

City of Olivette, Missouri

Financial Statements

For The Year Ended June 30, 2011

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Fick, Eggemeyer & Williamson

Certified Public Accountants, PC



MEMBERS OF THE
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of the City Council
City of Olivette
Olivette, 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 Olivette, Missouri, as of June 30, 2011, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 aggregated remaining fund information of the City as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The City of Olivette, Missouri adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during the year ended June 30, 2011. The statement changed the classifications of governmental fund balances and clarified the definitions of existing fund types. The adoption of this statement had no effect on any of the City's governmental funds' assets or liabilities nor was there any effect on the total amount of the City's governmental fund balances as of and for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of funding progress, as listed in the table of contents, 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.

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

Fick, Eggemeyer & Williamson
Fick, Eggemeyer, Williamson, CPA's
St. Louis, Missouri

December 6, 2011

**CITY OF OLIVETTE, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

The discussion and analysis of the City of Olivette's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Accomplishment of financial targets established in the adopted budget for fiscal period 2010-11.
- Implementation of an interactive and participative strategic planning process to identify redevelopment strategies in the community to initiate long-term community transformation and foster financial stability.
- Maintenance of relatively healthy fund balances in the City's operating fund.
- Continuation of an aggressive policy to collect special assessments due the City, resulting in a collection rate of 96%.

REPORT LAYOUT

This report consists of Management's Discussion and Analysis (MD & A), government-wide statements, fund financial statements, 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 the 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, parks and recreation, 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 operations. In simple terms, this statement presents a snap-shot view of the assets the City 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.
- 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.

Basic Financial Statements (continued)

- 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 are presented in their column and the remaining funds are combined into a column titled "Other Nonmajor Funds" (including governmental funds created to track the use of earmarked sales taxes authorized by the voters). A budgetary comparison for the General Fund is 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 \$7,498,666 as of June 30, 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, 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

	June 30, 2011	June 30, 2010	Increase (Decrease)
Assets			
Current and other assets	\$ 6,935,322	\$ 6,594,680	\$ 340,642
Capital assets, net	2,392,501	2,157,358	235,143
Total assets	<u>9,327,823</u>	<u>8,752,038</u>	<u>575,785</u>
Liabilities			
Current liabilities	1,363,479	1,329,152	34,327
Long-term liabilities	465,678	578,158	(112,480)
Total liabilities	<u>1,829,157</u>	<u>1,907,310</u>	<u>(78,153)</u>
Net assets			
Invested in capital assets	1,967,091	1,838,207	128,884
Restricted net assets	2,824,113	3,012,003	(187,890)
Unrestricted	2,707,462	1,994,518	712,944
Total net assets	<u>\$ 7,498,666</u>	<u>\$ 6,844,728</u>	<u>\$ 653,938</u>

Governmental-wide Financial Analysis (continued)

Governmental activities increased the City's net assets by \$653,938. The key elements of this increase for fiscal year ending June 30 are as follows:

	2011	2010	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 1,221,029	\$ 1,112,194	\$ 108,835
Capital grants & contributions	27,887	34,654	(6,767)
General revenues			
Taxes	7,796,262	8,125,158	(328,896)
Interest income	1,262	6,869	(5,607)
Transfers	807	846	(39)
Miscellaneous	103,506	62,067	41,439
Total revenues	<u>9,150,753</u>	<u>9,341,788</u>	<u>(191,035)</u>
Expenses			
Administrative	1,299,561	1,604,709	(305,148)
Public safety	4,612,351	5,027,165	(414,814)
Public works	1,626,064	1,897,508	(271,444)
Parks and recreation	876,306	994,731	(118,425)
Public health	44,954	43,696	1,258
Interest and fiscal charges	37,579	37,097	482
Total expenses	<u>8,496,815</u>	<u>9,604,906</u>	<u>(1,108,091)</u>
Change in net assets	653,938	(263,118)	917,056
Net assets, beginning of year	<u>6,844,728</u>	<u>7,107,846</u>	<u>(263,118)</u>
Net assets, end of year	<u>\$ 7,498,666</u>	<u>\$ 6,844,728</u>	<u>\$ 653,938</u>

Total fiscal 2011 revenue shown in Table 2 of \$9,150,753 reflects a decrease of \$191,035 from fiscal 2010 revenues of \$9,341,788. Disregarding any audit accruals, revenues for the fiscal year ending June 30, 2011 were down from last year's revenue. The City happened also to be the beneficiary of one-time revenue during the year. \$215,953 was received from the settlement with T-Mobile regarding the Landline Lawsuit. The City, as well as the Country, continues to deal with the effects of the economic collapse in September of 2008. The revenue sources of concern are the City's sales taxes revenue (down 5%), Natural Gas (down 9%), AT&T/Telecommunications (down 57%) and cable franchise (down 10%). Investment Income is very little, if not non-existent. Investment Income in the General Fund was down 95% from the previous year. All other revenues were at or near expectations.

