Fenton's legal debt limit is \$40,162,000. None of the above listed debt is included in the calculation of the city's legal debt margin because none of the above debt is considered general obligation debt.

Tax Increment Financing (TIF) Bonds

The City has issued four series of TIF bonds. These bonds provided funds for infrastructure improvements for the Gravois Bluffs and Fenton Crossing shopping centers. The bonds are secured by a pledge of 50% of the sales tax revenues generated by the two shopping centers and incremental property taxes generated. They do not constitute a general obligation of the City of Fenton. In addition, a transportation development district (TDD) has been formed for each shopping center and the sales tax revenues generated by the two districts are also pledged to the repayment of these bonds.

Series 2000 Bonds – On November 1, 2000, the City issued \$10,205,000 of serial and term bonds with principal repayment beginning October 1, 2003. Final maturity of the serial bonds is October 1, 2011; while the term bonds are due on October 1, 2015 and October 1, 2021, respectively. Interest rates on the bonds range from 5.375% to 7.25% with interest payments due on April 1 and October 1. Term bonds due in 2015 and 2021 are subject to early redemption, as revenues will permit.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
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Series 2001 Bonds – On March 1, 2001, the City issued \$39,610,000 of serial and term bonds with principal repayment beginning October 1, 2003.

Series 2002 Bonds – On October 1, 2002 the City issued \$19,035,000 of term bonds with a final maturity of October 1, 2012 and October 1, 2021.

On April 13, 2006, the City issued \$48,635,000 in TIF revenue refunding bonds to advance refund both the series 2001 and Series 2002 Gravois Bluffs TIF bonds. More details are described later in this section under the heading of “Defeased Debt”.

Annual debt service requirements to maturity on all current outstanding TIF bonds are as follows:

| Year Ending December 31 | Principal | Interest | Total |
|----------------------------|---------------|---------------|---------------|
| 2008 | 3,670,000 | 2,460,189 | 6,130,189 |
| 2009 | 2,795,000 | 2,323,470 | 5,118,470 |
| 2010 | 3,085,000 | 1,899,603 | 4,984,603 |
| 2011 | 3,320,000 | 2,047,973 | 5,367,973 |
| 2012 | 3,440,000 | 1,868,123 | 5,308,123 |
| 2013 - 2017 | 19,960,000 | 6,387,815 | 26,347,815 |
| 2018 - 2021 | 15,350,000 | 1,496,025 | 16,846,025 |
| Totals | \$ 51,620,000 | \$ 18,483,198 | \$ 70,103,198 |

Public Facility Authority (PFA) Bonds

In 1997, the City entered into a lease agreement with the City of Fenton, Missouri Public Facilities Authority for the purpose of acquiring parkland for the Fabick Nature Preserve. The annual lease payments on the property were set an amount equal to the annual principal and interest payments due on the bonds issued in 1997. In 2003, the lease was amended when the Authority issued Leasehold Revenue Refunding Bonds in the face amount of \$5,985,000 with interest rates that range from 1.2% to 4.35%. The proceeds of the refunding bonds were used to defease the outstanding 1997 bonds issued by the Authority. Interest on the 2003 bonds is due on January 1 and July 1, with final maturity of the bonds occurring on January 1, 2016.

Annual debt service requirements to maturity on the PFA Bonds are as follows:

| Year Ending December 31 | Principal | Interest | Total |
|----------------------------|--------------|------------|--------------|
| 2008 | 460,000 | 157,968 | 617,968 |
| 2009 | 470,000 | 144,590 | 614,590 |
| 2010 | 475,000 | 129,347 | 604,347 |
| 2011 | 485,000 | 112,542 | 597,542 |
| 2012 | 495,000 | 94,531 | 589,531 |
| 2013 -2016 | 2,075,000 | 172,515 | 2,247,515 |
| Totals | \$ 4,460,000 | \$ 811,493 | \$ 5,271,493 |

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

Certificates of Participation

On July 1, 1997, the City issued \$19,765,000 of Certificates of Participation to be used for construction of the recreational complex known as RiverChase, making improvements to the City Hall building and storm water improvements within the city. On December 1, 2004, the City issued \$13,170,000 in refunding Certificates of Participation to defease those 1997 bonds due on and after September 1, 2008. Such bonds were subject to early redemption on September 1, 2007. More details are described later in this section under the heading of "Defeased Debt".

