

CITY OF PASADENA HILLS, MISSOURI

***FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
FEBRUARY 28, 2011***

CITY OF PASADENA HILLS, MISSOURI

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Aldermen
CITY OF PASADENA HILLS, MISSOURI

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the City of Pasadena Hills, Missouri, as of and for the year ended February 28, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, and the remaining fund information of the City of Pasadena Hills, Missouri, as of February 28, 2011, and the respective changes in the financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 22 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Botz, Deal + Company

January 23, 2012

**CITY OF PASADENA HILLS, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FEBRUARY 28, 2011**

The discussion and analysis of the City of Pasadena Hills, Missouri's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended February 28, 2011. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The City increased its net assets by \$18,204 to \$1,961,452. Net assets increased principally as a result of tax revenue collected to make principal payments which are not an expense in the statement of activities and capital improvement tax collections exceeding expenses in the current year.

The City's combined fund balance decreased by \$56,542 during the fiscal year ending February 28, 2011.

REPORT LAYOUT

This report consists of Management's Discussion and Analysis (MD&A), government-wide statements, fund financial statement, notes to the financial statements, and supplementary information. The first two statements are highly condensed and present a government-wide view of the City's finances in compliance with Governmental Accounting Standards Board (GASB No. 34). Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, public works, planning, inspection and engineering, municipal courts and general government administration. The City currently does not have any business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City, giving a broad perspective on the City's overall financial condition.

Basic Financial Statements

- The government-wide financial statements are reported on the accrual basis of accounting. The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities.
- The Statement of Net Assets focuses on resources available for future operation. In simple terms, this statement presents a snap-shot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. The governmental activities are reported on the accrual basis of accounting.

Basic Financial Statements - continued

- The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user’s analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on major governmental funds. Governmental fund statements follow the more traditional presentation of financial statements. Each of the City’s major governmental funds is presented in their own column. A budgetary comparison for the General Fund and major special revenue funds are presented as required supplementary information.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City’s financial condition.

THE CITY AS A WHOLE

Government-wide Financial Analysis

The City's combined net assets were \$1,961,452 as of February 28, 2011. This analysis focuses on the net assets (table 1) and changes in general revenues (Table 2) and significant expenses of the City’s governmental activities.

The City's net assets consist of its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding and unrestricted balances. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Table 1

	2011	2010	Increase (Decrease)
Current and other assets	\$ 1,071,873	\$ 1,140,251	\$ (68,378)
Capital assets	2,352,348	2,345,446	6,902
Total assets	<u>3,424,221</u>	<u>3,485,697</u>	<u>(61,476)</u>
Current and other liabilities	89,043	97,263	(8,220)
Long-term liabilities	1,373,726	1,445,186	(71,460)
Total liabilities	<u>1,462,769</u>	<u>1,542,449</u>	<u>(79,680)</u>
Net assets:			
Invested in capital assets	978,622	900,262	78,360
Restricted	342,202	271,337	70,865
Unrestricted	640,628	771,649	(131,021)
Total net assets	<u>\$ 1,961,452</u>	<u>\$ 1,943,248</u>	<u>\$ 18,204</u>

Government-wide Financial Analysis - continued

Governmental activities increased the City's net assets by \$18,204. The key elements of this increase for the fiscal years ending February 28 are as follows:

Table 2

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for service	\$ 212,567	\$ 225,796	\$ (13,229)
General revenues:			
Taxes	585,690	561,221	24,469
Interest income	490	1,038	(548)
Miscellaneous	4,357	20,556	(16,199)
Total revenues	<u>803,104</u>	<u>808,611</u>	<u>(5,507)</u>
Expenses:			
Administrative	189,435	193,286	(3,851)
Public safety	105,040	113,148	(8,108)
Public works	241,324	209,097	32,227
Sanitation	180,117	173,631	6,486
Sewer Lateral	3,500	6,000	(2,500)
Interest and fiscal charges	65,484	68,957	(3,473)
Total expenses	<u>784,900</u>	<u>764,119</u>	<u>20,781</u>
Change in net assets	18,204	44,492	(26,288)
Net assets, beginning of year	1,943,248	1,898,756	44,492
Net assets, end of year	<u>\$ 1,961,452</u>	<u>\$ 1,943,248</u>	<u>\$ 18,204</u>

Total 2011 revenues shown in Table 2 of \$803,104 reflect a decrease of \$5,507 compared to 2010 revenues. Tax revenues increased due to an increase in the receipt from settlements from phone carriers in 2011. This increase was offset by a decrease in fines and court costs in 2011 of approximately \$8,800 and \$19,000 in insurance proceeds received in 2010 reported as miscellaneous revenue.

