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CITY OF ST. LOUIS, MISSOURI
COMPTROLLER



COMPLIMENTS OF THE COMPTROLLER
DARLENE GREEN

INTRODUCTORY SECTION	<u>Page(s)</u>
Letter of Transmittal	I-VI
Certificate of Achievement for Excellence in Financial Reporting	VII
Elected Officials	VIII
Organization Charts	IX-X
 FINANCIAL SECTION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis – Required Supplementary Information	3-19
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	22
Statement of Activities	23
Fund Financial Statements:	
Balance Sheet – Governmental Funds	24
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Statement of Fund Net Assets – Proprietary Funds	28
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Statement of Fiduciary Net Assets – Fiduciary Funds	31
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	32
Notes to Basic Financial Statements	33-121
	<u>Schedule</u> <u>Page(s)</u>
Budgetary Comparison Information – Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	1 123-126
Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	2 127-128
Firemen's Retirement System of St. Louis and Employees' Retirement System of the City of St. Louis Information – Required Supplementary Information	3 129

June 30, 2004

	<u>Schedule</u>	<u>Page(s)</u>
Combining and Individual Fund Financial Statements and Schedules – Other Supplementary Information:		
Combining Balance Sheet – Nonmajor Governmental Funds	4	132
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	5	133
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:		
Special Revenue Funds – Nonmajor:		
Use Tax Fund – Unaudited	6	134
Transportation Fund – Unaudited	7	135
Convention and Tourism Fund – Unaudited	8	136
Licensed Gaming Program Fund – Unaudited	9	137
Assessor’s Office Fund – Unaudited	10	138
Lateral Sewer Program Fund – Unaudited	11	139
Tax Increment Financing Fund – Unaudited	12	140
Communications Division Fund – Unaudited	13	141
Other Budgeted Special Revenue Fund – Unaudited	14	142
Debt Service Fund – Nonmajor – Unaudited	15	143
Capital Projects Fund – Major – Unaudited	16	144
Schedule of Reconciling Items Between Change in Fund Balances – Budget Basis and Change in Fund Balances – GAAP Basis – Unaudited	17	145
Combining Statement of Net Assets – Internal Service Funds	18	148
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds	19	149
Combining Statement of Cash Flows – Internal Service Funds	20	150
Combining Statement of Fiduciary Net Assets – Pension Trust Funds	21	152
Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds	22	153
Combining Statement of Fiduciary Net Assets – Agency Funds	23	156
Combining Statement of Changes in Assets and Liabilities – Agency Funds	24	158-159
Discretely Presented Component Unit – Solid Waste Management and Development Corporation:		
Statement of Revenues, Expenses, and Changes in Net Assets	25	162
Statement of Cash Flows	26	163

STATISTICAL SECTION	<u>Table</u>	<u>Page(s)</u>
Government-wide Information:		
Government-wide Expenses by Function	1	165
Government-wide Revenues by Source	2	166
Fund Information:		
General Fund Expenditures by Function – Last Ten Fiscal Years	3	167
General Fund Revenues by Source – Last Ten Fiscal Years	4	168
General and Debt Service Funds – Property Tax Levies and Collection – Last Ten Fiscal Years	5	169
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	6	170
Property Tax Rates Per \$100 Assessed Value – Direct and Overlapping Governments – Last Ten Fiscal Years	7	171
Principal Taxpayers	8	172
Computation of Legal Debt Margin	9	173
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita – Last Ten Fiscal Years	10	174
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Fund Expenditures – Last Ten Fiscal Years	11	175
Computation of Direct and Overlapping Bonded Debt – General Obligation Bonds	12	176
Schedule of Revenue Bond Coverage – Last Ten Fiscal Years	13	177
Demographic Statistics – Last Ten Calendar Years	14	178
Property Value, Construction and Bank Deposits – Last Ten Fiscal Years	15	179
Miscellaneous Statistics	16	180-183
Comparison of Population Trends	17	184
St. Louis MSA Civilian Labor Force	18	185
Top Employers By Industry in Greater St. Louis	19	186
St. Louis MSA Business Establishments	20	187
Scheduled Air Carriers Serving the Airport	21	188
Airport Operating Revenues and Expenses for GARB Purposes	22	189
Passenger Facilities Charges	23	190
O&D and Connecting Enplanements	24	191

June 30, 2004

	<u>Table</u>	<u>Page(s)</u>
Domestic and International Enplanements	25	192
Airline Market Share	26	193
Historical Air Cargo	27	194
Summary of Airline Revenues, Cost Per Enplaned Passenger and Rates	28	195
Forecast Operation and Maintenance Expenses	29	196
Calculation of Annual Debt Service Coverage	30	197



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

212 City Hall
(314) 622-3297
FAX 622-4026

February 14, 2005

The Honorable Francis G. Slay, Mayor
The Honorable Members of the Board of Aldermen
and the Citizens of the City of St. Louis, Missouri:

The Comprehensive Annual Financial Report of the City of St. Louis, Missouri (City) for the fiscal year ended June 30, 2004 is hereby submitted.