The 2004 Refunding Certificates have interest rates ranging from 1.95% to 4.10% with interest due on March 1 and September 1 of each year. Final maturity of the Certificates is on September 1, 2017.

Annual debt service requirements to maturity on the certificates are as follows:

| Year Ending December 31 | Principal | Interest | Total |
|----------------------------|----------------------|---------------------|----------------------|
| 2008 | 1,100,000 | 447,448 | 1,547,448 |
| 2009 | 1,125,000 | 419,398 | 1,544,398 |
| 2010 | 1,160,000 | 387,335 | 1,547,335 |
| 2011 | 1,195,000 | 351,375 | 1,546,375 |
| 2012 | 1,235,000 | 311,343 | 1,546,343 |
| 2013 -2017 | 6,895,000 | 840,195 | 7,735,195 |
| Totals | <u>\$ 12,710,000</u> | <u>\$ 2,757,094</u> | <u>\$ 15,467,094</u> |

Defeased Debt

On April 13, 2006, the City issued \$25,400,000 in term TIF refunding bonds and \$23,235,000 in serial TIF refunding bonds for the purpose of advance refunding the Series 2001 and Series 2002 TIF revenue bonds. The refunding bonds have interest rates ranging from 4% to 5%, with a final payment date of April 1, 2021. The term bonds are subject to mandatory early redemption beginning on April 1, 2007 as revenues permit. The defeased bonds had an outstanding balance of \$44,115,000 at the date of defeasance with interest rates ranging from 5% to 7%. The refunding proceeds were used to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of paying off the old bonds as they come due. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The defeased bonds will be called for full redemption on October 1, 2011 and October 1, 2012. The reacquisition price exceeded the net carrying amount of the old bonds by \$4,895,785. This amount is being netted against the new debt and is being amortized over the remaining 15 years of the new debt, which is the same life as the defeased debt. The advance refunding was undertaken to remove restrictive bond covenants associated with the old debt whereby all TDD sales tax revenues had to be applied to retire TIF debt. Under the new covenants, only the top 50% of TDD sales taxes will go to retire TIF debt while the bottom 50% of TDD sales taxes will now go to pay off TDD debt issued to construct the Summit Road street extension project. The refunding resulted in a net economic loss of \$1,332,000.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
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As of December 31, 2007, the amount of defeased debt outstanding, but removed from the long-term debt of the City, amounted to \$28,125,000 for the Series 2001 bonds and \$14,600,000 for the Series 2002 bonds.

In December 2004, the City issued \$13,170,000 in Refunding Certificates of Participation with interest rates ranging from 1.95% to 4.10%. The proceeds were used to advance refund the Series 1997 certificates maturing in the years 2008 through 2017. The defeased certificates had an outstanding balance of \$12,325,000 at the time of defeasance with interest rates ranging from 5.00% to 5.12%. Certificates maturing in 2005, 2006, and 2007, in the amount of \$2,675,000, were not eligible for early redemption and remained outstanding as of the date of defeasance. As of December 31, 2007, all defeased debt had been retired.

During the year ended December 31, 2003, the City of Fenton Missouri Public Facilities Authority issued \$5,985,000 of Leasehold Revenue Refunding Bonds with interest rates ranging from 1.2% to 4.35% to advance refund and defease the Authority's outstanding Series 1997 Leasehold Revenue Bonds maturing in the years 2004 through 2018. The Series 1997 bonds had an outstanding balance of \$6,160,000 at the time of defeasance with interest rates ranging from 4.6% to 5.25%. The defeased bonds will be called for redemption on January 1, 2008. As of December 31, 2007, the amount of defeased debt outstanding, but removed from the long-term debt of the City amounted to \$5,120,000.