Governmental-wide Financial Analysis (continued)

The fiscal 2011 expenses decreased to \$8,496,815 from \$9,604,906 in fiscal 2010. These differences are attributable to the following:

The difference between actual expenditures ending FY 2011 and the previous year are due to the economic collapse in September 2008. Decreasing revenues resulted in discussions and, subsequently, action on the part of the City Council and City Management to reduce departmental expenditures by: 1) Buying only necessary items required to maintain current level of service to the residents and 2) Delaying funding of non-critical positions. In addition, the City Council laid-off two employees at June 30, 2010 for the fiscal year 2010-11 due to projected decreasing revenues.

Governmental Funds

The following table presents the amount of revenues from various sources on the modified accrual basis of accounting for the fiscal year ending June 30.

Table 3

	2011	2010	Increase (Decrease)	Percentage Change
General Fund:				
Taxes	\$ 5,552,255	\$ 5,957,360	\$ (405,105)	-6.8%
Licenses and permits	352,141	357,012	(4,871)	-1.4%
Fines and court costs	283,259	287,542	(4,283)	-1.5%
Intergovernmental	27,887	34,654	(6,767)	-19.5%
Investment income	273	5,515	(5,242)	-95.0%
Charges for service	585,628	467,640	117,988	25.2%
Miscellaneous	103,506	62,067	41,439	66.8%
Total	\$ 6,904,949	\$ 7,171,790	\$ (266,841)	-3.7%

Total General Fund revenue decreased from \$7,171,790 to \$6,904,949, a 3.7% decrease. As indicated above in Table 3, the City had decreased revenue from taxes of \$405,105, which includes public utility licenses. As mentioned earlier, overall revenues are down even after the one-time source revenue received totaling \$215,953. Without the one-time revenue, the General Fund revenues would have been \$6,688,996. That scenario would have translated into a \$482,794 decrease. Investment income was very little, if any. As such, investment income was and continues to have a large impact on revenues due to the economy. Licenses and permits are directly tied to economic woes regarding retail businesses and new and/or remodeling construction and are holding steady.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of the end of the fiscal year 2011, the City had \$4,296,427 invested in a broad range of capital assets, including police, fire and public works equipment, buildings and park facilities. This amount represents a net increase (including additions and deductions) of \$234,018 or 5.8% over the prior fiscal year.

Table 4

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Increase (Decrease)</u>
Land	\$ 471,300	\$ 471,300	\$ -
Buildings and improvements	1,028,130	1,028,130	-
Equipment	1,262,805	1,208,376	54,429
Vehicles	1,534,192	1,354,603	179,589
Total	<u>\$ 4,296,427</u>	<u>\$ 4,062,409</u>	<u>\$ 234,018</u>

The most significant additions to capital assets this year were new vehicles.

Debt

In September 2005, the City issued bonds to refund the 1997 Neighborhood Improvement District bonds to take advantage of lower interest rates since the initial bond issue.

As of June 30, 2011, the City had \$185,000 in outstanding Neighborhood Improvement District bonds compared to \$475,000 at the end of the prior fiscal year, a decrease of \$290,000 or 61% in total bonded debt. The City has obtained a bond rating of Aa3 from Moody's Investor Service in connection with the 2005 refunding. The City also acquired two fire trucks and a phone system with leases during the fiscal year 2005. During the current fiscal year the City acquired an ambulance and equipment through a capital lease in the amount of \$227,185. The City also borrowed through short term notes \$65,493 for the Dielman Industrial Park project. As of June 30, 2011, capital leases outstanding totaled \$425,410. More detailed information on the City's long-term liabilities is presented in note 10 to the financial statements.

THE CITY'S FUNDS

At the close of the City's fiscal year on June 30, 2011, the governmental funds of the City reported a combined fund balance of \$5,160,314. This ending balance includes an increase in the City's General Fund balance of \$53,048. Total fund balance increased by \$46,107.

