

**CITY OF DELLWOOD, MISSOURI**  
**BASIC FINANCIAL STATEMENTS**  
**TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED OCTOBER 5, 2012**

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CITY OF DELLWOOD, MISSOURI  
 BASIC FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009

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## **INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

To the City Alderpersons and Elected Officials of  
City of Dellwood, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Dellwood, Missouri ("the City") as of and for the year ended December 31, 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 an opinion on the financial statements based on our audit.

Except as discussed below, 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.

As discussed fully in Note 1, these financial statements were prepared using accounting practices prescribed or permitted by Missouri Law, An Other Comprehensive Basis of Accounting, which differs from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effect of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Dellwood, Missouri, as of and for the year ended December 31, 2011, or the respective changes in financial position for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2012 on our consideration of the City's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal controls 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 considered in conjunction with this report in considering the results of our audit.

The City has not presented the management's discussion and analysis as required by GASB 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

The budgetary comparison information on pages 18-23 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dellwood's basic financial statements. The combining and individual non-major funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, do not present fairly in all material respects in relation to the basic financial statements taken as a whole.

*CRWilliams & Associates LLC*

Saint Louis, Missouri

October 5, 2012

City of Dellwood  
Dellwood, Missouri  
Governmentwide Statement of Net Assets  
Other Comprehensive Basis of Accounting  
As Of December 31, 2011

<b>Assets</b>	<b>Governmental Activities</b>
Cash	\$ 155,180
Investments	549,287
Restricted assets-cash	812,661
Storm Debris Removable A/R	52,156
Due from FEMA	6,325
Total Current Assets	1,575,610
 Net Fixed Assets	 174,826
 <b>Total assets</b>	 <b>\$ 1,750,436</b>
 <b>Liabilities &amp; Net Assets</b>	
 Current Liabilities	
Bonds Payable - Held in Trust	\$ 33,022
Total Current Liabilities	33,022
 Net Assets	
Investments in capital assets, net of debt	174,826
Restricted net assets	702,655
Unrestricted net assets	774,515
Assigned asset sharing net assets	65,418
Total net assets	1,651,996
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 1,685,017</b>

See Independent Auditor's Report and Notes to the Financial Statements.

City of Dellwood  
Dellwood, Missouri  
Governmentwide Statement of Activities  
Other Comprehensive Basis of Accounting  
As Of December 31, 2011

	<u>Program Revenues</u>			<u>Net (expense) revenue changes in net assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total</u>
<b>Primary Government</b>					
<i>Governmental Activities</i>					
General city government	\$ (537,839)	\$ 91,343			\$ (446,496)
Road & bridge/streets	(269,874)				(269,874)
Health and welfare	(2,103)				(2,103)
Parks	(40,199)				(40,199)
Administration of justice & law	(1,440,371)	349,171	54,353		(1,036,847)
Capital outlay					-
Debt services					-
Total governmental activities	<u>(2,290,386)</u>	<u>440,514</u>	<u>54,353</u>	<u>-</u>	<u>(1,795,518)</u>
<i>Business-type activities</i>					
Recreation Center	(282,106)	193,636	-	-	(88,470)
Housing	-	-	-	-	-
Sanitation	-	-	-	-	-
Total business-type activities	<u>(282,106)</u>	<u>193,636</u>	<u>-</u>	<u>-</u>	<u>(88,470)</u>
Total primary government	<u>\$ (2,572,491)</u>	<u>\$ 634,150</u>	<u>\$ 54,353</u>	<u>\$ -</u>	<u>(1,883,989)</u>

General revenues:

**Taxes:**

Personal property taxes, levied	14,980
Real estate property taxes, levied	193,175
Sales taxes	1,060,917
Other taxes	749,987
Investment income	1,430
Total general revenues	<u>2,020,488</u>
Changes in net assets	<u>136,500</u>
Beginning net assets	<u>1,778,585</u>
<b>Ending net assets</b>	<b><u>\$ 1,915,084</u></b>

City of Dellwood  
Dellwood, Missouri  
Combining Balance Sheet  
Other Comprehensive Basis of Accounting-Governmental Funds  
As of December 31, 2011

	<u>Major Funds</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>		
<b>Assets</b>			
Cash	\$ 155,180		\$ 155,180
Investments	549,287		549,287
Restricted assets-cash	105,985	\$ 706,676	812,661
Storm Debris Removable A/R	52,156		52,156
Due from FEMA	6,325		6,325
Due from sewer lateral fund	4,021	-	4,021
Total Current Assets	<u>872,955</u>	<u>706,676</u>	<u>1,579,631</u>
Net Fixed Assets	174,826		174,826
<b>Total assets</b>	<u><b>\$ 1,047,781</b></u>	<u><b>\$ 706,676</b></u>	<u><b>\$ 1,754,457</b></u>
<b>Liabilities &amp; Fund Balances</b>			
Due from Sewer Lateral		\$ 4,021	\$ 4,021
Bonds Payable - Held in Trust	\$ 33,022		33,022
Total Current Liabilities	<u>33,022</u>	<u>4,021</u>	<u>37,043</u>
Fund balances			
Investments in capital assets, net of debt	174,826		174,826
Reserve Asset Sharing Fund Balance	65,418	-	65,418
Unrestricted fund balances	1,150,977		1,150,977
Net change in unrestricted fund balances	(376,462)		(376,462)
Restricted fund balances		364,519	364,519
Net change in restricted fund balances		338,136	338,136
Total Fund Balances	<u>1,014,759</u>	<u>702,655</u>	<u>1,717,414</u>

City of Dellwood  
Dellwood, Missouri  
Reconciliation of Total Fund Balances to Total Net Assets  
Other Comprehensive Basis of Accounting  
For The Year Ended December 31, 2011

<b>Balance Sheet - Governmental Funds - Total Fund Balances - Other Comprehensive Basis of Accounting</b>	\$ 1,717,414
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Amounts reported for governmental activities of the statement of net assets are different because:

Capital assets used in fund level statements are expensed upon use of financial resources to construct or acquire them.

Capital assets for entity-wide statements are recognized as assets that are extinguished via depreciation charged over the life of the asset.

**Capital assets, net of accumulated depreciation**

Long-term debt uses current financial resources to pay off the principle portion and related interest expense. For entity-wide statements, the unpaid principle portion is recognized as a future obligation to be repaid over time.

<b>Long-term debt</b>	-
<b>Accrued interest</b>	-
	-

<b>Subtotal</b>	-
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<b>Government-wide Statement of Net Assets--Total Net Assets - Other Comprehensive Basis of Accounting</b>	<hr style="border: none; border-top: 1px solid black;"/> \$ 1,717,414
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City of Dellwood  
Dellwood, Missouri  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Fund  
Other Comprehensive Basis of Accounting  
For The Year Ended December 31, 2011

