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NEWS RELEASE

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FOR RELEASE

Short & Company CPA, P.L.C. today released an audit report on the City of Desoto, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,846,695 for the year ended June 30, 2006. The receipts included \$177,414 in property tax, \$258,844 from tax increment financing collections, \$16,108 from other city taxes, \$333,266 from charges for service, \$107,766 from operating grants, contributions and restricted interest, \$19,128 from unrestricted interest on investments, \$872,810 from bond proceeds, \$13,043 from special assessments and \$48,316 from other general receipts.

Disbursements for the year totaled \$2,168,779, and included \$597,284 for debt service, \$432,848 for community and economic development, and \$223,947 for public safety. Also, disbursements for business type activities totaled \$305,934.

A copy of the audit report is available for review in the City Clerk's Office, the Office of Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF DE SOTO
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

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City of De Soto

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Matthew Glanz	Mayor	Jan 2006
Dale Dippold	Mayor Pro tem	Jan 2008
Matt Boston	Council Member	Jan 2006
Don Kinnison	Council Member	Jan 2006
Mark Brady	Council Member	Jan 2008
Jim Michael	Council Member	Jan 2008
(After January 2006)		
Matthew Glanz	Mayor	Jan 2010
Dale Dippold	Mayor Pro tem	Jan 2008
Darold Ostrander	Council Member	Jan 2008
Kory Michael	Council Member	Jan 2008
Matt Boston	Council Member	Jan 2010
Don Kinnison	Council Member	Jan 2010
Tina Gilbert	Clerk/Treasurer	Indefinite
Bryan Jennings	Attorney	Indefinite

City of De Soto



"Our Goal is Client Success"

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of De Soto, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of De Soto's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards 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 our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of De Soto as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the *basis of accounting described in Note 1*.

As described in Note 10, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2007 on our consideration of the City of De Soto's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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 De Soto's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Short & Company, CPA, P.L.C.

March 16, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of De Soto provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$304,000, due primarily to a sewer debt obligation bond payment.
- The cash basis net assets of the City's business type activities decreased approximately \$18,000 due to inadequate utility rates and capital equipment purchases.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor special revenue funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

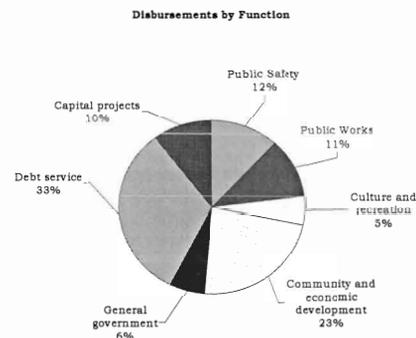
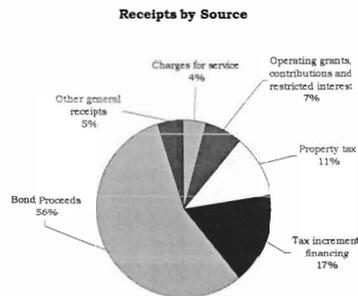
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$414,857 to \$110,452. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2006
Receipts and transfers:		
Program receipts:		
Charges for service		\$ 67
Operating grants, contributions and restricted interest		108
General receipts:		
Property tax		177
Tax increment financing		259
Bond Proceeds		872
Other general receipts		75
Total receipts and transfers		<u>1,558</u>
Disbursements:		
Public Safety		224
Public Works		205
Culture and recreation		96
Community and economic development		433
General government		115
Debt service		597
Capital projects		192
Total disbursements		<u>1,862</u>
Decrease in cash basis net assets		(304)
Cash basis net assets beginning of year		<u>414</u>
Cash basis net assets end of year		<u>\$ 110</u>

The cash basis net assets for the City's governmental funds decreased primarily due to a sewer debt obligation bond payment.



Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	\$ 266
Sewer	9
General receipts:	
Unrestricted interest on investments	13
Total receipts	<u>288</u>
Disbursements:	
Water	178
Sewer	128
Total disbursements	<u>306</u>
Decrease in cash basis net assets	(18)
Cash basis net assets beginning of year	<u>375</u>
Cash basis net assets end of year	<u>\$ 357</u>

The total business type activities cash basis net assets decreased from a year ago, decreasing from \$375,102 to \$357,423. The cash basis net assets of the City's business type activities decreased primarily due to inadequate utility rates and capital equipment purchases.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of De Soto completed the year, its governmental funds reported a combined fund balance of \$110,452, a decrease of more than \$304,000 below last year's total of \$414,857. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$201,789 from the prior year to \$(455,485). This decrease is due to the city council budgeting expenditures in excess of revenues.
- The Road Use Tax Fund cash balance decreased by \$50,462 to \$93,381 during the fiscal year. This decrease was attributable to street projects and capital purchases.
- The Tax Increment Financing Fund cash balance increased \$3,071 to \$363,854 during the fiscal year.
- The Economic Development Fund cash balance increased \$104,790 from the prior year to \$54,532. This increase was the result of bond proceeds remaining at the end of the year. Remaining funds will be used to complete the existing project.

- The Debt Service Fund cash balance decreased by \$3,080 to \$18,451 during the fiscal year.
- The Capital Projects Fund cash balance decreased by \$160,028 to \$7,066 during the fiscal year. This decrease was due to capital projects being completed.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$20,123 to \$124,590, due primarily to inadequate utility rates and errors made in expenditure classifications.
- The Sewer Fund cash balance increased by \$2,444 to \$232,833.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2006 and resulted in an increase in operating disbursements related to five functions of approximately \$754,000 for a sewer extension project, City Hall and library building maintenance, park improvements, and professional services. The City issued debt to cover these additional costs.

The City's receipts were \$800,405 less than budgeted receipts. The variance is caused by several factors.

- 1) Bond proceeds from a \$480,000 bond issuance were budgeted as miscellaneous revenue rather than other financing sources.
- 2) It was difficult to budget for Tax Increment Financing proceeds as the amount to be collected was unknown. The City now receives an anticipated receipts report from the County to help with budgeting.
- 3) The City budgeted \$240,000 for a housing grant which represented the remaining amount the City could draw. The grant reimburses the City for actual expenditures and approximately \$50,000 was spent in FY2006, \$190,000 less than budgeted. In addition, the request for reimbursement for the expenditures was not sent until FY2007.
- 4) Revenues for building permits were budgeted based on the number of homes developers had indicated would be built in FY2006, however, the number of homes anticipated to be built was not reached.

The disbursements were \$493,081 less than budgeted due to several factors:

- 1) The City budgeted \$240,000 for a housing grant which represented the amount the City had remaining in its grant budget. However, actual expenditures were approximately \$50,000, \$190,000 less than budgeted.
- 2) The economic development project that the City is undertaking at 1202 Guthrie was budgeted for the full project. The project was not completed by fiscal year end.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$1,277,000 in long-term notes, as follows:

Outstanding Debt at Year-End	
	June 30, 2006
General obligation capital loan notes	\$ 1,090,000
Revenue capital loan notes	187,000
Total	<u>\$ 1,277,000</u>

City debt payments in FY2006 reduced outstanding debt by \$571,000. Debt increased as a result of issuing general obligation bonds for economic development. In addition, the City issued bonds in order to make payment in full on a previous bond issuance.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,090,000 is below its constitutional debt limit of \$1,546,971.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of De Soto's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities. The City's FY2007 assessed value has increased \$2,542,727 from the FY2006 level.

The FY2007 budget contains total revenues of \$1,589,042 and expenditures of \$1,489,689. This budget is lower than the original FY2006 budget which contained total revenues of \$1,769,037 and expenditures of \$1,930,043. The decrease is due to the lack of capital projects and the related funding that were present in FY2006.