General Fund Budgetary Highlights

For the fiscal year ending June 30, 2011, actual revenues on a budgetary basis were \$6,904,949 compared to the budget amount of \$6,815,075. The \$89,874 difference in revenues was primarily due to one-time revenues as discussed on page 5, Table 2 discussion.

General Fund Budgetary Highlights (continued)

For the fiscal year ended June 30, 2011 actual expenditures on a budgetary basis were \$6,515,070 as compared to the budget amount of \$6,643,192. The \$128,122 in expenditures under the budget amount is not only due to what was previously discussed in the MD&A, but the City continues to keep strong controls over expenditures such as required quotes for common equipment items \$200 or more, including purchase orders.

ECONOMIC FACTORS AND IMPACT ON CURRENT AND FUTURE FISCAL PROJECTS

Continuing international, national, and regional economic dislocations and sluggish performance, the most severe since the Great Depression, have adversely impacted the local economy for the City of Olivette as well as the current, and potentially long-term, fiscal stability of the City.

Despite significant efforts by City officials to exercise fiscal and expenditure discipline and restraint, several primary revenue sources for the City of Olivette will continue to be impacted by the continuing economic downturn. Recent claims by economists and government officials that the recession is over and that economic recovery has begun are not reflected in revenue patterns for state and local governments, including the City of Olivette. This pattern is reflected most graphically in the area of real estate. The effects are reflected in a continuing decline in property values and resulting loss in property tax growth, reduced retail sales with resulting impact on retail sales taxes, retrenchment of gross receipts of Olivette businesses, state legislative actions adversely impacting local revenue flexibility and growth, and increasing resistance by taxpayers to new or enhanced revenue sources to fund essential services and new initiatives.

Another significant impact is that the City's ambitious long-range redevelopment goals and other development opportunities have been put on hold due to lack of interest or capacity from the development community, lack of realistic financing sources for new development, and the persistent caution of developers and lenders in pursuing new development or expansion in the uncertain economic climate.

Some of the specific impacts resulting from these conditions are as follows:

- Continuing contraction in overall property tax revenues due to shrinking levels of assessed valuation for residential and personal property. Even though the revenue impact of this factor is somewhat mitigated by the provisions of Missouri's "Hancock Amendment," the City continues to tread water for revenue growth from this source. In addition, continuing actions by the Missouri General Assembly that adversely impact local governments and schools in their ability to meet increasing demands and expectations for services and governance on the local level.
- Strong fiscal pressure for increased City contributions to the City's defined benefit pension plan due to significant investment losses in 2008-09, the continuing uneven performance of the investment markets, and the aging of the City workforce leading to future retirements.
- Increasing cost pressures for personnel services and employee compensation, fuel, utilities, employee benefits, and commodities. The City experienced layoffs of employees in FY 2010-11 for the first time in many years and maintaining the City's service capacity in the next few years will remain as a major challenge.
- Declining sales tax receipts in all categories due to loss of local businesses, lack of consumer confidence, and the general economic slowdown creating strong fiscal pressure on City operating funds dependent on sales tax.

- Lowered gross receipts and sluggish business patterns for Olivette businesses and industries with a persistent vacancy rate for retail and commercial businesses.
- Limitations in growing the City's overall revenue base to meeting increasing service requirements and renewal and upgrade of critical City facilities needed to support governance and service delivery. Some of these limitations are due to a growing hostility to local government interest on the state level and some are due to the state of the national economy.
- The City of Olivette continues to aggressively support local businesses and actively recruit new businesses to locate in the community. The City of Olivette continues to explore joint redevelopment opportunities in the Olive Boulevard corridor with our neighboring community of University City to take advantage of economies of scale, joint infrastructure upgrades and creating of a unique urban village concept that builds on the strengths of both communities.
- Continuing sluggish performance in the overall construction industry, including construction of new residences, renovation of existing residences, oversupply of housing inventory, a contracting housing market, and increased underwriting standards for mortgages and loans for commercial expansion.
- Increasing pressures to expand and renovate the City of Olivette facilities to meet public expectations for modern, up to date facilities, meet service delivery requirements and expectations, and provide adequate public amenities and assembly space for the future. These pressures exist in an environment of persistent difficulty in marketing and selling municipal tax exempt debt in the current economic environment as well as public resistance to support public debt and the resulting tax increases.