	<b>Major Funds</b>						<b>Recreation Center</b>	<b>Special Purpose Governmental Funds</b>	<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Streets</b>	<b>Licenses</b>	<b>Law Enforcement</b>	<b>Municipal Court</b>	<b>Parks</b>			
<b>Revenues</b>									
Taxes	\$ 1,535,084							\$ 585,005	2,120,089
Permits	23,210							-	23,210
Licenses	68,133							-	68,133
Law Enforcement				54,353				-	54,353
Municipal Court					349,171			-	349,171
Recreation Center							193,636	-	193,636
<b>Total revenues</b>	<u>1,626,427</u>	<u>-</u>	<u>-</u>	<u>54,353</u>	<u>349,171</u>	<u>-</u>	<u>193,636</u>	<u>585,005</u>	<u>2,808,592</u>
<b>Expenditures</b>									
City Hall	519,040							66	519,106
Health	2,103							-	2,103
Public relations	17,112							-	17,112
Municipal Courts					94,320			-	94,320
Emergency Preparedness	1,621							-	1,621
Police				1,346,051				-	1,346,051
Street		269,874						-	269,874
Parks						40,199		-	40,199
Recreation Center							282,106	-	282,106
<b>Total expenditures</b>	<u>539,876</u>	<u>269,874</u>	<u>-</u>	<u>1,346,051</u>	<u>94,320</u>	<u>40,199</u>	<u>282,106</u>	<u>66</u>	<u>2,572,491</u>
<b>Excess deficiency of revenues over (under) expenditures</b>	<u>1,086,551</u>	<u>(269,874)</u>	<u>-</u>	<u>(1,291,698)</u>	<u>254,851</u>	<u>(40,199)</u>	<u>(88,470)</u>	<u>584,938</u>	<u>236,100</u>
<b>Other financing sources (uses):</b>									
Transfer in	198,170							-	198,170
Transfer out	(50,969)							(246,802)	(297,771)
<b>Total other financing sources (uses)</b>	<u>147,202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(246,802)</u>	<u>(99,601)</u>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<u>1,233,753</u>	<u>(269,874)</u>	<u>-</u>	<u>(1,291,698)</u>	<u>254,851</u>	<u>(40,199)</u>	<u>(88,470)</u>	<u>338,136</u>	<u>136,500</u>
Fund balances, beginning of year	1,414,065	-	-	-	-	-	(197,670)	364,519	1,778,585
Fund balances, end of year	<u>\$ 2,647,819</u>	<u>\$ (269,874)</u>	<u>\$ -</u>	<u>\$ (1,291,698)</u>	<u>\$ 254,851</u>	<u>\$ (40,199)</u>	<u>\$ (286,140)</u>	<u>\$ 702,655</u>	<u>\$ 1,915,084</u>

See Independent Auditor's Report and Notes to the Financial Statements.

City of Dellwood  
Dellwood, Missouri  
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets  
Other Comprehensive Basis of Accounting  
For The Year Ended December 31, 2011

<b>Excess of revenues and other sources over (under) expenditures and other uses - Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds - Other Comprehensive Basis of Accounting</b>	<b>\$ 136,500</b>
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Bond proceeds are reported as financing sources in governmental funds financial statements thus contributed to the net change in fund balance. In the statement of net assets, however, issuing debt increases long term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds financial statements, but reduces the liability in the statement of net assets

Debt issued	-
Principle payments	-
Compensated absences	-
Interest expense	-

<b>Government-wide Statement of Activities--Changes in net assets - Governmental Activities - Other Comprehensive Basis of Accounting</b>	<b><u><u>\$ 136,500</u></u></b>
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City of Dellwood, Missouri  
Notes to the Financial Statements  
December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. The Reporting Entity and Basis of Presentation

The funds presented are established under statutory or administrative authority, and their operations are under the control of the City Alderpersons, and elected City officials. The General Revenue Fund is the City's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

All significant activities and organizations on which the City exercises oversight responsibility have been included in the City's financial statements for the year ended December 31, 2011. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organization and activities.

Financial interdependency – the City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit or imposes a financial burden on the City.

Election of the Government Authority – the locally elected Board of Alderpersons (the Board) is exclusively responsible for all public decisions and accountable for the decisions it makes.

Designation of Management – the City Administrator hires members of City management. The activities under the purview of management are within the scope of the reporting entity and management is accountable to the Aldermanic Board for the activities being managed.

Ability to Significantly Influence Operations – the Board has the statutory authority under the provision of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short term borrowing, signing contracts and developing programs to provide.

Accountability on Fiscal Matters – the responsibility and accountability over all funds is vested in the City's management.

B. Basis of Accounting

The financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have (not) been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

City of Dellwood, Missouri  
Notes to the Financial Statements  
December 31, 2011

*Measurement Focus:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the economic resources” measurement focus is used, applied within the limitations of the modified cash basis of accounting.

*Basis of Accounting:*

In the Government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-type, and component unit activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording all material assets, liabilities, revenues/receipts, and expenditures/expenses/disbursements arising from cash transactions.
- b. Recording of capital assets arising from cash transactions and depreciating those assets where appropriate (examples, land and other property and equipment; however, assets acquired under capital leases are only recorded as the lease obligation is retired).

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government and its component units. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business –type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 identifiable with a specific function or segment, Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues

City of Dellwood, Missouri  
Notes to the Financial Statements  
December 31, 2011

are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the cash basis of accounting. The financial statements are prepared on the cash basis of accounting; accordingly, amounts are recognized when received or disbursed in cash. This basis of accounting differs from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Management has not consistently recorded capital assets or depreciation expense in the governmental activities as mandated by the Government Accounting Standards Board Statement (GASB) No. 34. Accounting principles generally accepted in the United States of America require asset capitalization and depreciation over the asset's estimated useful life and reported as a direct expense of each associated functional activity, which would increase capital assets, net assets, and expenses, and changes in net assets reported in the governmental and business-type activities. The City is required to report assets and liabilities, such as taxes receivables, allowance for bad debt, compensated absences, and long-term debt, such as bonds, capital leases, and certificates of participation, on the full accrual basis as opposed to the cash basis which is another comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The amount by which these departures would affect the related financial statements is not determinable.

A major fund is any fund whose assets, liabilities, revenues, or expenditures constitute ten percent (10%) or more of the total for the Governmental fund type *and* five percent (5%) of the total for the Governmental fund type and the Business fund type, combined. A government that reports only governmental funds need only apply the 10% test; this condition applied to City of Dellwood for the year ended December 31, 2011. Financial information is most useful when each major fund is presented separately rather than when fund combination is reported, such as the aggregation of the special-purpose funds into a special revenue fund type. GASBS-34 financial reporting model requires the presentation of individual fund data for each of the major funds of the City.

General Fund – the General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Improvement Fund – financed primarily by an additional half-cent sales tax. Capital projects funds are used to account for financial resources to be used for the acquisition of equipment, or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Sewer Lateral Fund - financed primarily by a separate property tax levy. This fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is **(not)** a major fund.

Parks and Stormwater Fund - financed primarily by an additional half-cent sales tax. This fund accounts for the construction and repairs of the municipal sanitary sewer system and related facilities and provides funding to Parks activities. (SDCL 9-48-2) This is **(not)** a major fund.

City of Dellwood, Missouri  
Notes to the Financial Statements  
December 31, 2011

Asset sharing account – the Dellwood police department receives funds forfeited in conjunction with the St. Louis County multi-jurisdictional drug taskforce. Funds are distributed on the basis of the proportion of the total number of individuals working at the time the assets are seized. Funds are used for enhancement of law enforcement programs and equipment. (SDCL 9-48-2) This is an assigned net assets as determined by contract and the Municipal legislative body.

The City maintains Fiduciary funds to account for assets held in a trustee capacity or as an agent on behalf of others who have provided bonds as held as security for court appearances. Agency funds account for assets the City holds for others in an agency capacity, such as bonds as held as security for court appearances. Fiduciary and Agency cash and investment balances are classified as Fiduciary Funds (Agency) under GASBS-34 standards.

**Proprietary Funds:**

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989. The recreation center is considered an enterprise fund. The balance sheet for the proprietary fund statement of financial position was not recorded based on the lack of property segregation by fund and the lack of a property schedule.

C. Budgets and Budgetary Practices

The City Council and other applicable boards are responsible for the preparation and approval of budgets for various City funds in accordance with Sections 50.525 through 50.745, RSMo 2000, the State of Missouri budget laws. The budget committee submits to the Board of Alderpersons a proposed budget. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. These budgets are adopted on the cash basis of accounting for revenues and expenditures.

Section 50.740, RSMo, prohibits expenditures in excess of the approved budgets. Expenditures did not exceed budgeted amounts.