The proposed FY2007 levy is \$14.692 per \$1,000 of assessed valuation, an increase from \$14.66005 per \$1,000 of assessed valuation in FY2006. The employee benefit levy increased from \$4.11204 per \$1,000 of assessed valuation in FY2006 to \$4.21253 per \$1,000 of assessed valuation in FY2007 due to personnel changes and the increase in cost of benefits. The debt service levy decreased from \$1.11632 per \$1,000 of assessed valuation in FY2006 to \$0.87169 per \$1,000 of assessed valuation in FY2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tina Gilbert, City Clerk, P.O. Box 100, De Soto, Iowa 50069.

Basic Financial Statements

City of De Soto

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public Safety	\$ 223,947	8,349	9,932
Public Works	205,343	53,690	84,479
Culture and recreation	96,281	1,378	13,355
Community and economic development	432,848	-	-
General government	115,159	-	-
Debt service	597,284	-	-
Capital projects	191,983	3,533	-
Total governmental activities	1,862,845	66,950	107,766
Business type activities:			
Water	177,905	144,540	-
Sewer	128,029	121,776	-
Total business type activities	305,934	266,316	-
Total	\$ 2,168,779	333,266	107,766

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Other city tax
 Special assessments
 Unrestricted interest on investments
 Bond proceeds
 Miscellaneous
 Total general receipts and transfers
 Change in cash basis net assets
 Cash basis net assets beginning of year
 Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Recreational & Cultural Facilities
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(205,666)	-	(205,666)
(67,174)	-	(67,174)
(81,548)	-	(81,548)
(432,848)	-	(432,848)
(115,159)	-	(115,159)
(597,284)	-	(597,284)
(188,450)	-	(188,450)
(1,688,129)	-	(1,688,129)
-	(33,365)	(33,365)
-	(6,253)	(6,253)
-	(39,618)	(39,618)
(1,688,129)	(39,618)	(1,727,747)
156,175	-	156,175
258,844	-	258,844
21,239	-	21,239
16,108	-	16,108
13,043	-	13,043
6,574	12,554	19,128
872,810	-	872,810
38,931	9,385	48,316
1,383,724	21,939	1,405,663
(304,405)	(17,679)	(322,084)
414,857	375,102	789,959
\$ 110,452	357,423	467,875
93,381	-	93,381
363,854	-	363,854
18,451	-	18,451
23,074	-	23,074
83,185	-	83,185
(471,493)	357,423	(114,070)
\$ 110,452	357,423	467,875

City of De Soto

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue			
	General	Road Use Tax	Tax Increment Financing	Economic Development
Receipts:				
Property tax	\$ 108,117	-	-	-
Tax increment financing	-	-	258,844	-
Other city tax	16,108	-	-	-
Licenses and permits	9,257	-	-	-
Use of money and property	15,654	-	-	-
Intergovernmental	13,564	84,479	-	-
Charges for service	55,438	-	-	-
Special assessments	2,415	-	-	-
Miscellaneous	26,033	-	-	-
Total receipts	246,586	84,479	258,844	-
Disbursements				
Operating:				
Public Safety	191,988	-	-	-
Public Works	60,540	134,941	-	-
Culture and recreation	91,350	-	-	-
Community and economic development	1,179	-	63,639	368,030
General government	107,098	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	452,155	134,941	63,639	368,030
Excess of receipts over disbursements	(205,569)	(50,462)	195,205	(368,030)
Other financing sources(uses):				
Bond proceeds	-	-	-	472,820
Operating transfers in	3,780	-	-	-
Operating transfers out	-	-	(192,134)	-
Total other financing sources(uses)	3,780	-	(192,134)	472,820
Net change in cash balances	(201,789)	(50,462)	3,071	104,790
Cash balances beginning of year	(253,696)	143,843	360,783	(50,258)
Cash balances end of year	\$ (455,485)	93,381	363,854	54,532
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	(455,485)	-	-	-
Special revenue funds	-	93,381	363,854	54,532
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ (455,485)	93,381	363,854	54,532