Government-wide expenses increased \$20,781 or 2.7% in 2011 over 2010, which is consistent with inflation.

Governmental Funds

The following table presents the amount of revenues from various sources on the modified accrual basis of accounting for the fiscal years ending February 28.

Table 3

	2011	2010	Increase (Decrease)
Governmental Funds:			
Taxes	\$ 601,714	\$ 574,896	\$ 26,818
Licenses and permits	8,586	7,862	724
Fines and court costs	14,646	23,466	(8,820)
Investment income	490	1,038	(548)
Charges for service	178,607	183,987	(5,380)
Miscellaneous	4,357	20,556	(16,199)
Total general revenues	\$ <u>808,400</u>	\$ <u>811,805</u>	\$ <u>(3,405)</u>

Total 2011 revenues shown in Table 3 of \$808,400 reflect a decrease of \$3,405 compared to 2010 revenues. Tax revenues increased due to an increase in receipts from settlements from phone carriers being larger in 2011 compared to 2010. This increase was offset by a decrease in fines and court costs in 2011 of approximately \$8,800 and \$19,000 in insurance proceeds received in 2010 reported as miscellaneous revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2011, the City had \$2,352,348 invested in a broad range of capital assets, net of depreciation. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$6,900 or 2% over the prior fiscal year.

Table 4

	2011	2010	Increase (Decrease)
Land	\$ 81,980	\$ 11,980	\$ 70,000
Buildings and improvements	184,078	167,352	16,726
Equipment	7,642	7,642	-
Infrastructure	2,695,873	2,671,586	24,287
Total	\$ <u>2,969,573</u>	\$ <u>2,858,560</u>	\$ <u>111,013</u>

The most significant additions to capital assets this fiscal year were the improvements made to streets and sidewalks.

DEBT

During the fiscal year ending February 28, 2006, the City issued general obligation bonds totaling \$1,700,000. The bonds are paid back from a dedicated property tax and have an interest rate of 4.705%. Semi-annual payments of principal and interest will be made through March 1, 2034. More detailed information on the City's long-term liabilities is presented in the note 8 to the financial statements.

THE CITY'S FUNDS

At the close of the City's fiscal year on February 28, 2011, the governmental funds of the City reported a combined fund balance of \$990,824. This ending balance includes a decrease in fund balance of \$133,314 in the City's General Fund from the excess of expenditures over revenues. Total fund balance decreased by \$56,542 from current year activity. The significant decrease in the General Fund's fund balance is due to the purchase of land and other capital items totaling \$112,273.

General Fund Budgetary Highlights

For the fiscal year ending February 28, 2011, actual revenues were \$397,161 compared to the revised budget amount of \$358,000. Revised budgeted revenues decreased \$27,900 principally as a result of higher tax collections related to the settlement of the cell phone tax lawsuit in 2010 and therefore they would not be revenue in 2011.

For the fiscal year ended February 28, 2011 actual expenditures were \$530,475 as compared to the revised budget amount of \$406,800. Actual amounts in the General Fund exceeded budgeted amounts due to the purchase of capital items totaling \$112,000 paid for by the General Fund were not budgeted in this fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City does not anticipate significant or material changes in the basis of most revenue sources.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact:

Jeffrey Blume, Treasurer
3915 Roland Boulevard
Pasadena Hills, Missouri 63121-2517

CITY OF PASADENA HILLS, MISSOURI
STATEMENT OF NET ASSETS
FEBRUARY 28, 2011

	Governmental Activities
ASSETS	
Cash and investments	\$ 893,625
Receivables:	
Property taxes	38,080
Other taxes	58,841
Customer accounts, net of allowance of \$26,285	33,553
Prepaid items	47,774
Capital assets - net:	
Nondepreciable	81,980
Depreciable	2,270,368
TOTAL ASSETS	3,424,221
 LIABILITIES	
Accounts payable	43,927
Court bonds payable	5,099
Other liabilities	7,700
Interest payable	32,317
Noncurrent liabilities:	
Due in one year	74,863
Due in more than one year	1,298,863
TOTAL LIABILITIES	1,462,769
 NET ASSETS	
Invested in capital assets, net of related debt	978,622
Restricted:	
Capital projects	118,646
Debt service	149,813
Sanitary sewer lateral program	73,743
Unrestricted	640,628
TOTAL NET ASSETS	\$ 1,961,452

The accompanying notes are an integral part of these financial statements.