D. Published Financial Statements

Under Section 50.800 and 50.810, RSMo 2000, the City Council is responsible for preparing and publishing in a local newspaper detailed annual financial statements for the City. The financial statements are required to show receipts and revenues, disbursements or expenditures, and beginning and ending balances for each fund.

The City did not publish as required the financial statements for all funds.

E. Due To/From Other Funds

Activity between funds that are representative of lending /borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from”, are considered “available spending resources”, and are subject to elimination upon consolidation.

F. Capital Assets

City of Dellwood, Missouri  
Notes to the Financial Statements  
December 31, 2011

Capital assets which include property, equipment, and infrastructure (ie roads, bridges, sidewalks, and similar items) are reported in the financial statements where applicable. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has not been reported. Dellwood has not developed a schedule of capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation methods have not been adopted.

G. Property Taxes

Taxes are levied on property as of January 1, and payable on December 31. St. Louis County bills and collects the City's property taxes and remits the collections to the City.

H. Grant Revenue

Resources received by the City from other governments are accounted for within applicable funds based on the purpose and requirements of each grant. Revenues are recognized on an accounting basis consistent with the Fund's measurement objective.

Revenues related to expenditure-driven grants are recognized to the extent expenditures are incurred. Any excess or deficiency of grant revenues received compared to expenditures incurred is recorded as deferred or amounts receivable from the grantor.

I. Interfund Transactions

Transfers – legally authorized transfers are reported when incurred as transfers in by the recipient fund and as transfers out by the disbursing fund. Elimination of interfund activity has been made for governmental activities in the government-wide financial statements.

J. Use of Estimates

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

**NOTE 2**    **Cash**

Disclosures are provided below to comply with Statement No. 40 of the Governmental Accounting Standards Board, *Deposit and Investment Risk Disclosures*. For the purposes of these disclosures, deposits with financial institutions are demand, time, and savings accounts, including certificates of deposit and negotiable order of withdrawal accounts, in banks, savings institutions, and credit unions. Investments are securities and other assets acquired primarily for the purpose of obtaining income or profit.

**Deposits**

In addition to depositing in demand deposits, political subdivisions such as cities have the authority under Section 67.085, RSMo, to place excess funds in certificates of deposit. To protect the safety of City deposits, Section 110.020, RSMo, requires depositories to pledge collateral securities to secure

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deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities must be of the types specified by Section 30.270, RSMo, for the collateralization of the state funds and held by either the City or a financial institution other than the depository bank. Section 67.085, RSMo, also requires certificates of deposit to be insured by the FDIC for 100 percent of their principal and accrued interest. Custodial credit risk is the risk that, if a depository bank fails, City of Dellwood will not be able to recover its deposits or recover collateral securities that are in an outside party's possession.

The City's deposits at December 31, 2011 were sufficiently collateralized for custodial credit risk in excess of the amount covered by federal depository insurance by collateral securities held by the City's custodial banks in the City's name.

Investments

Section 110.270, RSMo, based on Article IV, Section 15, Missouri Constitution, authorizes Cities to place their funds, either outright or by repurchase agreement, in the U.S. Treasury and agency obligations. At December 31, 2011 the City had no such investments. In addition, Section 30.950, RSMo, requires political subdivisions with authority to invest in instruments other than depository accounts at financial institutions to adopt a written investment policy. Among other things, the policy is to commit a political subdivision to the principles of safety, liquidity, and yield (in that order) when managing public funds and to prohibit purchase of derivatives (either directly or through repurchase agreements), use of leveraging (through either reverse repurchase agreements or other methods), and use of public funds for speculation. The City has not adopted such a policy.

**NOTE 3    RETIREMENT PLANS**

**Missouri Local Government Employees Retirement Systems (LAGERS)**

A. Plan Description

City of Dellwood participates in the Missouri Local Government employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statute, section RSMo. 70.600-70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

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

B. Funding Status

City of Dellwood's full-time employees do not contribute to the pension plan. The June 30<sup>th</sup> statutorily required contribution rates are 8.3% (General) and 5.9% (Police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

C. Annual Pension Cost (APC) and Net Pension Obligation (NPO)

The subdivision's annual pension cost and net pension obligation for the current year were as follows:



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Annual required contributions	\$ 73,326
Interest on net pension obligation	6,308
Adjustment to annual required contribution	<u>(21,747)</u>
Annual pension cost	57,887
Actual contribution	<u>55,948</u>
Increase (decrease) in NPO	1,939
NPO beginning of year	<u>87,000</u>
NPO end of year	<u>\$ 88,939</u>

The annual required contribution (ARC) was determined as part of the February 28, 2010 and February 28, 2011 annual actuarial valuations using the entry age actuarial cost method.

The actuarial assumptions as of February 28, 2012 included (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table setback 0 year for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2010 was 30 years for the General division 1 years for the Police division.

Three Year Trend Information

Year	Annual		
Ending June 30	Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 93,410	62.2%	\$ 35,309
2011	113,197	54.3%	87,000
2012	57,887	96.7%	88,939

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)		[(b-s)/c]
Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a % of covered Payroll
02/28/10	\$ 3,388,590	\$ 3,496,190	\$ 107,600	97%	\$ 1,167,530	9%
02/28/11	3,785,617	3,622,754	(162,863)	104%	1,104,061	
02/29/12	3,104,010	3,020,648	(83,362)	103%	1,146,799	

Note: The above assets and actuarial accrued liabilities do not include the assets and present value of benefits associated with the Benefit Reserve Fund and Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2011 annual actuarial valuations. For a complete description of the actuarial assumptions in the annual valuations, please contact the LAGERS office in Jefferson City.

City of Dellwood, Missouri  
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**NOTE 4 ECONOMIC DEPENDENCY**

Tax revenues increased 2.02%, a net increase of \$32,817 over the prior year. Tax revenues changes stem from declines in both real and personal property taxes. Corresponding increasing occurred in the sales tax revenue components. The increases in sales taxes and TIF related property taxes were allocated to defease the development related debt. Revenues declined in the Recreation Center and in the Municipal Court system. The declines were \$12,755 and \$36,553. The two departments generate \$542,407, in excess of 18% of total revenues. The remainder of the revenues contributes to a lesser extent, less than 10% of total revenues. These revenues have stabilized with marginal increases.

Payroll expenses, excluding payroll taxes and benefits compensation are \$1,450,093, 56.37% of total expenses for 2011. Payroll expenses declined \$97,000 from the prior year. Total expenses decreased \$105,859, -3.95%. Police expenses decreased \$138,921, 9.36% over the prior year. Municipal Court expenses increased \$66,924, 244%. Street expenses decreased \$30,351, 10.11%. Recreation Center expenses were reasonably stable from the prior year. Changes in Net Assets increased over the prior year \$531,776, 179.85% prior to net transfers. The City experienced a return on net revenues of 8.4%, \$236,500.

Dellwood's funding is dependent on sustaining the assessed valuation of taxable assets and the flow of local commerce. The loss of, or inability to sustain the value of the taxable basis, either the property appraisals and subsequent valuation, and the flow of taxable commerce, may result in a question of continued capability.

**NOTE 5 OPERATING LEASE COMMITMENTS**

Dellwood has an operating lease for office equipment from Datamax STL Leasing, expiring in sixty (60) months. The payment per month is \$538.21. The lease requires Dellwood to pay all executory costs such as maintenance and insurance. Total cost for the lease for the period 2011 \$4,305.68.

The future minimum lease payments are as follows:

		Datamax STL Leasing		Total
	2012	\$ 6,459	\$	6,459
	2013	6,459		6,459
	2014	6,459		6,459
	2015	6,459		6,459
	2016	6,459		6,459
				-
Total Lease Commitments		\$ 32,293		\$ 32,293

**NOTE 6 Tax Incremental Financing Commitments**

The City of Dellwood created the "City of Dellwood, Missouri Tax Increment Revenue Note (Chambers/West Florissant Redevelopment Project), Series 2007." The Note was issued at 10.25%, paid twice a year beginning March 1, 2008, in a principal amount of \$4,045,845 for the purpose of paying a portion of the Redevelopment Project Costs in connection with the Redevelopment Plan.