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
21,239	-	48,058	177,414
-	-	-	258,844
-	-	-	16,108
-	-	-	9,257
-	-	46	15,700
-	-	6,074	104,117
-	-	-	55,438
13,043	3,533	-	18,991
-	-	3,728	29,761
<u>34,282</u>	<u>3,533</u>	<u>57,906</u>	<u>685,630</u>
-	-	31,959	223,947
-	-	9,862	205,343
-	-	4,931	96,281
-	-	-	432,848
-	-	8,061	115,159
597,284	-	-	597,284
-	191,983	-	191,983
<u>597,284</u>	<u>191,983</u>	<u>54,813</u>	<u>1,862,845</u>
(563,002)	(188,450)	3,093	(1,177,215)
399,990	-	-	872,810
159,932	32,202	-	195,914
-	(3,780)	-	(195,914)
<u>559,922</u>	<u>28,422</u>	<u>-</u>	<u>872,810</u>
(3,080)	(160,028)	3,093	(304,405)
21,531	167,094	25,560	414,857
<u>18,451</u>	<u>7,066</u>	<u>28,653</u>	<u>110,452</u>
18,451	-	-	18,451
-	-	-	(455,485)
-	-	28,653	540,420
-	7,066	-	7,066
<u>18,451</u>	<u>7,066</u>	<u>28,653</u>	<u>110,452</u>

City of De Soto

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 144,540	121,776	266,316
Miscellaneous	6,965	2,420	9,385
Total operating receipts	<u>151,505</u>	<u>124,196</u>	<u>275,701</u>
Operating disbursements:			
Business type activities	177,905	128,029	305,934
Total operating disbursements	<u>177,905</u>	<u>128,029</u>	<u>305,934</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(26,400)</u>	<u>(3,833)</u>	<u>(30,233)</u>
Non-operating receipts (disbursements)			
Interest on investments	6,277	6,277	12,554
Total non-operating receipts (disbursements)	<u>6,277</u>	<u>6,277</u>	<u>12,554</u>
Net change in cash balances	(20,123)	2,444	(17,679)
Cash balances beginning of year	144,713	230,389	375,102
Cash balances end of year	<u>\$ 124,590</u>	<u>232,833</u>	<u>357,423</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ 88,804	-	88,804
Unreserved	35,787	232,833	268,620
Total cash basis fund balances	<u>\$ 124,591</u>	<u>232,833</u>	<u>357,424</u>

See notes to financial statements.

City of De Soto

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of De Soto is a political subdivision of the State of Iowa located in Dallas County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of De Soto has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of De Soto (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The following component unit is an entity that is legally separate from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

The De Soto Volunteer Fire and Rescue Department has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purposes of aiding in the extinguishing of fires and performing such other duties as set forth by the De Soto Fire Department. In accordance with the criteria set by the Governmental Accounting Standards Board, the De Soto Volunteer Fire and Rescue Department meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Dallas County Assessor's Conference Board and Dallas County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Economic Development Fund is used for various projects undertaken by the City to develop economic prospects of the City.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for the various major capital and construction projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of De Soto maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes and Loans Payable

Annual debt service requirements to maturity for general obligation capital loan notes and the water revenue capital loan notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Water Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 435,000	64,669	33,000	7,787	468,000	72,456
2008	515,000	33,319	33,000	6,229	548,000	39,548
2009	40,000	6,913	8,000	4,646	48,000	11,559
2010	25,000	4,852	8,000	4,339	33,000	9,191
2011	20,000	3,755	9,000	4,032	29,000	7,787
2012-2016	55,000	4,989	50,000	14,746	105,000	19,735
2017-2020	-	-	46,000	4,493	46,000	4,493
Total	\$ 1,090,000	118,497	187,000	46,272	1,277,000	164,769