These specific factors, combined with the continuing depressed national and regional economy, require careful and consistent monitoring of general fiscal indicators and conditions, caution in matching available resources to spending needs, and establishment of clear and consistent priorities for essential service delivery and new initiatives. The City has been able to maintain essential services without major contractions over the last year due to careful management, introduction of one-time revenues, and the support of Olivette citizens. However, projections of future fiscal challenges for the City do not paint a rosy picture, clearly indicating that maintenance of service levels and current facilities will become an increasing challenge.

The City of Olivette recognizes the pervasive adverse impact that the national economic crisis has had on Olivette residents and businesses and will continue to respond with restraint and careful management of resources, while maintaining our commitment to excellent and efficient services and responsive governance. It is recommended that City officials establish a plan for a frank dialogue with the citizens of Olivette about this uncertain future to explore reasonable alternatives to continue the long range fiscal viability of the City.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

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 any questions about this report or need additional information, contact:

Jeffrey J. Steiner, Director of Finance
 City of Olivette, Missouri Finance Department
 9473 Olive Boulevard, Olivette, MO 63132 Email: jsteiner@olivettemo.com Phone: 314-993-0444

Basic Financial Statements

CITY OF OLIVETTE, MISSOURI
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 5,854,751
Taxes receivable	
Property	121,065
Other	691,588
Accounts receivable	26,140
Inventory	23,616
Net pension assets	218,162
Total current assets	<u>6,935,322</u>
Noncurrent assets	
Capital assets, net of depreciation	<u>2,392,501</u>
Total noncurrent assets	<u>2,392,501</u>
TOTAL ASSETS	<u><u>\$ 9,327,823</u></u>
 LIABILITIES	
Current liabilities	
Accounts payable	\$ 281,903
Accrued wages	344,914
Accrued vacation payable	263,987
Court bonds payable	12,300
Due to other fund	5,500
Other liabilities	15,475
Interest payable	10,968
Current portion of long-term liabilities	428,432
Total current liabilities	<u>1,363,479</u>
Noncurrent liabilities	
Accrued sick leave	164,896
Capital leases payable	<u>300,782</u>
Total noncurrent liabilities	<u>465,678</u>
TOTAL LIABILITIES	<u><u>\$ 1,829,157</u></u>
 NET ASSETS	
Investment in capital assets, net of related debt	\$ 1,901,598
Restricted net assets	2,950,160
Unrestricted net assets	<u>2,646,908</u>
TOTAL NET ASSETS	<u><u>\$ 7,498,666</u></u>

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

CITY OF OLIVETTE, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Revenues			Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Fees, Fines and Charges for Services	Operating Grants and Contributions				
FUNCTIONS/PROGRAMS						
Primary government:						
Governmental activities:						
Administrative	\$ 1,299,561	\$ -	\$ -	-	\$ (1,053,191)	
Public safety	4,612,351	-	-	-	(4,243,516)	
Public works	1,626,064	-	-	-	(1,415,368)	
Parks and recreation	876,306	-	-	27,887	(453,291)	
Public health	44,954	-	-	-	(44,954)	
Interest and fiscal charges	37,579	-	-	-	(37,579)	
Total governmental activities	\$ 8,496,815	\$ 1,221,029	\$ -	\$ 27,887	(7,247,899)	

General revenues:

Taxes:	
Sales	2,150,596
Utility	15,580
Property	4,970,993
Franchise	69,902
Other	589,191
Interest income	1,262
Transfers	807
Other miscellaneous revenue	103,506
Total general revenues and transfers	7,901,837
Changes in net assets	653,938
Net assets - beginning	6,844,728
Net assets - ending	\$ 7,498,666

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

CITY OF OLIVETTE, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Fire Operations Fund	Capital Improvement Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,754,810	\$ -	\$ 1,594,433	\$ 1,505,508	\$ 5,854,751
Taxes receivable					
Property	94,526	-	26,539	-	121,065
Other	471,481	37,845	64,352	117,910	691,588
Accounts receivable	26,140	-	-	-	26,140
Due from other funds	136,419	-	-	792	137,211
Inventory	23,616	-	-	-	23,616
Total assets	\$ 3,506,992	\$ 37,845	\$ 1,685,324	\$ 1,624,210	\$ 6,854,371
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 42,183	\$ 252	\$ 209,951	\$ 29,517	\$ 281,903
Accrued wages	302,920	13,817	15,256	12,921	344,914
Accrued vacation payable	233,906	7,112	13,673	9,296	263,987
Court bonds payable	12,300	-	-	-	12,300
Other liabilities	15,475	-	-	-	15,475
Deferred revenue	94,526	-	26,539	42,221	163,286
Due to other funds	-	142,711	-	-	142,711
Total liabilities	701,310	163,892	265,419	93,955	1,224,576
FUND BALANCES					
Nonspendable	23,616	-	-	-	23,616
Restricted	-	-	1,419,905	1,530,255	2,950,160
Unassigned	2,782,066	(126,047)	-	-	2,656,019
Total fund balances	2,805,682	(126,047)	1,419,905	1,530,255	5,629,795
Total liabilities and fund balances	\$ 3,506,992	\$ 37,845	\$ 1,685,324	\$ 1,624,210	\$ 6,854,371