The TIF Note is a special, limited obligation of the City payable ratably and solely from and secured as to the payment of principal and interest by a pledge of the Available Revenues. The taxing power of the City is not pledged to the payment of the TIF Note either as to principal or interest. The TIF Note does not constitute a general obligation of the City.

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Those Available Revenues attributable to PILOTS to the PILOTS Account of the Revenue Fund, Available Revenues attributable to EATS to the EATS Account of the Revenue Fund, and Available Revenues attributable to CID Revenues to the CID Revenues Account of the Revenue Fund.

The TIF Note matures October 10, 2028. Interest was accrued, but not recorded, in the amount of \$1,216,780. \$227,143 interest expense was paid in 2011.

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>REVENUE</b>				
<b>TAXES</b>				
Real Estate	\$ 71,500	71,500	68,741	\$ (2,759)
Personal Property	18,000	18,000	14,980	(3,020)
Utility	611,600	611,600	585,488	(26,112)
Gasoline	150,000	150,000	144,801	(5,199)
Cigarette	16,000	16,000	14,552	(1,448)
Sales taxes	710,000	710,000	701,377	(8,623)
Road and Bridges	19,000	19,000	(36,225)	(55,225)
Utility/Railroad	1,500	1,500	10,126	8,626
Cable Television	32,000	32,000	31,244	(756)
<b>Total Taxes</b>	<b>\$ 1,629,600</b>	<b>1,629,600</b>	<b>1,535,084</b>	<b>\$ (94,516)</b>
<b>PERMITS</b>				
Building	\$ 1,000	1,000	768	\$ (232)
Occupancy	5,000	5,000	5,400	400
Plumbing/Excavation	-	-	120	120
Fences/Driveway	500	500	380	(120)
Sign	500	500	670	170
Housing Inspection	10,000	10,000	15,852	5,852
Pool Permits	-	-	20	20
<b>Total permits</b>	<b>\$ 17,000</b>	<b>17,000</b>	<b>23,210</b>	<b>\$ 6,210</b>
<b>LICENSES</b>				
Merchants	\$ 60,000	60,000	62,748	\$ 2,748
Dogs	50	50	37	(13)
Liquor	3,000	3,000	5,277	2,277
Vending	1,500	1,500	71	(1,429)
<b>Total permits</b>	<b>\$ 64,550</b>	<b>64,550</b>	<b>68,133</b>	<b>\$ 3,583</b>
<b>POLICE</b>				
Nuisance Fee	\$ -	-	9,345	\$ 9,345
Interest	40,000	40,000	27,864	(12,136)
Police Reports	2,000	2,000	1,739	(261)
Late Vehicle Fee	1,000	1,000	980	(20)
False Alarms	1,500	1,500	790	(710)
Sales of Capital Assets	8,000	8,000	-	(8,000)
Miscellaneous	12,627	12,627	13,635	1,008
<b>Total Taxes</b>	<b>\$ 65,127</b>	<b>65,127</b>	<b>54,353</b>	<b>\$ (10,774)</b>
<b>COURTS</b>				
Court Fines	\$ 270,000	270,000	220,293	\$ (49,707)
Court Costs	60,000	60,000	46,829	(13,171)
Red Light Camera	6,000	6,000	1,859	(4,141)
Bond Forfeitures	53,000	53,000	53,544	544
Training Income	-	-	8,346	8,346
CVC	-	-	14,050	14,050
Unclassified Court Revenues	-	-	4,251	4,251
<b>Total Taxes</b>	<b>\$ 389,000</b>	<b>389,000</b>	<b>349,171</b>	<b>\$ (39,829)</b>
<b>TOTAL REVENUE COLLECTED</b>	<b>\$ 2,165,277</b>	<b>2,165,277</b>	<b>2,029,952</b>	<b>\$ (135,325)</b>

See Independent Auditor's Report and Notes to the Financial Statements.

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	Budgeted Amounts		Actual	Over (Under)
	Original	Final		Final Budget
<b>EXPENDITURES</b>				
<b>CITY HALL</b>				
Salaries	\$ 237,659	237,659	247,981	\$ 10,322
Section 457 Contributions	5,600	5,600		(5,600)
Workmen's Compensation	2,800	2,800	102	(2,698)
Health Insurance	22,000	22,000	18,811	(3,189)
Pension (LAGERS)	12,741	12,741	9,870	(2,871)
Social Security and Medicare	18,487	18,487	17,494	(993)
Unemployment	500	500	1,303	803
Life Insurance & LTD	1,890	1,890	1,514	(376)
Printing and Postage	3,500	3,500	16,725	13,225
Cleaning Supplies	500	500	991	491
Advertising	500	500	4,118	3,618
Insurance	7,000	7,000		(7,000)
Building/Property Maintenance	3,000	3,000	11,577	8,577
Equipment Maintenance	2,000	2,000	4,092	2,092
Legal Fees	5,000	5,000	24,666	19,666
Engineering Fees	-	-	35,297	35,297
Telephone	4,000	4,000	5,658	1,658
Electric	7,500	7,500	9,174	1,674
Gas	3,500	3,500	2,458	(1,042)
Water/Sewer	1,000	1,000	1,116	116
Bonding Officials	250	250		(250)
Audit	7,000	7,000	16,288	9,288
Computers Supplies	1,000	1,000	1,267	267
Dues and Memberships	3,500	3,500	4,106	606
Meetings and Conventions	10,000	10,000	12,131	2,131
Elections Expenses	2,000	2,000	1,723	(277)
Meetings and Conventions (CA)	-	-	3,475	3,475
Office Supplies	5,000	5,000	17,272	12,272
Kitchen Supplies	3,500	3,500	1,509	(1,991)
Training	2,000	2,000	513	(1,487)
ADP Payroll Processing	-	-	11,384	11,384
Postage Meter Rental	100	100	16,983	16,883
Copier Lease	5,000	5,000	4,877	(123)
Computer Upgrades/Internet	3,000	3,000	7,867	4,867
Bank Service Charges	-	-	396	396
Gain or Loss on CD's		-	6,305	6,305
		-		-
<b>Total City Hall</b>	<b>\$ 381,527</b>	<b>381,527</b>	<b>519,040</b>	<b>\$ 137,513</b>

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Health - Dept 200</b>				
Lein Cleanup	\$ 1,000	1,000		\$ (1,000)
Trash Pickup	7,000	7,000	1,081	(5,919)
Rat and Mosquito Supplies	2,000	2,000	1,022	(979)
<b>Total Health Dept.</b>	<u>\$ 10,000</u>	<u>10,000</u>	<u>2,103</u>	<u>\$ (7,897)</u>
<b>Public Relations - Dept 300</b>				
		-		-
Printing and Postage	\$ 3,500	3,500	2,972	\$ (528)
Painting Assistance Program	1,000	1,000		(1,000)
Newsletter	5,000	5,000		(5,000)
Senior Citizens (60+ Club)	1,500	1,500	1,915	415
Christmas/Easter Events		-	402	402
Miscellaneous	1,000	1,000	893	(107)
General Improvements	-	-	10,930	10,930
<b>Total Public Relations</b>	<u>\$ 12,000</u>	<u>12,000</u>	<u>17,112</u>	<u>\$ 5,112</u>
<b>Municipal Court - Dept 400</b>				
Salaries	\$ 15,600	15,600	58,275	\$ 42,675
Social Security and Medicare	1,193	1,193	4,426	3,233
Unemployment	-	-	331	331
Printing and Postage	2,000	2,000	1,445	(555)
Legal Fees	2,500	2,500	890	(1,610)
Professional Fees	-	-	3,296	3,296
Dues and Memberships	300	300	839	539
Meetings and Conventions	3,000	3,000	1,066	(1,934)
Material and Supplies	250	250	2,811	2,561
Miscellaneous	-	-	1,781	1,781
CVC Fees	-	-	17,991	17,991
Red Light Camera	-	-	1,169	1,169
<b>Total Municipal Court</b>	<u>\$ 24,843</u>	<u>24,843</u>	<u>94,320</u>	<u>\$ 69,477</u>
<b>Emergency Preparedness - Dept 500</b>				
Salaries	\$ 1,500	1,500	1,500	\$ -
Social Security and Medicare	115	115	111	(4)
Unemployment	-	-	10	10
<b>Total Emergency Preparedness</b>	<u>\$ 1,615</u>	<u>1,615</u>	<u>1,621</u>	<u>\$ 6</u>