The resolution providing for the issuance of the 1998 water revenue capital loan notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water revenue sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water revenue reserve account shall be established in the minimum amount of \$25,000 from a portion of the note proceeds. This account is restricted for the purpose of making the note principal and interest payments when insufficient funds are available in the sinking account.
- (d) Additional monthly transfers of \$250 shall be made to the water capital improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

The resolution providing for the issuance of the 2001 water revenue capital loan notes issued under a loan agreement between the City of De Soto, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue sinking account for the purpose of making the note principal and interest payment when due.
- (c) Additional monthly transfers shall be made to a separate water revenue reserve account until a specific minimum balance has been accumulated. This account is used solely for the purpose of paying principal and interest of the notes when insufficient funds are available in the sinking account.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006 was \$17,387, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal leave and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and personal leave and compensatory termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 5,280
Personal	587
Compensatory time	<u>1,503</u>
Total	<u>\$ 7,370</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Capital Projects	\$ 3,780
Debt Service	Special Revenue: Tax Increment Financing	159,932
Capital Projects	Special Revenue Tax Increment Financing	32,202
Total		\$ 195,914

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,918 during the year ended June 30, 2006.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2006.

(9) Deficit Balance

The General Fund had a deficit balance of \$445,485 at June 30, 2006. The City is investigating options for eliminating the deficit.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – for Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 42, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary Information

City of De Soto
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 177,414	-	-
Tax increment financing collections	258,844	-	-
Other city tax	16,108	-	-
Licenses and permits	9,257	-	-
Use of money and property	15,700	12,554	-
Intergovernmental	104,117	-	-
Charges for service	55,438	266,316	-
Special assessments	18,991	-	-
Miscellaneous	29,761	9,385	2,353
Total receipts	685,630	288,255	2,353
Disbursements:			
Public safety	223,947	-	3,286
Public works	205,343	-	-
Health and social services	-	-	-
Culture and recreation	96,281	-	-
Community and economic development	432,848	-	-
General government	115,159	-	-
Debt service	597,284	-	-
Capital projects	191,983	-	-
Business type activities	-	305,934	-
Total disbursements	1,862,845	305,934	3,286
Excess (deficiency) of receipts over (under) disbursements	(1,177,215)	(17,679)	(933)
Other financing sources, net	872,810	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(304,405)	(17,679)	(933)
Balances beginning of year	414,857	375,102	12,641
Balances end of year	\$ 110,452	357,423	11,708

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
177,414	160,723	160,723	16,691
258,844	329,234	329,234	(70,390)
16,108	21,145	26,145	(10,037)
9,257	32,137	32,137	(22,880)
28,254	16,110	16,110	12,144
104,117	121,908	121,908	(17,791)
321,754	589,335	589,335	(267,581)
18,991	14,095	14,095	4,896
36,793	459,250	482,250	(445,457)
971,532	1,743,937	1,771,937	(800,405)
220,661	200,061	200,061	(20,600)
205,343	248,073	248,073	42,730
-	-	-	-
96,281	84,577	86,527	(9,754)
432,848	805,000	831,668	398,820
115,159	98,738	114,638	(521)
597,284	76,973	595,986	(1,298)
191,983	25,300	215,300	23,317
305,934	366,321	366,321	50,387
2,165,493	1,905,043	2,658,574	493,081
(1,193,961)	(161,106)	(886,637)	(307,324)
872,810	100	396,320	476,490
(321,151)	(161,006)	(490,317)	169,166
777,318	340,995	777,833	(515)
456,167	179,989	287,516	168,651

City of De Soto

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$753,531. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