CITY OF PASADENA HILLS, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2011

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Change in Net Assets
		Charges for Service	Capital Grants and Contributions	Governmental Activities
Governmental Activities				
Administrative	\$ 189,435	\$ 8,586	\$ -	\$ (180,849)
Public safety	105,040	14,646	-	(90,394)
Public works	241,324	-	-	(241,324)
Sanitation	180,117	178,607	-	(1,510)
Sewer lateral	3,500	10,728	-	7,228
Interest and fiscal charges	65,484	-	-	(65,484)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 784,900	\$ 212,567	\$ -	(572,333)
Taxes:				
Sales				258,249
Utility				115,308
Property				201,536
Franchise				10,597
Interest income				490
Other miscellaneous revenue				4,357
TOTAL GENERAL REVENUES				590,537
CHANGE IN NET ASSETS				18,204
NET ASSETS - BEGINNING OF YEAR				1,943,248
NET ASSETS - END OF YEAR				\$ 1,961,452

The accompanying notes are an integral part of these financial statements.

CITY OF PASADENA HILLS, MISSOURI
BALANCE SHEET - GOVERNMENTAL FUNDS
FEBRUARY 28, 2011

	General Fund	Sanitation Fund	Capital Improvements Fund	Debt Service Fund	Nonmajor Sewer Lateral Fund	Total
ASSETS AND OTHER DEBITS						
Cash and investments	\$ 554,403	\$ 39,265	\$ 107,492	\$ 119,276	\$ 73,189	\$ 893,625
Receivables:						
Property taxes	6,931	-	-	30,678	471	38,080
Other taxes	47,687	-	11,154	-	-	58,841
Customer accounts, net of allowance of \$26,285	-	33,553	-	-	-	33,553
Due from (to) other funds	33,250	(33,192)	-	(141)	83	-
Prepaid items	32,582	15,192	-	-	-	47,774
TOTAL ASSETS	<u>\$ 674,853</u>	<u>\$ 54,818</u>	<u>\$ 118,646</u>	<u>\$ 149,813</u>	<u>\$ 73,743</u>	<u>\$ 1,071,873</u>
LIABILITIES						
Accounts payable	\$ 43,927	\$ -	\$ -	\$ -	\$ -	\$ 43,927
Court bonds payable	5,099	-	-	-	-	5,099
Other liabilities	7,700	-	-	-	-	7,700
Deferred revenue	4,342	-	-	19,981	-	24,323
TOTAL LIABILITIES	<u>61,068</u>	<u>-</u>	<u>-</u>	<u>19,981</u>	<u>-</u>	<u>81,049</u>
FUND BALANCES:						
Fund balances:						
Reserved:						
Street improvement	-	-	118,646	-	-	118,646
Debt service payments	-	-	-	129,832	-	129,832
Prepaid items	32,582	15,192	-	-	-	47,774
Undesignated:						
General fund	581,203	-	-	-	-	581,203
Sanitation	-	39,626	-	-	-	39,626
Special revenue	-	-	-	-	73,743	73,743
TOTAL FUND BALANCES	<u>613,785</u>	<u>54,818</u>	<u>118,646</u>	<u>129,832</u>	<u>73,743</u>	<u>990,824</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 674,853</u>	<u>\$ 54,818</u>	<u>\$ 118,646</u>	<u>\$ 149,813</u>	<u>\$ 73,743</u>	<u>\$ 1,071,873</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PASADENA HILLS, MISSOURI
RECONCILIATION OF THE STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
FEBRUARY 28, 2011

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

Total fund balance per balance sheet	\$ 990,824
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,352,348
Receivables not collected in the current period are not available to pay current expenditures and, therefore, are deferred in the funds.	24,323
Liabilities recorded in the statement of net assets that do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(32,317)
Long-term liabilities, such as bonds payable are not due and payable in the current period and therefore, are not reported in the funds.	<u>(1,373,726)</u>
Net assets of governmental activities	<u><u>\$ 1,961,452</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF PASADENA HILLS, MISSOURI