This report has been prepared pursuant to, and to demonstrate compliance with, Article VIII, Section 10, of the City Charter. The Comprehensive Annual Financial Report (CAFR) is in conformance with the standards for financial reporting of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association of the United States and Canada (GFOA).

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operation. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City's basic financial statements have been audited by KPMG LLP, an independent certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the City for the fiscal year ended June 30, 2004, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's basic financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditors' report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD & A). This letter of transmittal is designed to compliment MD & A and should be read in conjunction with it. The City's MD & A can be found immediately following the report of the independent auditors.



REPORTING ENTITY

The City, an independent municipality not within any county of the State of Missouri, provides a full range of municipal as well as county services to the residents and businesses located within its borders. For financial reporting purposes, the City has included all funds, agencies, commissions, and boards for which, in the opinion of City officials, the City is financially accountable. The City is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either is able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific burden on, the primary government. In addition, the City is financially accountable for organizations that are fiscally dependent on it.

A number of other legally separate not-for-profit organizations are responsible for the provision of specific public services such as public financing. Due to the nature of the operations of not-for-profit organizations, they are considered to be component units of the City and are blended within the City's reporting entity for financial reporting purposes.

Police protection is provided to the residents of the City by the Metropolitan Police Department of the City (Police Department), the affairs of which are administered by an independent board appointed by the Governor of the State of Missouri. Although the activities of the Police Department are totally dependent on financial resources appropriated by and approved by the City's Board of Aldermen, the Police Department is a legally separate entity and is presented as a discrete component unit.

The St. Louis Development Corporation (SLDC), a not-for-profit organization which handles economic development, Harry S. Truman Restorative Center (HSTRC), a skilled nursing facility operated as a not-for-profit entity supported by the City and located in a City-owned building, and Solid Waste Management and Development Corporation (SWMDC), owner of the downtown underground pressurized steam transport pipe known as the steam loop, are also presented as discrete component units. The HSTRC ceased operations on May 31, 2003.

CAFR FORMAT

There are three main sections in this report:

The Introductory Section includes this transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting, a list of elected officials and the Comptroller's and the City's organizational charts.

The Financial Section includes the independent auditors' report, MD&A, basic financial statements for the City including footnotes, required supplementary information, as well as other supplementary information.

The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

ACCOUNTING SYSTEM, INTERNAL CONTROLS, AND BUDGETARY CONTROL

The City utilizes a fully computerized Accounting Information Management System (AIMS). This system is based on a single input of information. The AIMS system provides: 1) integrated, general and subsidiary accounting of all funds; 2) appropriation/encumbrances accounting and control; and 3) the ability to generate cost/expenditure data in a multitude of formats useful for budgetary control and other managerial purposes.

In developing and evaluating the City's accounting system, consideration was given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

- The safeguarding of assets against loss from unauthorized use or disposition, and
- The reliability of financial records for preparing financial statements and maintaining accountability for assets.
- The concept of reasonable assurance recognizes that:
 - The cost of a control should not exceed the benefits likely to be derived, and
 - The evaluation of assets and benefits requires estimates and judgements by management.

All internal control evaluations occur within this framework. Therefore, the Comptroller's Office believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Through annual appropriations, the City maintains budgetary control at the fund level. Cost classifications are categorized in the following groups: personnel services, materials and supplies, rental and non-capital leases, non-capital equipment, capital assets, contractual and other services, and debt service and special extraordinary items.

Encumbrances are recorded by the Control Section (or in some cases by the requesting department) through an on-line budgetary control module before requisitions are sent to the Purchasing Division. If sufficient appropriations are not available to cover a purchase, the requisitions is returned to the originating department for transfer of appropriations between departments with prior approval of the Board of Estimate and Apportionment (E&A). A formal monthly expense monitoring procedure has been established to help eliminate rejected requisitions and related cancellations, and to minimize line item transfers. Encumbrances are detailed for current year budgetary presentations. While appropriation balances lapse at the end of the fiscal year, appropriation balances for encumbrances remain.