Other Supplementary Information

Schedule 1

City of De Soto

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Special Revenue Funds

As of and for the year ended June 30, 2006

	Employee Benefits	Library Trust	Forfeiture	De Soto Volunteer Fire Dept., Inc.	Total
Receipts					
Property tax	\$ 48,058	-	-	-	48,058
Use of money and property	-	46	-	-	46
Intergovernmental	-	6,074	-	-	6,074
Charges for services	-	-	-	-	-
Miscellaneous	-	175	1,200	2,353	3,728
Total receipts	48,058	6,295	1,200	2,353	57,906
Disbursements:					
Operating:					
Public safety	28,673	-	-	3,286	31,959
Public works	9,862	-	-	-	9,862
Culture and recreation	4,911	20	-	-	4,931
General government	8,061	-	-	-	8,061
Total disbursements	51,507	20	-	3,286	54,813
Excess (deficiency) of receipts over (under) disbursements	(3,449)	6,275	1,200	(933)	3,093
Cash balances beginning of year	11,331	1,588	-	12,641	25,560
Cash balances end of year	\$ 7,882	7,863	1,200	11,708	28,653
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 7,882	7,863	1,200	11,708	28,653
Total cash basis fund balances	\$ 7,882	7,863	1,200	11,708	28,653

See accompanying independent auditor's report.

City of De Soto

City of De Soto
 Schedule of Indebtedness
 Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan note:			
Highway #169 Project	Nov 1, 1999	4.40-6.00%	\$ 240,000
Sewer Extension	Feb 1, 2003	1.00-1.75%	500,000
Fire Truck	Sep 1, 2003	4.10-4.40%	116,000
Sewer Relief	Aug 1, 2004	2.50%	400,000
Economic Development (TIF)	Feb 1, 2006	5.10%	480,000
Sewer Relief Refunding	May 30, 2006	3.90%	400,000
Total			
Revenue capital loan notes			
Water	Feb 1, 1998	4.15-5.10%	\$ 250,000
Water	Mar 13, 2001	3.84%	178,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
140,000	-	20,000	120,000	7,845
135,000	-	135,000	-	2,363
106,000	-	16,000	90,000	4,377
400,000	-	400,000	-	10,000
-	480,000	-	480,000	-
-	400,000	-	400,000	-
\$ 781,000	880,000	571,000	1,090,000	24,584
75,000	-	25,000	50,000	3,750
144,000	-	7,000	137,000	5,530
\$ 219,000	-	32,000	187,000	9,280

City of De Soto
Bond and Note Maturities
June 30, 2006

General Obligation Capital Loan Notes				
Year Ending June 30,	Highway #169 Project Issued Nov 1, 1999		Fire Truck Issued Sep 1, 2003	
	Interest Rates	Amount	Interest Rates	Amount
2007	5.40 %	\$ 20,000	4.40 %	\$ 15,000
2008	5.50	25,000	4.40	10,000
2009	5.60	25,000	4.40	15,000
2010	5.70	10,000	4.10-4.40	15,000
2011	5.80	10,000	4.10-4.20	10,000
2012	5.90	10,000	4.20-4.30	10,000
2013	6.00	10,000	4.30-4.35	15,000
2014	6.00	10,000		-
Total		<u>\$ 120,000</u>		<u>\$ 90,000</u>

Revenue Capital Loan Notes					
Year Ending June 30,	Water Issued Feb 1, 1998		Water Issued Mar 13, 2001		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	5.00 %	\$ 25,000	3.84 %	\$ 8,000	\$ 33,000
2008	5.10	25,000	3.84	8,000	33,000
2009		-	3.84	8,000	8,000
2010		-	3.84	8,000	8,000
2011		-	3.84	9,000	9,000
2012		-	3.84	9,000	9,000
2013		-	3.84	10,000	10,000
2014		-	3.84	10,000	10,000
2015		-	3.84	10,000	10,000
2016		-	3.84	11,000	11,000
2017		-	3.84	11,000	11,000
2018		-	3.84	11,000	11,000
2019		-	3.84	12,000	12,000
2020		-	3.84	12,000	12,000
Total		<u>\$ 50,000</u>		<u>\$ 137,000</u>	<u>\$ 187,000</u>

See accompanying independent auditor's report.