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED FEBRUARY 28, 2011**

	General Fund	Sanitation Fund	Capital Improvements Fund	Debt Service Fund	Nonmajor Sewer Lateral Fund	Total
REVENUES						
Taxes	\$ 369,233	\$ -	\$ 64,218	\$ 157,535	\$ 10,728	\$ 601,714
Licenses and permits	8,586	-	-	-	-	8,586
Fines and court costs	14,646	-	-	-	-	14,646
Investment income	368	23	43	56	-	490
Charges for service	-	178,607	-	-	-	178,607
Miscellaneous	4,328	-	-	-	29	4,357
TOTAL REVENUES	<u>397,161</u>	<u>178,630</u>	<u>64,261</u>	<u>157,591</u>	<u>10,757</u>	<u>808,400</u>
EXPENDITURES						
Current:						
Administrative	189,435	-	-	-	-	189,435
Public safety	105,040	-	-	-	-	105,040
Public works	123,727	-	-	-	3,500	127,227
Sanitation	-	180,117	-	-	-	180,117
Capital outlay	112,273	-	12,224	-	-	124,497
Debt service:						
Principal, interest and fiscal charges	-	-	-	138,626	-	138,626
TOTAL EXPENDITURES	<u>530,475</u>	<u>180,117</u>	<u>12,224</u>	<u>138,626</u>	<u>3,500</u>	<u>864,942</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(133,314)	(1,487)	52,037	18,965	7,257	(56,542)
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	1,831	1,255	32	(2,961)	(157)	-
CHANGE IN FUND BALANCE	(131,483)	(232)	52,069	16,004	7,100	(56,542)
FUND BALANCES - BEGINNING OF YEAR	<u>745,268</u>	<u>55,050</u>	<u>66,577</u>	<u>113,828</u>	<u>66,643</u>	<u>1,047,366</u>
FUND BALANCES - END OF YEAR	<u>\$ 613,785</u>	<u>\$ 54,818</u>	<u>\$ 118,646</u>	<u>\$ 129,832</u>	<u>\$ 73,743</u>	<u>\$ 990,824</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PASADENA HILLS, MISSOURI
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED FEBRUARY 28, 2011**

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

Change in fund balance-total governmental funds	\$ (56,542)
Revenues that do not provide current financial resources are not included in the fund financial statements.	(5,296)
The acquisition of capital assets requires the use of current financial resources but has no effect on net assets.	111,013
The cost of capital assets is allocated over their estimated useful lives and are reported as depreciation expense in the statement of activities.	(104,113)
Interest is reported as an expenditure when due in the governmental funds but is accrued in the statement of activities.	1,681
Payments of bond principal are expenditures in the governmental funds, but the payments reduce long-term liabilities in the statement of net assets.	71,461
Change in net assets of governmental activities	\$ 18,204

The accompanying notes are an integral part of these financial statements.

CITY OF PASADENA HILLS, MISSOURI
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pasadena Hills, Missouri (the City) was incorporated in 1982 under the provisions of the Missouri State Statutes. The City operates under a Mayoral form of government. The Board of Aldermen consists of four aldermen and the Mayor. The City functions under a constitutional charter approved by its citizens in 1982. The significant accounting policies applied by the City in the preparation of the accompanying financial statements are summarized below:

A. REPORTING ENTITY

The City applies the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity* (GASB 14), to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials accountability to their constituents. The financial reporting entity follows the same accountability. In addition, the financial statements of the reporting entity should allow the user to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units. Criteria for inclusion of an entity into the primary governmental unit (in blended or discrete presentation) includes, but is not limited to, legal standing, fiscal dependency, imposition of will and the primary recipient of services. The City presently has no component units included within its reporting entity.

B. BASIC FINANCIAL STATEMENTS

Basic financial statements consist of the following:

- Government-wide financial statements
- Fund financial statements, and
- Notes to the basic financial statements.