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	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Police Dept - Dept 600</b>				
Salaries	\$ 862,355	862,355	906,796	\$ 44,441
Section 457 Contribution	11,050	11,050	26,401	15,351
Workmen's Compensation	26,000	26,000		(26,000)
Health Insurance	142,000	142,000	167,592	25,592
Pension (LAGERS)	39,947	39,947	45,018	5,071
Social Security and Medicare	70,178	70,178	68,778	(1,400)
Unemployment	500	500	6,094	5,594
Clothing Allowance	4,000	4,000		(4,000)
Life Insurance & LTD	9,710	9,710	11,038	1,328
Printing and Postage	1,500	1,500	2,608	1,108
Advertising	150	150		(150)
Insurance	30,000	30,000	3,032	(26,968)
Building/Property Maintenance	500	500	1,528	1,028
Equipment Maintenance	1,500	1,500	4,087	2,587
Legal Fees	500	500		(500)
Telephone	6,500	6,500	11,139	4,639
Fitness Program	2,000	2,000		(2,000)
Computers Supplies	1,000	1,000	55	(945)
Dues and Memberships	300	300	200	(100)
Meetings and Conventions	500	500	1,882	1,382
Gasoline and Oil	40,000	40,000	41,309	1,309
Radio Maintenance	1,000	1,000	1,492	492
Radio Dispatch	25,000	25,000	21,619	(3,381)
Radar Maintenance	500	500	230	(270)
Vehicle Maintenance	12,000	12,000	16,344	4,344
Material and Supplies	5,000	5,000	3,691	(1,309)
Confinement	1,000	1,000		(1,000)
Training	2,000	2,000	1,277	(723)
Pre-employment physical	1,000	1,000	170	(830)
Gun maintenance and ammunition	2,500	2,500	77	(2,423)
Police Sharing Expense	-	-	(3,647)	(3,647)
Photo supplies	1,500	1,500	96	(1,404)
Miscellaneous	-	-	673	673
Uniforms	4,500	4,500	6,470	1,970
Two (2) Police Unit	48,000	48,000		(48,000)
<b>Total Police Dept</b>	<b>\$ 1,354,190</b>	<b>1,354,190</b>	<b>1,346,051</b>	<b>\$ (8,139)</b>

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Streets Dept - 700</b>				
Salaries	\$ 111,375	111,375	107,010	\$ (4,365)
Section 457 Contributions	1,300	1,300		(1,300)
Workmen's Compensation	9,000	9,000	7,252	(1,748)
Health Insurance	18,000	18,000	21,107	3,107
Pension (LAGERS)	5,585	5,585	6,285	700
Clothing Allowance	750	750		(750)
Social Security and Medicare	8,520	8,520	8,288	(232)
Unemployment	500	500	810	310
Life Insurance & LTD	1,261	1,261	1,028	(233)
Cleaning Supplies	750	750	1,369	619
Advertising	100	100		(100)
Insurance	3,500	3,500		(3,500)
Building/Property Maintenance	750	750	3,040	2,290
Equipment Maintenance	3,000	3,000	7,168	4,168
Electric	54,000	54,000	53,337	(663)
Trash	-	-	1,592	1,592
Gasoline and Oil	7,500	7,500	9,651	2,151
Radio Maintenance	200	200	21	(179)
Vehicle Maintenance	4,000	4,000	9,738	5,738
Material and supplies	2,000	2,000	7,119	5,119
Salt	10,000	10,000	17,886	7,886
Traffic and street signs	1,000	1,000	3,602	2,602
Streets/Sidewalks Maintenance	10,000	10,000	2,984	(7,016)
Training	500	500		(500)
Miscellaneous tools	3,000	3,000	466	(2,534)
Miscellaneous	-	-	122	122
Equipment/Maintenance	20,000	20,000		(20,000)
<b>Total Streets Dept</b>	<b>\$ 276,591</b>	<b>276,591</b>	<b>269,874</b>	<b>\$ (6,717)</b>

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	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
<b>Parks Dept - 800</b>				
Salaries	\$ 21,500	21,500	23,694	\$ 2,194
Workmen's Compensation	2,000	2,000	763	(1,237)
Social Security and Medicare	1,530	1,530	1,771	241
Unemployment	-	-	115	115
Cleaning Supplies	1,000	1,000	921	(79)
Ball Field Improvements	1,000	1,000		(1,000)
Building/Property Maintenance	5,000	5,000	3,252	(1,748)
Equipment Maintenance	3,000	3,000	5,407	2,407
Electric	1,500	1,500	1,082	(418)
Water/Sewer	1,500	1,500	1,163	(337)
Park Activities	-	-	24	24
Materials and Supplies	250	250	349	99
Playground Equipment Maintenance	500	500	81	(419)
Restocking	500	500		(500)
Miscellaneous	-	-	765	765
Community Activities	1,500	1,500	812	(688)
	<u>1,000</u>	<u>1,000</u>		<u>(1,000)</u>
<b>Total Parks Dept</b>	<b>\$ 41,780</b>	<b>41,780</b>	<b>40,199</b>	<b>\$ (1,581)</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,102,546</b>	<b>2,102,546</b>	<b>2,290,319</b>	<b>\$ 187,773</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 62,731</b>	<b>62,731</b>	<b>(260,368)</b>	<b>\$ (323,099)</b>
<b>Other financing sources (uses):</b>				
Transfer in			198,170	\$ 198,170
Transfer out			(50,969)	(50,969)
<b>Total other financing sources (uses)</b>	<b>\$ -</b>	<b>-</b>	<b>147,202</b>	<b>\$ 147,202</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>\$ 62,731</b>	<b>62,731</b>	<b>(113,166)</b>	<b>\$ (175,897)</b>
FUND BALANCE, JANUARY 1			1,414,065	\$ 1,414,065
<b>FUND BALANCE, DECEMBER 31</b>	<b>\$ 62,731</b>	<b>62,731</b>	<b>1,300,900</b>	<b>\$ 1,238,169</b>

1257 Hornsby \* St. Louis, Missouri 63147  
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**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Alderpersons  
City of Dellwood, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Dellwood, Missouri ("the City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 5, 2012. We issued an adverse opinion in our report on the governmental activities, business type activities, each major fund, and the aggregate remaining funds, because the City did not capitalize infrastructure and other capital assets; did not report depreciation expense for those assets over their estimated useful lives, did not report compensated absences or allowance for doubtful accounts, among other omissions. Except as discussed in the preceding sentence, 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.

**Internal Control Over Financial Reporting**

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all

deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. The material deficiencies are described in attached communication as 2009-5, 2009-6, and 2009-10

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Dellwood, Missouri, in a separate letter dated October 5, 2012.