I. Pension Plans

A. General City Employee Pension Plan

1. Plan Description

The City participates in the Missouri Local Government Employees Retirement System (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 70.655 – 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. This plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to: LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

2. Funding Status

The City's full-time employees do not contribute to LAGERS. The City is required to contribute at an actuarially determined rate; the rate for 2007 was 7.4% for general employees and 9.8% for police employees based on annual covered payroll. Since police services are contracted for with the St. Louis County Police Department, the City has no current LAGERS liability for police employees. The Board of Aldermen of the City determines the contribution requirements of plan members. The contribution provisions of the City are established by state statute.

3. Annual Pension Cost

For 2007, the City's annual pension cost of \$150,956 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2005 and/or February 28, 2006 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2007 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 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women 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 expense on an open basis. The amortization period at February 28, 2007 was 15 years. A schedule of funding progress is included on page 47 of this report as required supplementary information.

Three-Year Trend Information

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-----------------------|------------------------------|----------------------------------|---------------------------|
| 6/30/2005 | \$ 171,820 | 100% | \$ - |
| 6/30/2006 | \$ 166,858 | 100% | \$ - |
| 6/30/2007 | \$ 150,956 | 100% | \$ - |

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

B. Police Department Pension Plan

The City has a defined contribution retirement plan funded through the Equitable Life Assurance Society of the United States (Equitable). The plan was established by resolution of the Board of Aldermen on August 18, 1980. Due to discontinuance of local police salaries, no contributions were made for 2007.

Formerly, full-time employees of the Police Department were eligible to participate in the plan. Pursuant to the plan's provisions, the City was obligated to contribute 4% of each eligible employee's covered wages. Employees did not contribute to the plan.

Contributions were fully vested after four years of continuous service. Distribution of vested plan benefits begins after the employee attains the normal retirement age of 55 or separates from service.

IV. OTHER INFORMATION

A. Police Services

The City contracts with the St. Louis County Police Department for police services. For the year ended December 31, 2007, the City paid a total of \$2,391,293 for such services. The contract was renewed during 2005 for a five-year period ending on December 31, 2010.

B. Legal Proceedings

As of December 31, 2007, the City is involved with several legal proceedings. The City's management, based upon consultation with outside legal counsel, believes that these matters will be resolved with no material adverse effect to the City.

C. Economic Dependency

The City estimates that one retail business has generated retail sales tax revenues greater than ten percent of the City's total retail sales tax revenue. In addition, one industrial business accounts for over half of the gross receipts taxes generated annually.

D. Conduit Debt

On November 16, 2005, \$1,000,000,000 in City of Fenton, Missouri Series 2005 Taxable Industrial Revenue Bonds were issued for the Daimler Chrysler Corporation. These bonds will be used to remodel the two plants located in Fenton and upgrade the equipment contained in these plants. As part of the agreement, Daimler Chrysler paid the City of Fenton \$100,000 for gross receipts taxes that will be lost during 2007 when the two plants shut down for a three month period while improvements are made.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

On December 22, 2004, \$112,000,000 in City of Fenton, Missouri Series 2004 Taxable Industrial Revenue Bonds were issued for the Daimler Chrysler Corporation. These bonds were used to purchase equipment to upgrade the auto assembly plant located in Fenton.

These bonds are limited obligations of the City payable solely out of certain lease revenues derived by the City from the lease agreement with Daimler Chrysler. The bonds and interest thereon do not constitute general obligations of the City or the State of Missouri. Neither the City nor the State is liable for the payment of these bonds. The bonds do not constitute indebtedness within the meaning of any statutory debt limitations or restriction, and are not payable in any manner by taxation. As such, the bonds are considered conduit debt of the City and neither the assets that will be acquired from the proceeds of the bonds nor the long-term liabilities for the bonds are reflected in the financial statements of the City. As of December 31, 2007, the amount issued and payable on these two series was \$771,523,621.

E. Special Items

During 2007, the City of Fenton transferred land purchased in December 2004 at a cost of \$2,878,954 to developer G J Grewe. This land had been purchased for the purpose of providing required right-of-way for the Summit Road extension. This extension connects state highway 30 with state highway 141 and is designed to relieve traffic congestion on highway 141 by providing an additional entrance into the Gravois Bluffs shopping center. In settlement of a lawsuit filed by G J Grewe against the City over responsibility for construction of the road, the City agreed to transfer title to this land to G J Grewe and, in return, G J Grewe agreed to build the Summit Road extension. The value of this land will be added back to the records of the City as right-of-way once the project is completed and the road is donated to the City. The Summit Road extension was completed and opened to the public on November 20, 2007. Transfer of the road will be made to the City of Fenton during 2008 once all state and city inspections are completed and the road accepted by both the state and city as meeting all required road standards.