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

CITY OF OLIVETTE, MISSOURI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balance - governmental funds		\$	5,629,795
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of assets is \$4,532,038 and the accumulated depreciation is \$2,139,537.			2,392,501
Net pension assets are not current financial resources and, therefore are not reported in the funds.			218,162
Receivables not collected in the current period are not available to pay current expenditures and, therefore are deferred in the funds.			163,286
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. All liabilities both current and long-term are reported in the statement of net assets.			
Accrued sick leave	(218,207)		
Bonds payable	(185,000)		
Capital leases payable	(425,410)		
Loans payable	(65,493)		
Accrued interest on outstanding debts	(10,968)		
			(905,078)
Net assets of governmental activities		\$	7,498,666

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

CITY OF OLIVETTE, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

Revenues:	General Fund	Fire Operations Fund	Capital Improvement Fund	Other Nonmajor Funds	Total Governmental Funds
Taxes	\$ 5,552,255	\$ 214,729	\$ 610,639	\$ 1,383,154	\$ 7,760,777
Licenses and permits	352,141	-	-	-	352,141
Fines and court costs	283,259	-	-	-	283,259
Intergovernmental	27,887	-	-	-	27,887
Investment income	273	-	-	988	1,261
Charges for service	585,628	-	-	-	585,628
Miscellaneous	103,506	-	-	-	103,506
Total revenues	<u>6,904,949</u>	<u>214,729</u>	<u>610,639</u>	<u>1,384,142</u>	<u>9,114,459</u>
Expenditures:					
Current					
Administrative	697,613	-	-	534,534	1,232,147
Public safety	4,027,123	269,306	-	-	4,296,429
Public works	957,356	-	440,485	-	1,397,841
Parks and recreation	465,240	-	-	277,830	743,070
Public health	44,954	-	-	-	44,954
Capital outlay	243,443	-	387,293	134,714	765,450
Debt service					
Principal, interest and fiscal charges	79,341	31,667	41,667	305,897	458,572
Total expenditures	<u>6,515,070</u>	<u>300,973</u>	<u>869,445</u>	<u>1,252,975</u>	<u>8,938,463</u>
Excess (deficiency) of revenue over expenditures	<u>389,879</u>	<u>(86,244)</u>	<u>(258,806)</u>	<u>131,167</u>	<u>175,996</u>
Other financing sources (uses)					
Debt proceeds	227,185	-	65,493	-	292,678
Transfers between funds	40,307	-	-	(39,500)	807
Net other sources and uses of financial resources	<u>267,492</u>	<u>-</u>	<u>65,493</u>	<u>(39,500)</u>	<u>293,485</u>
Net change in fund balances	657,371	(86,244)	(193,313)	91,667	469,481
Fund balances - beginning	<u>2,148,311</u>	<u>(39,803)</u>	<u>1,613,218</u>	<u>1,438,588</u>	<u>5,160,314</u>
Fund balances - ending	<u>\$ 2,805,682</u>	<u>\$ (126,047)</u>	<u>\$ 1,419,905</u>	<u>\$ 1,530,255</u>	<u>\$ 5,629,795</u>

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

CITY OF OLIVETTE, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	\$	469,481
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues that do not provide current financial resources are not included in the fund financial statements		35,486
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	505,772	
Depreciation expense	<u>(261,246)</u>	244,526
The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. These amounts are the net effect of these differences in the treatment of long-term debt and related items:		
Borrowing:		
Capital lease payable	(227,185)	
Notes payable	<u>(65,493)</u>	(292,678)
Repayments:		
Bond payable	290,000	
Capital lease payable	<u>120,926</u>	410,926
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Accrued interest on outstanding debt	10,067	
Amortization of debt issuance costs	(11,958)	
Change in accrued compensated absences and net pension obligation	<u>(202,529)</u>	(204,420)
In the statement of activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize the proceeds from these assets.		
Loss on disposal of capital assets		<u>(9,383)</u>
Change in net assets of governmental activities	\$	<u><u>653,938</u></u>