This report is intended solely for the information and use of the City Alderpersons, management of the City, and federal-awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*CRWilliams & Associates LLC*

Merrillville, Indiana

October 5, 2012

**City of Dellwood, Missouri**  
**FOLLOW-UP ON PRIOR AUDIT FINDINGS FOR AN**  
**AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE**  
**WITH GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by Dellwood on the applicable findings in the prior audit report issued by the independent auditor for the year ended December 31, 2010.

2009-1 Finding: Monthly Financial Statements not Prepared and Operational Site Reporting not Available - resolved

2009-2 Finding: Computerized Accounts Payable System should be Utilized - unresolved

2009-3 Finding: Organization Planning - incomplete

2009-4 Finding: Indirect Cost Allocation Plan - unresolved

2009-5 Finding: Lack of Written Accounting and Internal Control Procedures - unresolved

2009-6 Finding: Obsolete Inventory, Inventory Verification Undocumented and Inventory not Reconciled to Financial Statements - unresolved

2009-7 Finding: Secure Supplies and Equipment Inventories - resolved

2009-8 Findings: Incomplete Human Resource Personal Files on Employees - resolved

2009-9 Finding: Procurement and Contract Violations - resolved

**Material Weaknesses**

2009-10 Finding: Schedule of Fixed Assets Completion - unresolved

2009-11 Finding: Organization Structure - resolved

2009-12 Finding: Secure Cash at Recreation Center - resolved

2009-13 Finding: Lack of Bank Reconciliations and Approval - resolved

2009-14 Finding: Multiple Transactions and Accounting Errors - resolved

2009-15 Finding: Support for Accounting Transfers – partially resolved

2009-16 Finding: Noncompliance with Cash Collateral - resolved

2009-17 Finding: Multiple Transactions and Accounting Errors Associated with Processing TIF Transactions - unresolved

City of Dellwood  
Dellwood, Missouri  
Combining Balance Sheet  
Other Comprehensive Basis of Accounting  
Special Purpose Governmental Funds  
For The Year Ended December 31, 2011

	<b>Sanitary Sewer Lateral Fund</b>	<b>Parks &amp; Storm Water</b>	<b>Capital Improvement Sales Tax Fund</b>	<b>Total Special Purpose Governmental Funds</b>
<b>Assets</b>				
Cash	83,719	211,260	411,698	706,676
Investments				-
Restricted assets-cash				\$ -
Restricted assets-investments	-	-	-	-
<b>Total assets</b>	<u>\$ 83,719</u>	<u>211,260</u>	<u>411,698</u>	<u>\$ 706,676</u>
Due from Sewer Lateral Fund	4,021			\$ 4,021
<b>Fund balances</b>				
Restricted fund balances	\$ 79,698	211,260	411,698	\$ 702,655
	-	-	-	-
<b>Total fund balances</b>	<u>\$ 83,719</u>	<u>211,260</u>	<u>411,698</u>	<u>\$ 706,676</u>

City of Dellwood  
Dellwood, Missouri  
Combining Statement of Revenues, Expenditures, Changes In Fund Balances  
Special Purpose Governmental Funds  
Other Comprehensive Basis of Accounting  
For The Year Ended December 31, 2011

	Sanitary Sewer Lateral Fund	Parks & Storm Water	Law Enforcemen t Block Grant Fund	Capital Improvement Sales Tax Fund	Total Special Purpose Governmenta l Funds
<b>Revenues</b>					
Property & other taxes	\$ 124,434				\$ 124,434
Sales taxes		124,779		334,362	459,141
Interest income	103	362		964	1,430
<b>Total revenues</b>	<u>124,537</u>	<u>125,141</u>	<u>-</u>	<u>335,326</u>	<u>585,005</u>
<b>Expenditures</b>					
General county government		56		11	66
<b>Total expenditures</b>	<u>-</u>	<u>56</u>	<u>-</u>	<u>11</u>	<u>66</u>
<b>Excess of revenues over (under) expenditures</b>	<u>124,537</u>	<u>125,086</u>	<u>-</u>	<u>335,316</u>	<u>584,938</u>
<b>Other financing sources (uses):</b>					
Transfer out	(48,632)			(198,170)	(246,802)
<b>Total other financing sources (uses)</b>	<u>(48,632)</u>	<u>-</u>	<u>-</u>	<u>(198,170)</u>	<u>(246,802)</u>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<u>75,905</u>	<u>125,086</u>	<u>-</u>	<u>137,145</u>	<u>338,136</u>
<b>Assigned fund balances, beginning of year</b>	<u>3,792</u>	<u>86,174</u>		<u>274,553</u>	<u>364,519</u>
<b>Assigned fund balances, end of year</b>	<u>\$ 79,698</u>	<u>211,260</u>	<u>-</u>	<u>411,698</u>	<u>\$ 702,655</u>

City of Dellwood  
Dellwood, Missouri  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Fund  
Business Activities Fund - Other Comprehensive Basis of Accounting  
For The Year Ended December 31, 2011

**REVENUE**

**RECREATION CENTER**

Pool Daily Admission	\$ 4,374
Pool Passes	4,026.50
Swim Teams Registration fee	2,870
Baseball Field Income	373
Food/Snacks	26,205
Beer and Wine	20,283
Arena Rental	26,814
Field Leagues/Rental	30,120
Advertising	375
Ground Rental	61,472
Video Games/Vending	1,000
Room Rental	5,170
Daycamp Registrations	10,554
<b>Total Recreation Center</b>	<u>\$ 193,636</u>

**EXPENDITURES**

**Recreation Center Dept 922**

Salaries	\$ 118,762
Section 457 Contributions	329.03
Workmen's Compensation	2,990.15
Health Insurance	10,897.71
Pension (LAGERS)	3,833.09
Social Security and Medicare	8,977.39
Unemployment	782.55
Life Insurance & LTD	620.48
Printing and Postage	2,452.08
Cleaning Supplies	4,867.28
Advertising	285.00
Building/Property Maintenance	19,069
Equipment Maintenance	3,960
Swim Team Expenses	1,671
Telephone	2,718
Electric	23,233
Gas	5,831
Water/Sewer	6,796
Meetings and Conventions	44
Materials and Supplies	6,027
Training	575
Miscellaneous	380
Uniforms	671
Pool Chemicals	5,524
Merchandise for Resale	27,866
Beer and Wine Resale	12,778

see auditor's report and notes to the financial statements

City of Dellwood  
Dellwood, Missouri  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Fund  
Business Activities Fund - Other Comprehensive Basis of Accounting  
For The Year Ended December 31, 2011

Referees/Timekeepers		9,395
Internet/Cable		<u>773</u>
<b>Total Recreation Center</b>		<u>\$ 282,106</u>
 <b>NET CHANGE IN FUND BALANCE</b>		 <u>\$ (88,470)</u>
 FUND BALANCE, JANUARY 1		 \$ (197,670)
 <b>FUND BALANCE, DECEMBER 31</b>		 <u><u>\$ (286,140)</u></u>



City of Dellwood  
Dellwood, Missouri  
Statement of Assets, Liabilities, and Changes in Fund Balance  
Other Comprehensive Basis of Accounting  
Tax Incremental Financing  
For The Year Ended December 31, 2011  
Unaudited

	<b>Tax Incremental Financing Fund</b>
<b>Assets</b>	
Restricted cash - EATS	\$ 60,151
Total Current Assets	60,151
TIF Restricted assets-investments	4,045,845
<b>Total assets</b>	<b>\$ 4,105,996</b>
<b>Liabilities, Fund Equity and Other Credits</b>	
<i>Liabilities:</i>	
Long Term Debt	\$ 4,045,845
<b>Fund balances</b>	
Assigned fund balances - Due to agencies and political subdivisions	\$ 60,151
<b>Total fund balances</b>	<b>\$ 60,151</b>
Total Liabilities and Fund Balances	<b>\$ 4,105,996</b>