The government-wide financial statements consist of the statement of net assets and the statement of activities and report information on all of the nonfiduciary activities of the Primary Government. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the statement of net assets have been eliminated.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue includes: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

B. **BASIC FINANCIAL STATEMENTS** - continued

Separate fund based financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund, Sanitation Fund, Debt Service Fund and Capital Improvements Fund. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column 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. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds 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. The City in general considers revenues available if they are collected within 90 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, sales taxes, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

The City reports the following major governmental funds:

The General Fund - The City's primary operating fund, which accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

C. **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION** - continued

Sanitation Fund - This fund is used to account for the fees charged and the costs incurred to provide solid waste removal services to the citizens of the City.

Capital Improvements Fund - The fund is used to account for taxes and grants to be used for the construction, repair and maintenance of streets, roads and bridges.

Debt Service Fund - This fund is used to accumulate resources that will be used to retire the debt of the City.

The other governmental fund of the City is considered nonmajor. It is a special revenue fund, which accounts for specific revenue sources that are legally restricted to expenditures for specific purposes.

D. **CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets (e.g., roads, sidewalks, traffic lights, street lights, sewer lines and similar items), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized. As allowed by GASB 34, the government-wide financial statements do not reflect infrastructure assets completed prior to March 1, 2004.

Substantially all of the City's infrastructure is owned by a trust established by the City's founders, when the City was formed as a village in 1928. These assets are the responsibility of duly elected trustees of the trust. The trustees are unrelated parties to the City's Mayor or Aldermen.

On May 9, 2000, the City entered into a 50 year lease with the trustees to "maintain and care for" certain subject assets owned by the trust. Since that date, the City has assumed responsibility for maintaining, repairing and restoring substantially all assets owned by the trust, except trees. Amounts expended for these purposes are accounted for as infrastructure.

Capital assets of the City are depreciated using a straight-line method over the following estimated useful lives:

<u>Major Group</u>	<u>Life</u>
Buildings and improvements	20 - 40 years
Equipment	5 - 20 years
Vehicles	5 - 20 years
Infrastructure	20 - 40 years

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

E. **ESTIMATES**

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

F. **INTERFUND TRANSACTIONS**

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as transfers.

G. **COMPENSATED ABSENCES**

Under terms of the City's personnel policy, employees are granted vacation time based on length of service. Vacation time accrued during one fiscal year may be carried over and used only in the subsequent fiscal year. Upon termination, the employees are not paid for unused vacation. Sick leave is accumulated based upon length of service and is available only to provide compensation during periods of illness. Upon retirement an employee is not eligible to receive payment for a portion of unused sick leave. Since unused compensated absences are not paid at termination no liability is recognized by the City.

H. **LONG-TERM LIABILITIES**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized portion of applicable premium or discount. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, and issuance costs are included in interest expense.

I. **NET ASSETS AND FUND EQUITY**

In government-wide financial statements net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal on related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws and regulations of other governments). All other net assets are considered unrestricted. It is the City's policy to use restricted funds before unrestricted funds. The City has restricted net assets totaling \$342,202 all of which are restricted by enabling legislation.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

I. **NET ASSETS AND FUND EQUITY** - continued

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 tentative management plans that are subject to change.

J. **INVESTMENTS**

The City is authorized to invest funds not immediately needed for the purposes to which the funds are applicable, in obligations of the United States Treasury, United States Government Agencies, Repurchase Agreements, Certificates of Deposit, Banker's Acceptance and Commercial Paper.

2. **BUDGETS AND BUDGETARY ACCOUNTING**

The City's budget period is March 1 through February 28. The Treasurer proposes the budget to the Board of Aldermen for review, usually each January. The Board then reviews, recommends, and changes as it deems appropriate. The Board then approves the budgets. Under Missouri law, expenditures may not legally exceed budgeted appropriations at the fund level.

3. **CASH AND TEMPORARY INVESTMENTS**

The City's bank deposits are required by state law to be secured by the deposit of certain securities specified by RSMo 30.270 with the City or trustee institution. The value of the securities must amount to the total of the City's cash not insured by the Federal Deposit Insurance Corporation. As of February 28, 2011, the carrying amount of the City's bank deposits totaled \$893,625 with bank balances of \$917,902. The balances were covered by federal depository insurance or collateralized by securities held by the pledging financial institution but not in the City's name.

4. **PROPERTY TAX**

The City's property tax is levied each year on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Taxes are levied on September 1 and payable by December 31. A lien is placed on the property on January 1 and is then subject to interest and penalties. The adjusted assessed value at January 1, 2010, upon which the 2010 levy was based on real, personal and public utility property, was \$13,968,690.