BUDGET PROCESS

The City's fiscal year is July 1 through June 30. The budget process begins in the preceding December with a revenue forecast for the upcoming fiscal year. By February, department budget requests are submitted to the Budget Division, and the review process begins immediately.

The Budget Division works closely with E&A in developing, within forecasted revenue constraints, the proposed budget. By law, E&A must recommend a balanced budget to the Board of Aldermen (the Board), the City's legislative body, sixty days prior to the start of a new fiscal year. The Board may decrease but not increase any recommended appropriation amount. The Board, however, may recommend changes in the proposed budget. Any changes must be mutually agreed upon between the Board and E&A. If a budget cannot be agreed upon prior to July 1, the final budget presented by E&A becomes the official budget.

ECONOMIC OUTLOOK

The City is the core of a twelve county metropolitan area covering parts of both Missouri and Illinois (MSA). It is the employment and entertainment center of an area containing a population of more than 2.7 million residents. Its 24 million square feet of downtown office space have an occupancy rate of 80%. According to the Missouri Department of Labor and Industrial Relations there are approximately 1.3 million non-agricultural jobs in the MSA with 60,000 new jobs having been created in the past 5 years. Although the distribution of jobs across industry sectors has resulted in a decline in the City's share of jobs in the metropolitan area, the City remains a significant source of jobs in the region with nearly 20% of all the jobs. Job growth in the City has been in the service sector and the expectation is that long term employment growth in the City will be in the areas of medical and business services, as well as convention and tourism business.

RISK MANAGEMENT

The City uses a combination of insurance and self-insurance for risk protection. Certain coverage has been obtained for high-risk activities or as required by law. All general liability cases are handled by the City Counselor's Office. The City's staff of attorneys attempts to settle or defend all claims made against the City. Each year an appropriation is made to a judgement account which is segregated in the Public Facilities Protection Corporation (PFPC), a not-for-profit corporation. PFPC implements programs to assure continued municipal and governmental services, which could be jeopardized by the escalating costs of insurance and /or exposure to claims and judgements that exceed fiscal abilities. It is administered by three City officials representing the Office of the Comptroller, the City Counselor's Office and the Budget Division, and treated as a blended component unit of the City. These officials are responsible for obtaining and maintaining adequate funding and reserves.

Additionally, PFPC administers all workers' compensation liabilities. A third party administrator was contracted to process all claims and make recommendations regarding workers' compensation concerns. The utilization of a third party administrator working with improved City safety efforts has resulted in a reduction in the number and severity of workers' compensation claims. This has also enabled the City to more timely process claims and payments, as well as provide more timely and accurate statistical data.

The City was self-insured for its employee's health insurance until June 2004. An internal service fund was established to account for payment of health insurance claims for participants and is currently active to pay residual claims.

INTERNAL AUDIT

It is the special responsibility of the Comptroller, as set out in the Charter, to provide City officials and taxpayers with reasonable assurance that public funds and property are adequately safeguarded and that financial transactions are authorized and properly recorded.

The Comptroller's internal audit staff audits various departments within the City testing for the methods employed by the department to safeguard the assets, ensuring the reliability of the accounting data, promoting efficient operations and ensuring compliance with established ordinances and the City Charter. Audits may also be performed on various corporations and not-for-profit organizations to ensure compliance with the various contractual agreements with the City. In addition to audits, the internal audit staff reviews the revenue collection procedures established by those departments and employees who receive or collect City revenue. As a result of these audits and reviews, the internal auditors develop recommendations of procedures that should be implemented to improve internal controls. These audits and reviews are performed on a continual basis.

CERTIFICATE OF ACHIEVEMENT

The City's CAFR for the fiscal year ended June 30, 2003 was awarded the Certificate of Achievement for Excellence in Financial Reporting from the GFOA. This is the seventeenth year the City has received this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe that our current CAFR will continue to meet the Certificate of Achievement Program requirements and we will be submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENT

I would like to express my appreciation to the staff members of the Comptroller's Office who assisted in the preparation of this report. I also extend my appreciation to the independent accounting firm of KPMG LLP whose many hours of professional service enabled this report to be produced. Contributions to the completion and publication of this financial history were made by staff of other departments to whom I also express my appreciation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Darlene Green". The signature is written in black ink and is positioned to the left of the printed name and title.