City of Dellwood  
Dellwood, Missouri  
Combining Statement of Revenues, Expenditures, Changes In Fund Balances Tax Incremental Financing Fund  
Other Comprehensive Basis of Accounting  
For The Year Ended December 31, 2011  
Unaudited

	<b>Tax Incremental Financing Fund</b>	<b>Total Tax Incremental Financing Fund</b>
<b>Revenues</b>		
Property & other taxes -	\$ 120,273	\$ 120,273
Sales taxes -	93,306	93,306
Interest income	61	61
<b>Total revenues</b>	<b>213,640</b>	<b>213,640</b>
<b>Expenditures</b>		
General city government	180	180
<i>Debt service:</i>		
Interest and paying agent fee	227,143	227,143
<b>Total expenditures</b>	<b>227,322</b>	<b>227,322</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(13,682)</b>	<b>(13,682)</b>
<b>Other financing sources (uses):</b>		
Transfer in	26,726	26,726
<b>Total other financing sources (uses)</b>	<b>26,726</b>	<b>26,726</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>13,044</b>	<b>13,044</b>
<b>Assigned fund balances, beginning of year</b>	<b>47,107</b>	<b>47,107</b>
<b>Assigned fund balances, end of year</b>	<b>\$ 60,151</b>	<b>\$ 60,151</b>

City of Dellwood  
Dellwood, Missouri  
Combining Statement of Changes in Fiduciary Net Assets-Modified Cash Basis  
Agency Funds  
For The Year Ended December 31, 2011  
Unaudited

	<b>Municipal Court Bond Account</b>	<b>Chambers/West Florissant Redevelopment Project Unaudited</b>	<b>Statement of Fiduciary Net Assets</b>
<b>Assets</b>			
Restricted assets-cash	\$ 33,222	60,151	\$ 93,373
<b>Total assets</b>	<b>\$ 33,222</b>	<b>60,151</b>	<b>\$ 93,373</b>
<b>Liabilities</b>			
Due to agencies and political subdivisions	-	60,151	60,151
Due to others	\$ 33,222	-	\$ 33,222
<b>Total liabilities</b>	<b>\$ 33,222</b>	<b>60,151</b>	<b>\$ 93,373</b>

See Independent Auditor's Report and Notes to the Financial Statements.

City of Dellwood  
Dellwood, Missouri  
Required Supplemental Information  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual - Business Services Fund - Budget Basis  
For The Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>REVENUE</b>				
<b>RECREATION CENTER</b>				
Pool Daily Admission	5,000	\$ 5,000	4,374.00	\$ (626)
Pool Passes	3,500	3,500	4,026.50	527
Identification Cards	500	500		(500)
Swim Teams Registration fee	3,500	3,500	2,870	(630)
Baseball Field Income	-	-	373	373
Food/Snacks	45,000	45,000	26,205	(18,795)
Beer and Wine	30,000	30,000	20,283	(9,717)
Arena Rental	-	-	26,814	26,814
Field Leagues/Rental	105,000	105,000	30,120	(74,881)
Advertising	-	-	375	375
Ground Rental	900	900	61,472	60,572
Video Games/Vending	-	-	1,000	1,000
Room Rental	5,000	5,000	5,170	170
Daycamp Registrations	6,000	6,000	10,554	4,554
<b>Total Recreation Center</b>	<u>\$ 204,400</u>	<u>\$ 204,400</u>	<u>\$ 193,636</u>	<u>\$ (10,764)</u>

**EXPENDITURES**

**Recreation Center Dept 922**

Salaries	\$ 127,341	127,341	118,761.75	\$ (8,579)
Section 457 Contributions	650	650	329.03	(321)
Workmen's Compensation	8,000	8,000	2,990.15	(5,010)
Health Insurance	6,000	6,000	10,897.71	4,898
Pension (LAGERS)	3,809	3,809	3,833.09	24
Social Security and Medicare	9,742	9,742	8,977.39	(765)
Unemployment	1,500	1,500	782.55	(717)
Life Insurance & LTD	633	633	620.48	(13)
Printing and Postage	1,000	1,000	2,452.08	1,452
Cleaning Supplies	2,000	2,000	4,867.28	2,867
Advertising	4,000	4,000	285.00	(3,715)
Insurance	18,000	18,000		(18,000)
Building/Property Maintenance	7,000	7,000	19,069	12,069
Equipment Maintenance	5,000	5,000	3,960	(1,040)
Legal	-	-		-
Swim Team Expenses	5,000	5,000	1,671	(3,329)
Telephone	2,000	2,000	2,718	718
Electric	22,000	22,000	23,233	1,233
Gas	8,000	8,000	5,831	(2,169)
Water/Sewer	8,000	8,000	6,796	(1,204)
Dues and Memberships	250	250		
Meetings and Conventions	750	750	44	(706)
Materials and Supplies	2,000	2,000	6,027	4,027
Training	2,500	2,500	575	(1,925)
Miscellaneous	100	100	380	280
Uniforms	1,000	1,000	671	(330)
Pool Chemicals	4,500	4,500	5,524	1,024
Lamination Supplies	300	300		
Merchandise for Resale	40,000	40,000	27,866	(12,134)
Beer and Wine Resale	18,000	18,000	12,778	(5,222)
Referees/Timekeepers	-	-	-	-

See Independent Auditor's Report and Notes to the Financial Statements.

City of Dellwood  
Dellwood, Missouri  
Required Supplemental Information  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual - Business Services Fund - Budget Basis  
For The Year Ended December 31, 2011

Internet/Cable	-	-	773	773
<b>Total Recreation Center</b>	<u>\$ 332,075</u>	<u>\$ 332,075</u>	<u>\$ 282,106</u>	<u>\$ (49,419)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (127,675)</u>	<u>(127,675)</u>	<u>(88,470)</u>	<u>\$ 38,655</u>
FUND BALANCE, JANUARY 1			(197,670)	(197,670)
<b>FUND BALANCE, DECEMBER 31</b>	<u><u>\$ (127,675)</u></u>	<u><u>(127,675)</u></u>	<u><u>(286,140)</u></u>	<u><u>\$ (159,015)</u></u>

City of Dellwood  
Dellwood, Missouri  
Required Supplemental Information  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual -Special Purpose Funds - Budget Basis  
For The Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Sanitary Sewer Lateral Fund				
<b>Revenues</b>				
Property & other taxes	0	-	\$ 124,434	124,434
Interest income			103	103
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>124,537</u>	<u>124,537</u>
<b>Excess of revenues over (under) expenditures</b>	<u>-</u>	<u>-</u>	<u>124,537</u>	<u>124,537</u>
<b>Other financing sources (uses):</b>				
Transfer out			(48,632)	(48,632)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(48,632)</u>	<u>(48,632)</u>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<u>-</u>	<u>-</u>	<u>75,905</u>	<u>75,905</u>
<b>Assigned fund balances, beginning of year</b>			3,792	3,792
<b>Assigned fund balances, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,698</u>	<u>\$ 79,698</u>

City of Dellwood  
Dellwood, Missouri  
Required Supplemental Information  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual -Special Purpose Funds - Budget Basis  
For The Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Parks & Storm Water				
<b>Revenues</b>				
Sales taxes			124,779	124,779
Interest income			362	362
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>125,141</u>	<u>125,141</u>
<b>Expenditures</b>				
General government			56	56
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>56</u>	<u>56</u>
<b>Excess of revenues over (under) expenditures</b>	<u>-</u>	<u>-</u>	<u>125,086</u>	<u>125,086</u>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<u>-</u>	<u>-</u>	<u>125,086</u>	<u>125,086</u>
Assigned fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>86,174</u>	<u>86,174</u>
Assigned fund balances, end of year	<u>-</u>	<u>-</u>	<u>211,260</u>	<u>211,260</u>