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

CITY OF OLIVETTE, MISSOURI
 STATEMENT OF FIDUCIARY NET ASSETS
 DECEMBER 31, 2010 AND JUNE 30, 2011

	December 31, 2010 Pension Trust Fund	June 30, 2011 Agency Fund
ASSETS		
Cash	\$ -	\$ 220,229
Investments, at fair value	16,295,306	-
Due from other fund	-	5,500
	-	5,500
Total assets	\$ 16,295,306	\$ 225,729
 LIABILITIES		
Deposits held	\$ -	\$ 225,729
Total liabilities	-	225,729
 FUND BALANCES		
Held in trust for pension benefits and other purposes	16,295,306	-
Total fund balance	16,295,306	-
Total liabilities and fund balance	\$ 16,295,306	\$ 225,729

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

CITY OF OLIVETTE, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

Additions	
Employer contributions	\$ 678,723
Employee contributions	148,983
Investment return	2,144,856
Total additions	2,972,562
Deductions	
Retirement benefits	2,058,448
Administrative expenses	2,275
Total deductions	2,060,723
Change in net assets	911,839
Net assets held in trust for pension benefits	
Net assets - beginning of year	15,383,467
Net assets - end of year	\$ 16,295,306

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

CITY OF OLIVETTE, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Olivette, Missouri (the City) was incorporated in 1930 under the provisions of the Missouri State Statutes. In 1976, the City voters approved a Home Rule Charter which established a council-manager form of government, governed by a policy making body of five council members, including the mayor. The City's major operations include fire and police protection, street maintenance and improvements, five parks, recreation programs, and general administrative services. The accounting and financial reporting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applied to government entities. The following is a summary of the more significant policies.

In 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The City implemented this standard during the current year. The implementation of GASB Statement No. 54 changed fund balance reporting for governmental funds by adding some additional fund balance classifications, clarifying governmental fund type definitions, and providing additional disclosures on how fund balance constraints are imposed and may be modified or eliminated.

Reporting Entity

The City defines its financial reporting entity in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* (GASB 14). GASB 14 requirements for inclusion of component units are based primarily upon whether the City governing body has any significant amount of financial accountability for potential component units. The City is financially accountable if it appoints a voting majority of a potential component unit's governing body and is able to impose its will on that potential component unit, or the potential component unit may provide specific financial benefits to, or impose specific financial burdens on, the City. Currently, the City does not have any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. As a general rule the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges for services to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted interest earnings, gains, and other miscellaneous revenues not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and fiduciary funds, although the latter are excluded from the government-wide financial statements. The major governmental funds are the General Fund and Capital Projects Fund. The nonmajor funds are combined in a column in the fund financial statements.

CITY OF OLIVETTE, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the 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 measurable and 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 fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

All revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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 government reports the following major governmental funds:

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

Fire Operations Fund - This fund is used to account for taxes to be used for fire service expenditures.

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

The other governmental funds of the City are considered nonmajor. They are special revenue funds, which account for specific revenue sources that are legally restricted to expenditures for specific purposes, and one capital projects fund.

CITY OF OLIVETTE, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, the government reports the following fund type:

Fiduciary Fund – The City uses these funds to account for assets held by the City in a trustee capacity or as an agent for individual, private organizations and other governmental units. The City’s Pension Trust Fund accounts for the assets of the City’s retirement plan. Agency Funds are used to account for escrow deposits held by the City in an agency capacity.

Cash and Cash Equivalents

The City considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. The City pools the cash of all funds, except for funds held for court bonds and escrow deposits. Interest income earned on pooled cash and investments is allocated to the various funds as required. Interest income on restricted cash and investments is credit directly to the related fund.

Missouri State Statute requires that all deposits with financial institutions be collateralized in an amount at least equal to uninsured deposits. The City maintains a cash pool that is available for use by all the funds. Each fund type’s portion of this pool is displayed on the combined statement of assets, liabilities and fund balances as “Cash” under each fund’s caption.