Darlene Green
Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of St. Louis,
Missouri

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielle

President

Jeffrey R. Emmer

Executive Director

The City of St. Louis, Missouri
Elected Officials
June 30, 2004



BOARD OF ALDERMEN

(Aldermen listed to numerical order by ward)

Francis G. Slay
Mayor

Darlene Green
Comptroller

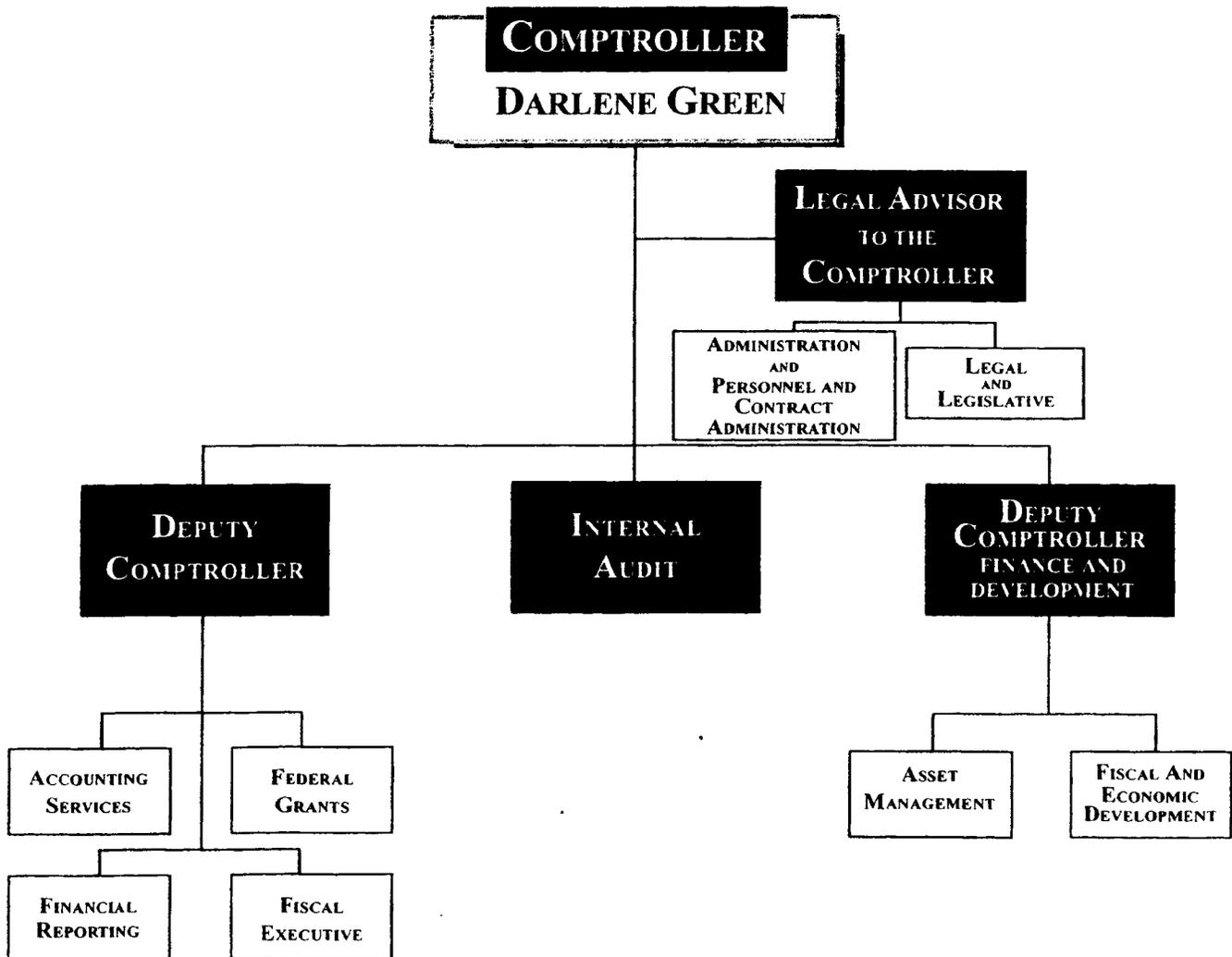
James F. Shrewsbury
President, Board of Aldermen

Irene J. Smith
Dionne Flowers
Freeman Bosley, Sr.
Peggy Ryan
April Ford-Griffin
Lewis E. Reed
Phyllis Young
Stephen Conway
Kenneth Ortmann
Joseph Vollmer
Matt Villa
Fred Heitert
Alfred Wessels, Jr.
Stephen Gregali