City of Dellwood  
Dellwood, Missouri  
Required Supplemental Information  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual -Special Purpose Funds - Budget Basis  
For The Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
	Capital	Improvement	Sales	Tax Fund
<b>Revenues</b>				
Sales taxes			334,362	334,362
Interest income			964	964
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>335,326</u>	<u>335,326</u>
<b>Expenditures</b>				
General government			11	11
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>11</u>	<u>11</u>
<b>Excess of revenues over (under) expenditures</b>	<u>-</u>	<u>-</u>	<u>335,316</u>	<u>335,316</u>
<b>Other financing sources (uses):</b>				
Transfer out			(198,170)	(198,170)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(198,170)</u>	<u>(198,170)</u>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<u>-</u>	<u>-</u>	<u>137,145</u>	<u>137,145</u>
Assigned fund balances, beginning of year			274,553	274,553
Assigned fund balances, end of year	<u>-</u>	<u>-</u>	<u>411,698</u>	<u>411,698</u>



City of Dellwood  
Dellwood, Missouri  
Required Supplemental Information  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual - Tax Incremental Financing - Budget Basis  
For The Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
	TIF			
<b>Revenues</b>				
Property & other taxes	0	-	120,273	120,273
Sales taxes			93,306	93,306
Interest income			61	61
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>213,640</u>	<u>213,640</u>
<b>Expenditures</b>				
General government			180	180
<i>Debt service:</i>				
Interest and paying agent fee			227,143	227,143
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>227,322</u>	<u>227,322</u>
<b>Excess of revenues over (under) expenditures</b>	<u>-</u>	<u>-</u>	<u>(13,682)</u>	<u>(13,682)</u>
<b>Other financing sources (uses):</b>				
Transfer in			26,726	26,726
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>26,726</u>	<u>26,726</u>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<u>-</u>	<u>-</u>	<u>13,044</u>	<u>13,044</u>
<b>Assigned fund balances, beginning of year</b>			47,107	47,107
<b>Assigned fund balances, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,151</u>	<u>\$ 60,151</u>

October 5, 2012

To the Board of Alderpersons of  
The City of Dellwood  
Dellwood, Missouri

## **SCHEDULE OF INTERNAL ACCOUNTING/ADMINISTRATIVE CONTROL FINDINGS, AND RECOMMENDATIONS**

### Communication of Significant Deficiencies and Material Weaknesses

In planning and performing our audit of the financial statements of the City of Dellwood as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Dellwood's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

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

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

### **Control Deficiencies**

#### **2011-1 Finding: Budgets are not Developed Consistent with Financial Statement Reporting**

Condition: Financial statements were not prepared and presented to the Board of Alderpersons on a basis consistent with inclusion of the Statement of Financial Position, and inclusion of special revenue and fiduciary funds.

Criteria: OMB A-110 Sec. 215.51 Monitoring and reporting program performance. (a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. (1) A comparison of actual accomplishments with the goals and objectives established for the period, the findings of the investigator, or both. Whenever appropriate and the output of programs or projects can be readily quantified, such quantitative data should be related to cost data for computation of unit costs. (2) Reasons why established goals were not met, if appropriate.

Cause: City receives multiple restricted and unrestricted sources of tax receipts, fee for service receipts, and varying fees for licenses, permits, and court related income. The City periodically reviews the financial statements for expenses, conducted an expense analysis to view any significant differences between the budgeted amounts and actual amounts. The City's budget does not present the budgeted cash position or an ability to analyze the City's cash position.

Effect: Communication of financial and compliance results is unclear, the potential for revenue and expense understatement exists, the potential for misstating financial statements increases based on the lack of the performance monitoring at the site and entity levels.

Recommendation: The City of Dellwood should consider expanding the budget reporting to reflect the multiple funds and the budgeted cash position. We recommend the City of Dellwood should evidence the monitoring function.

**2011-2 Finding: Budgets are neither Revised nor Authorized to Make Line Item Budget Changes**

Condition: Numerous budgeted line items incur changes from the budgeted amounts. The City has not adopted a policy to indicate at what criteria constitute a variance sufficient to initiate an authorized budget change. The authorization of the material line items changes has not been documented.

Criteria: OMB A-110 Sec. 215.51 Monitoring and reporting program performance. (a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. (1) A comparison of actual accomplishments with the goals and objectives established for the period, the findings of the investigator, or both. Whenever appropriate and the output of programs or projects can be readily quantified, such quantitative data should be related to cost data for computation of unit costs. (2) Reasons why established goals were not met, if appropriate.

Cause: City receives multiple restricted and unrestricted sources of tax receipts, fee for service receipts, and varying fees for licenses, permits, and court related income. The City changes amounts disbursed to specific budgeted line items as the disbursement change occurs. Budget

changes are occasioned by the differences received in the multiple sources of receipts. The impact is to change the amount disbursed.

Effect: Disbursements occur as identified in the warrants. The disbursements may require transfers between line items to enable completion of the transaction process. The impact is communication of financial and compliance results is unclear, the potential for revenue and expense understatement exists, the potential for misstating financial statements analysis based on the lack of the accurate performance monitoring changes. The potential for noncompliance, materially overspending a budget or recording a loss in the fund, increases if the transfer between line items is not identified, authorized, and processed.

Recommendation: The City of Dellwood should consider expanding the budget reporting to reflect the multiple funds and the budgeted cash position. We recommend the City of Dellwood should evidence the monitoring function through providing criteria for initiating budget transfers.

### **Significant Control Deficiencies**

A significant weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in City of Dellwood's internal control to be significant deficiencies: a significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material

### **2011-3 Finding: Special Revenue Fund Transactions Processing is not Reflected**

Condition: Sewer Lateral, Capital Improvements, and Parks and Storm Water special revenue fund transfers stemming from the special revenue tax assessments records the receipt of the taxes in the general fund. The cash is transferred to the restricted cash account. The revenue is not recorded or reclassified to special revenue.

Criteria: (34 CFR sections 299.2(b)). Allowable Costs/Cost Principles; 15 CSR 40-1.010

Cause: The written fiscal and administrative requirements must: (a) be sufficiently specific to ensure that funds are used in compliance with all applicable statutory and regulatory provisions, including ensuring that costs are allocable to a particular cost objective; (b) ensure that funds received are spent only for reasonable and necessary costs of the program;

Effect: The Parks and Storm Water sales tax assessment, the Sewer Lateral property tax assessment, and the CI sales tax assessment, had been recorded as associated general fund tax revenues. The special revenue component, included in the general fund, is never transferred to the associated special revenue fund subsequently requiring a transfer out to the special revenue fund. The potential increases for misstating the basic financial statement reporting and understating the City's special revenue obligations and net assets.

Recommendation: We recommend the City consider expanding the chart of accounts to reflect the supported TIF activity.

**2011-4 Finding: TIF Transactions Processing is not Reflected**

Condition: EATS TIF transfers stemming from CI sales tax increases had been recorded as CI sales tax revenues instead of transferring to the associated restricted revenues

Criteria: (34 CFR sections 299.2(b)). Allowable Costs/Cost Principles; 15 CSR 40-1.010

Cause: The written fiscal and administrative requirements must: (a) be sufficiently specific to ensure that funds are used in compliance with all applicable statutory and regulatory provisions, including ensuring that costs are allocable to a particular cost objective; (b) ensure that funds received are spent only for reasonable and necessary costs of the program;

Effect: The TIF component was never transferred to the TIF fund subsequently requiring a transfer out to TIF. The potential increases for misstating the basic financial statement reporting and understating the City's TIF obligation.

Recommendation: We recommend the City consider expanding the chart of accounts to reflect the supported TIF activity.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This information is intended solely for the use of the Audit/Ways & Means Committee, Board of Alderpersons, and management of the City of Dellwood and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

*CRWilliams & Associates LLC*

October 5, 2012