Investments

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

The Pension Trust Fund is also authorized to invest in corporate stocks, common or preferred bonds and mortgages, real or personal property and other evidence of indebtedness or ownership, excluding any debt of the City itself and individual insurance policies.

Allowance for Doubtful Accounts

Management believes there are no significant uncollectible receivables, therefore, no allowance for doubtful accounts has been recorded.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. Inventory in the General Fund consists of gasoline held for consumption.

CITY OF OLIVETTE, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets, which include land, building and improvements, equipment and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of one year. Infrastructure assets with an initial cost of \$50,000 or more are also capitalized and depreciated. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation. The City has elected not to retroactively report infrastructure constructed prior to March 1, 2004. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Building and improvements	20-40
Equipment	5-20
Vehicles	5-20

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 subsequent fiscal year. Upon termination, the employee is paid for unused vacation or is required to repay the City for used and unearned vacation of the current year. A liability for unused vacation compensation has been recorded in the respective governmental funds as such amounts are expected to be paid from current expendable resources. 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 eligible to receive payment for a portion of unused sick leave. The City has recognized a liability in the government-wide statements since current financial resources will not be used to relieve this liability.

Use of Estimates

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

CITY OF OLIVETTE, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Governmental Fund Balances

Fund Balance is the difference between assets and liabilities in a Governmental Fund. The following types of fund balances may be presented in the Governmental Funds Balance Sheet and Governmental Funds Combining Schedule of Accounts:

Nonspendable - the portion of a Governmental Fund's net assets that are not available to be spent, either short term or long term, in either form or through legal restrictions. The nonspendable fund balance reported in the General Fund is for inventory.

Restricted - the portion of a Governmental Fund's net assets that are subject to external enforceable legal restrictions. The following account's fund balances are restricted by City ordinance, tax authority or grant agreements: Capital Projects, Neighborhood Improvement District, Local Parks/Storm Water and Equipment Replacement.

Unassigned - available expendable financial resources in a governmental fund that are not designated for a specific purpose. The following accounts comprise the unassigned fund balance: General and Fire Operations.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal contracts that prohibit doing this.

CITY OF OLIVETTE, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Net assets represent the difference between assets and liabilities. Investment in capital assets represents the cost of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The City utilizes restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 2 - DEPOSITS AND INVESTMENTS

Missouri Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of the collateral pledged must equal 100% of the deposits not covered by insurance or corporate surety bonds. The City's deposits in banks at June 30, 2011, were entirely covered by federal depository insurance, the temporary liquidity program, or collateral in accordance with Missouri Statutes.

Note 3 - INVESTMENTS

Statutes authorize the City to invest in the following: obligations of the United States Treasury, United States Government Agencies, Repurchase Agreements, Certificates of Deposit, Banker's Acceptance and Commercial Paper.

Interest Rate Risk - The City structures its investment portfolios so that securities mature to meet cash requirement for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The City also invests operating funds primarily in short-term securities. No information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided in the current year as funds were invested in certificates of deposits which are short term bank deposits.

Custodial Credit Risk - For an investment, the custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In the case of deposits, the risk is that in the event of bank failure, the City's deposits may not be returned to it. It is the City's policy to pre-qualify financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. The city also diversifies its portfolio so that potential losses on individual securities would be minimized.

CITY OF OLIVETTE, MISSOURI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 3 - INVESTMENTS (continued)

Concentration of Credit Risk - The City places no limit on the amount that it may invest in any one issuer. The City has investments in certain mutual funds that exceed 5% of the total investments. Those concentrations are as follows:

Principal Financial Advisors - Total Market Stock Index	\$ 1,725,338
Principal Global Investors - LargeCap S&P 500 Index	1,844,180
Columbus Circle Investors - LargeCap Growth	1,934,339
Principal Global Investors - International Emerging Markets	965,722
Fidelity - International I	930,678
PIMCO - Core Plus Bond I	4,226,018
Principal Global Investors - Bond and Mortgage	919,090
Principal Real Estate - U.S. Property Separate	1,176,993

The City's Pension Trust Fund has an investment policy designed to provide benefits as anticipated through a carefully planned and executed investment program designed to achieve a reasonable long-term total return consistent with the level of risk assumed. To achieve this return, professional investment managers are employed by the Plan to manage the Plan's assets. The plan invests in equities and bonds through use of mutual funds.

Note 4 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2- Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3- Inputs to the valuation methodology are unobservable and significant to the fair value measurement