V. SUBSEQUENT EVENTS

A. Grant Award

In early 2008, the City was awarded a federal grant for the Old Gravois Road Bridge Replacement Project for eighty percent (80%) of the eligible costs, up to a maximum of \$4,280,000. The City will be responsible for matching 20% of the award. The City has received a commitment from St. Louis County to provide up to \$1,000,000 in cash or in-kind services for this project, which will reduce the amount of the City's share of this project.

CITY OF FENTON, MISSOURI

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

B. Flood Damages

On March 21, 2008, the City was hit with a flood from the Meramec River that covered an area from Old Gravois Road to Soccer Park Road and that caused damages not only to private property but also to the city road system and City Park. The flood destroyed a large portion of Yarnell and Soccer Park Road as well as the tennis courts in City Park.

Current estimates are that it will cost between \$600,000 and \$800,000 for the costs of the flood, including prevention measures, cleanup after the flood, and repairs to City property damaged or destroyed. Since FEMA relief to government agencies is based on total damages within a county and not damages to individual cities, it appears the City may not receive any FEMA reimbursement for the flood since countywide damage was below the minimum FEMA level.

On April 14, settlement of the class action lawsuit against wireless telephone companies was approved by the court system. As a result of this approval, the City of Fenton should receive approximately \$500,000 in back taxes that can be used to pay for the damages caused by the flood.

The remaining \$100,000 to \$300,000 will come from the 2008 budget since the budget, as approved, projected an operating surplus of \$500,000. Thus, the budget will be amended at mid-year 2008 to reduce the projected surplus down to the level necessary to pay for the flood damage costs.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FENTON, MISSOURI
 Required Supplementary Information
 Schedule of Funding Progress
 Employee Pension Plan

| Actuarial Valuation Date | Actuarial Value of Assets | Entry Age Actuarial Accrued Liability | Unfunded Accrued Liability (UAL) | Funded Ratio | Annual Covered Payroll | UAL as a Percentage of Covered Payroll |
|--------------------------------|------------------------------|---|--|-----------------|---------------------------|--|
| 2/28/2005 | \$ 3,700,127 | \$ 3,249,816 | \$ (450,311) | 114% | \$ 1,830,906 | -25% |
| 2/28/2006 | \$ 4,025,731 | \$ 3,456,585 | \$ (569,146) | 116% | \$ 1,945,529 | -29% |
| 2/28/2007 | \$ 4,441,890 | \$ 3,735,812 | \$ (706,078) | 119% | \$ 1,831,422 | -39% |

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, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City, Missouri or call 1-800-447-4334.

ADDITIONAL SUPPLEMENTARY INFORMATION

CITY OF FENTON, MISSOURI
Additional Supplemental Information
Gravois Bluffs TIF Fund
Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual
For The Year Ended December 31, 2007

| | Original Budget | Final Budget | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| REVENUES | | | | |
| Sales Taxes | \$ 3,604,000 | \$ 3,604,000 | \$ 4,296,369 | \$ 692,369 |
| Property Taxes | 1,834,000 | 2,039,000 | 2,467,162 | 428,162 |
| Gross Receipts Taxes | 37,000 | 37,000 | 31,353 | (5,647) |
| Investment Income | 225,000 | 250,000 | 404,767 | 154,767 |
| Total Revenues | <u>5,700,000</u> | <u>5,930,000</u> | <u>7,199,651</u> | <u>1,269,651</u> |
| EXPENDITURES | | | | |
| Current Expenditures: | | | | |
| Administrative Costs | 80,000 | 82,000 | 80,000 | 2,000 |
| Debt Service: | | | | |
| Principal | 3,885,000 | 4,110,000 | 4,100,000 | 10,000 |
| Interest | 2,165,000 | 2,165,000 | 2,120,233 | 44,767 |
| Trustee Fees | 15,000 | 18,000 | 2,142 | 15,858 |
| Total Expenditures | <u>6,145,000</u> | <u>6,375,000</u> | <u>6,302,375</u> | <u>72,625</u> |
| Excess of Revenues Over (Under) Expenditures | (445,000) | (445,000) | 897,276 | 1,342,276 |
| Fund Balance - Beginning | <u>11,311,333</u> | <u>11,311,333</u> | <u>11,579,715</u> | <u>268,382</u> |
| Fund Balance - Ending | <u>\$ 10,866,333</u> | <u>\$ 10,866,333</u> | <u>\$ 12,476,991</u> | <u>\$ 1,610,658</u> |