The City's tax rate was levied as follows:

	Real Estate		Personal Property
	Residential	Commercial	
General Fund	\$ 0.2530	\$ 0.2190	\$ 0.3100
Debt Service Fund	1.0687	1.0687	1.0687
Road and Bridge	0.1050	0.1050	0.1050

5. **INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Due to/from other funds at February 28, 2011 are as follows:

	<u>DUE TO</u>	<u>DUE FROM</u>
General Fund	\$ 33,250	\$ -
Sanitation Fund	-	33,192
Debt Service Fund	-	141
Sewer Lateral Fund	83	-

The outstanding balances between funds result mainly from the time lag between the dates that the reimbursable expenditures occur and the payments are made.

Interfund transfers for the period ending February 28, 2011 are as follows:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ 1,831	\$ -
Sanitation Fund	1,255	-
Capital Improvements Fund	32	-
Debt Service Fund	-	2,961
Sewer Lateral Fund	-	157

6. **CAPITAL ASSETS**

Capital asset activity for the primary government for the year ended February 28, 2011 is as follows:

	<u>BALANCE, BEGINNING OF YEAR</u>	<u>ADDITIONS</u>	<u>DELETIONS AND TRANSFERS</u>	<u>BALANCE, END OF YEAR</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 11,980	\$ 70,000	\$ -	\$ 81,980
Capital assets, being depreciated:				
Buildings and improvements	167,352	16,726	-	184,078
Equipment	7,642	-	-	7,642
Infrastructure	<u>2,671,586</u>	<u>24,287</u>	<u>-</u>	<u>2,695,873</u>
Total capital assets, being depreciated	<u>2,846,580</u>	<u>41,013</u>	<u>-</u>	<u>2,887,593</u>
Less accumulated depreciation for:				
Buildings and improvements	(53,698)	(4,843)	-	(58,541)
Equipment	(3,878)	(764)	-	(4,642)
Infrastructure	<u>(455,536)</u>	<u>(98,506)</u>	<u>-</u>	<u>(554,042)</u>
Total accumulated Depreciation	<u>(513,112)</u>	<u>(104,113)</u>	<u>-</u>	<u>(617,225)</u>
Total capital assets, being depreciated, net	<u>2,333,468</u>	<u>(63,100)</u>	<u>-</u>	<u>2,270,368</u>
Total governmental Activities	<u>\$ 2,345,448</u>	<u>\$ 6,900</u>	<u>\$ -</u>	<u>\$ 2,352,348</u>

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

Governmental activities:	
Administrative	\$ 5,607
Public works	<u>98,506</u>
Total depreciation expense-governmental activities	<u>\$ 104,113</u>

7. **LONG-TERM DEBT**

General Obligation Bonds

On April 4, 2004, the City's citizens approved Proposition S, authorizing the City to issue general obligation bonds not to exceed \$2,000,000 for the purpose of repairing and restoring city streets and appearances. On August 30, 2004, the Board of Aldermen passed an ordinance authorizing execution of a bond indenture totaling \$1,700,000. The bond bears an interest rate of 4.705% with semi-annual payments of \$69,313. The bond matures on March 1, 2025.

7. **LONG-TERM DEBT** - continued

At February 28, 2011, balance outstanding is as follows:

General Obligation Bonds - Series 2004 \$1,373,726

The annual debt service requirements to maturity on the refunding bonds are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 74,863	\$ 63,765	\$ 138,628
2013	78,426	60,200	138,626
2014	82,159	56,467	138,626
2015	86,070	52,556	138,626
2016	90,167	48,459	138,626
2017	94,460	44,166	138,626
2018	98,956	39,670	138,626
2019	103,667	34,959	138,626
2020	108,602	30,024	138,626
2021	114,772	23,854	138,626
2022	119,188	19,438	138,626
2023	124,861	13,765	138,626
2024	130,805	7,821	138,626
2025	66,730	1,582	68,312
TOTAL	\$ <u>1,373,726</u>	\$ <u>496,726</u>	\$ <u>1,870,452</u>

A summary of changes in long-term liabilities for the year ending February 28, 2011 is as follows:

	<u>BALANCE, BEGINNING OF YEAR</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE, END OF YEAR</u>	<u>DUE WITHIN ONE YEAR</u>
Governmental activities:					
General Obligation Bonds	\$ 1,445,187	\$ -	\$ (71,461)	\$ 1,373,726	\$ 74,863

8. **EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Expenditures exceeded appropriations for the fiscal year ended February 28, 2011, in the following funds:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
General Fund	\$ 530,475	\$ 406,800	\$ 123,675
Debt Service Fund	138,626	138,600	26

9. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to tort; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages these risks through the purchase of traditional insurance and participation in insurance trusts.