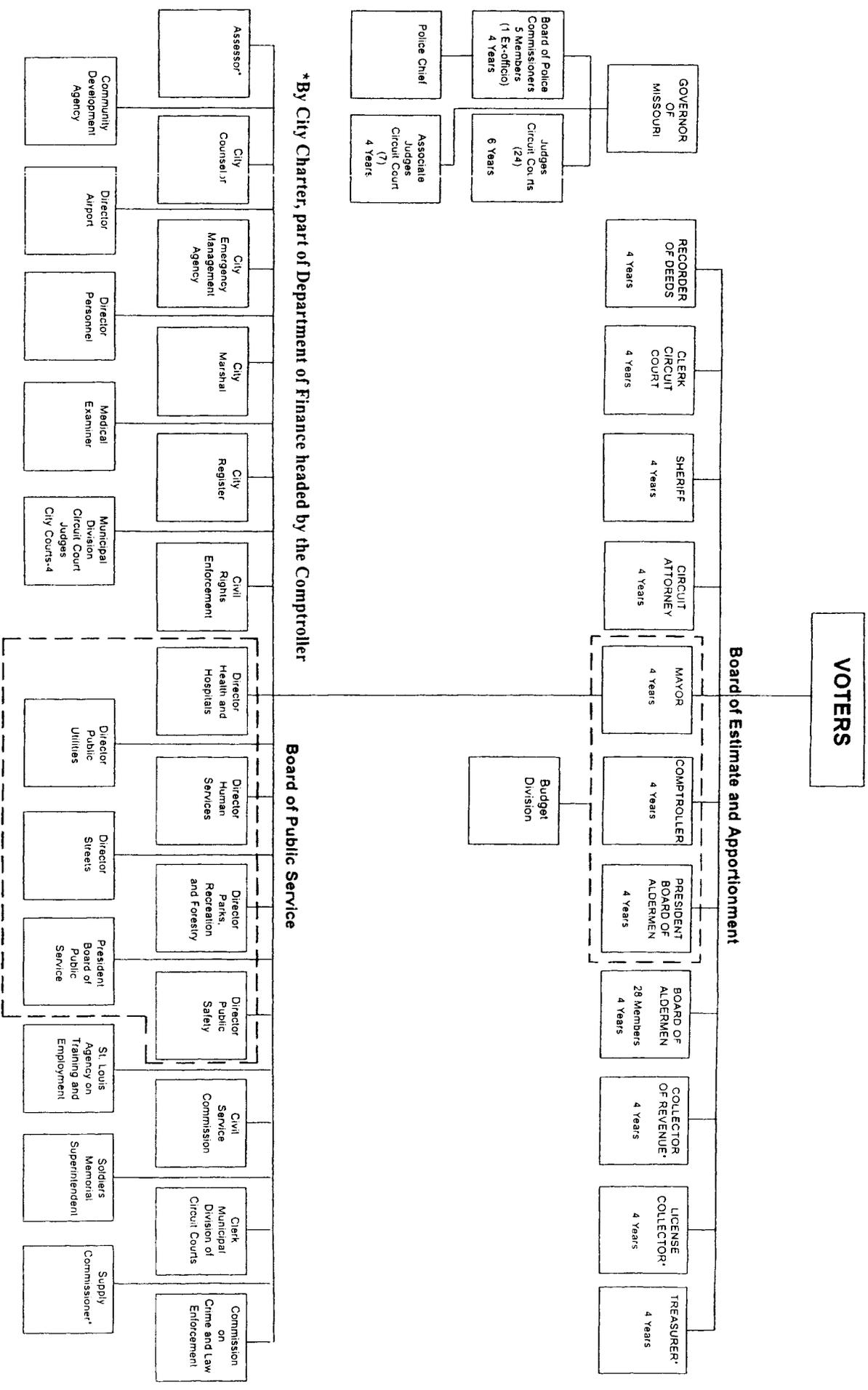
Jennifer Florida
Donna Baringer
Joseph D. Roddy
Terry Kennedy
Michael McMillan
Craig Schmid
Bennice Jones King
Jeffrey Boyd
Kathleen Hanrahan
Thomas Bauer
Dorothy Kirner
Frank Williamson
Gregory Carter
Lyda Krewson



City of St. Louis
Office of the Comptroller



City of St. Louis, Missouri Government



* By City Charter, part of Department of Finance headed by the Comptroller

Board of Public Service