CITY OF FENTON, MISSOURI
 Additional Supplemental Information
 Fenton Crossing TIF Fund
 Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual
 For The Year Ended December 31, 2007

| | Original Budget | Final Budget | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| REVENUES | | | | |
| Sales Taxes | \$ 880,000 | \$ 880,000 | \$ 911,642 | \$ 31,642 |
| Property Taxes | 325,400 | 350,400 | 304,550 | (45,850) |
| Gross Receipts Taxes | 6,600 | 6,600 | 7,856 | 1,256 |
| Investment Income | 25,000 | 60,000 | 140,674 | 80,674 |
| Total Revenues | <u>1,237,000</u> | <u>1,297,000</u> | <u>1,364,722</u> | <u>67,722</u> |
| EXPENDITURES | | | | |
| Current Expenditures: | | | | |
| Administrative Costs | 30,000 | 30,000 | 30,000 | - |
| Debt Service: | | | | |
| Principal | 655,000 | 715,000 | 715,000 | - |
| Interest | 548,000 | 548,000 | 537,869 | 10,131 |
| Trustee Fees | 4,000 | 4,000 | 3,448 | 552 |
| Total Expenditures | <u>1,237,000</u> | <u>1,297,000</u> | <u>1,286,317</u> | <u>10,683</u> |
| Excess of Revenues Over (Under) Expenditures | - | - | 78,405 | 78,405 |
| Fund Balance - Beginning | 1,809,521 | 1,809,521 | 1,818,070 | 8,549 |
| Fund Balance - Ending | <u>\$ 1,809,521</u> | <u>\$ 1,809,521</u> | <u>\$ 1,896,475</u> | <u>\$ 86,954</u> |

CITY OF FENTON, MISSOURI
 Additional Supplemental Information
 Olde Towne Capital Improvements Fund
 Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual
 For The Year Ended December 31, 2007

| | Original Budget | Final Budget | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|---------------------|---------------|-------------------|--|
| REVENUES | | | | |
| Investment Income | - | 21,500 | 23,460 | 1,960 |
| Total Revenues | - | 21,500 | 23,460 | 1,960 |
| EXPENDITURES | | | | |
| Gravois Bluffs Blvd East Improvements | - | 155,300 | 155,244 | 56 |
| Old Highway 141 Improvements | - | 473,200 | 473,489 | (289) |
| Summit Road Improvements | - | 1,268,000 | 1,094,435 | 173,565 |
| Total Expenditures | - | 1,896,500 | 1,723,168 | 173,332 |
| Excess of Revenues Over (Under) Expenditures | - | (1,875,000) | (1,699,708) | 175,292 |
| Fund Balance - Beginning | 1,875,353 | 1,875,353 | 1,875,353 | - |
| Fund Balance - Ending | <u>\$ 1,875,353</u> | <u>\$ 353</u> | <u>\$ 175,645</u> | <u>\$ 175,292</u> |

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Board of Aldermen
City of Fenton, Missouri

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Fenton, Missouri (the "City"), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

Internal Control Over Financial Reporting (continued)

A. The City does not have a fraud policy and has not completed a fraud risk assessment.

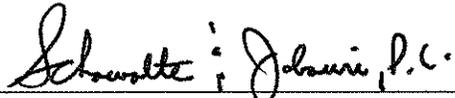
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness. Additionally, we noted certain other matters that we reported to management in a separate letter dated April 18, 2008.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Alderman, the Mayor and the City's management and is not intended to be and should not be used by anyone other than these specified parties.


SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
April 18, 2008