The City, along with various other local municipal governments, participates in insurance trusts for general liability, employment practice liability and error and omissions (Missouri Public Entity Risk Management Fund). The purpose of these trusts is to distribute the cost of self-insurance over similar entities. The trusts require an annual premium payment to cover estimated claims payable and reserves for claims for each entity. The members of the trusts have no legal interest in the assets, liabilities or fund balances of the insurance trusts. However, the City retains a contingent liability to fund its pro rata share of any deficit incurred by the trusts should the trusts cease operations at some future date. The City's premiums payments to the trusts were \$2,558 for the fiscal year ending February 28, 2011.

The City also purchases commercial insurance to cover risks related to property, travel and workers compensation. Settled claims resulting from these risks have not exceeded coverage in any of the past three years.

10. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 23, 2012, the date the financial statements were available to be issued.

In March 2011 the City paid \$75,000 to acquire property located within the city limits through the condemnation process.

11. **FUTURE ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), establishes standards for the policies and disclosures for fund balance among other things. GASB 54 will be effective for the City for the year ending February 28, 2012.

The City, however, has not yet completed its assessment of these statements or the potential impact on its financial position.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PASADENA HILLS, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2011

	BUDGET		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
				POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 336,200	\$ 334,700	\$ 369,233	\$ 34,533
Licenses and permits	7,900	7,500	8,586	1,086
Fines and court costs	19,200	14,100	14,646	546
Other	22,600	1,700	4,696	2,996
TOTAL REVENUES	<u>385,900</u>	<u>358,000</u>	<u>397,161</u>	<u>39,161</u>
EXPENDITURES				
Current:				
Administrative	216,300	177,700	189,435	(11,735)
Public safety	116,900	105,800	105,040	760
Public works	108,700	123,300	123,727	(427)
Capital outlay	-	-	112,273	(112,273)
TOTAL EXPENDITURES	<u>441,900</u>	<u>406,800</u>	<u>530,475</u>	<u>(123,675)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(56,000)	(48,800)	(133,314)	(84,514)
OTHER FINANCING SOURCES				
Transfer in (out)	-	-	1,831	1,831
NET CHANGE IN FUND BALANCE	<u>\$ (56,000)</u>	<u>\$ (48,800)</u>	<u>(131,483)</u>	<u>\$ (82,683)</u>
FUND BALANCES - BEGINNING OF YEAR			<u>745,268</u>	
FUND BALANCES - END OF YEAR			<u>\$ 613,785</u>	

CITY OF PASADENA HILLS, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SANITATION FUND
FOR THE YEAR ENDED FEBRUARY 28, 2011

	BUDGET		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
				POSITIVE (NEGATIVE)
REVENUES				
Charges for service	\$ 181,300	\$ 180,500	\$ 178,607	\$ (1,893)
Other	100	-	23	23
TOTAL REVENUES	<u>181,400</u>	<u>180,500</u>	<u>178,630</u>	<u>(1,870)</u>
EXPENDITURES				
Current:				
Sanitation	<u>181,400</u>	<u>188,100</u>	<u>180,117</u>	<u>7,983</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(7,600)	(1,487)	(9,853)
OTHER FINANCING SOURCES				
Transfer in (out)	<u>-</u>	<u>-</u>	<u>1,255</u>	<u>1,255</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (7,600)</u>	(232)	<u>\$ 7,368</u>
FUND BALANCES - BEGINNING OF YEAR			<u>55,050</u>	
FUND BALANCES - END OF YEAR			<u>\$ 54,818</u>	

CITY OF PASADENA HILLS, MISSOURI
REQUIRED SUPPLEMENTARY INFORMATION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED FEBRUARY 28, 2011

1. BUDGETARY INFORMATION

The City prepares its budget on a basis consistent with generally accepted accounting principles. The budgetary process is detailed in footnote 2 of the notes to the financial statements.