Economic Development		Sewer Relief Refunding		Total
Issued Feb 1, 2006		30-May-06		
Interest Rates	Amount	Interest Rates	Amount	
5.10 %	\$ -	3.90 %	\$ 400,000	\$ 435,000
5.10	480,000		-	515,000
	-		-	40,000
	-		-	25,000
	-		-	20,000
	-		-	20,000
	-		-	25,000
	-		-	10,000
	<u>\$ 480,000</u>		<u>\$ 400,000</u>	<u>\$ 1,090,000</u>

City of De Soto



"Our Goal is Client Success"

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of De Soto, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 16, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards 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 of De Soto's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of De Soto's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of De Soto and other parties to whom the City of De Soto may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of De Soto during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Short & Company, CPA, P.C.

March 16, 2007

City of De Soto

City of De Soto

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over one or more of the following areas:

- (1) Accounting system – performance of all accounting functions and custody of assets.
- (2) Cash – preparing bank account reconciliations, cash receipt and disbursement functions, handling and recording cash.
- (3) Receipts – collecting, depositing, journalizing and recording.
- (4) Utility receipts – billing, collecting, depositing and recording.
- (5) Payroll – authorization of timesheets, recording timesheets, and disbursement functions.
- (6) Disbursements – receipt of invoices, recording, and disbursement functions.
- (7) Computer usage – performance of all general accounting functions and overall control of data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Upon review of internal controls, changes have been implemented to obtain maximum internal controls within our abilities with current personnel.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

City of De Soto

Schedule of Findings

Year ended June 30, 2006

Response – The City implemented utility billing reconciliations in January 2007 that are reviewed by the City Council.

Conclusion – Response accepted.

(C) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

- (1) The City does not have written policies regarding personal software being installed on City-owned computers, or logging off unattended computers.
- (2) Passwords are not periodically changed and computers are not always password protected before being left unattended.
- (3) The City does not have a disaster recovery plan in place.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems. In addition, passwords should be periodically changed and computers should always be password protected before leaving unattended. Also, a written disaster recovery plan should be developed and kept off-site.

Response – The City will review and develop written electronic policies. In January 2007, the City implemented the requirement to change passwords every 30 days and to logging off when away from workstations. The City has also implemented a disaster recovery plan in January 2007.

Conclusion – Response accepted.

(D) Accounting Policies and Procedures Manuals – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Help achieve uniformity in accounting and in the application of policies and procedures.
- (2) Save supervisory time by recording decisions so that they will not have to be made each time the same or similar situation arises.
- (3) Aid in training additional or replacement personnel.

City of De Soto

Schedule of Findings

Year ended June 30, 2006

Response – The City is currently developing an accounting policies and procedures manual.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of De Soto

Schedule of Findings

Year ended June 30, 2006

Findings Related to Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, cultural and recreation, general government and debt service functions. In addition, capital projects function budget was exceeded prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City has implemented monthly reviews for budget to actual to ensure compliance.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined by an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Darold Ostrander, Council Member, Owner, HiWay Auto & Tire	Tires and auto service	\$ 1,200
Darold Ostrander, Council Member, Owner, B & B Leasing	Equipment rental and supplies	718

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent conflicts of interest since total transactions with each individual business were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of De Soto

Schedule of Findings

Year ended June 30, 2006

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- (9) Financial Condition – The General Fund had a deficit balance at June 30, 2006.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return these funds to a sound financial position.

Response – The City is pursuing alternative revenue sources and reducing expenditures to eliminate the General Fund deficit. The City has acquired commercial development property and the proceeds from the sale of said property will be used to alleviate the General Fund deficit.

Conclusion – Response accepted.

- (10) Interest – In accordance with Ch. 12C.9(2) of the Code of Iowa, interest earned on the proceeds of notes, bonds, refunding bonds and other evidence of indebtedness and funds being accumulated to pay principal and interest on debt should be used to pay principal and interest or credited to the capital projects fund for which the indebtedness was issued. The City has not recorded interest in the Capital Project Fund or the Debt Service Fund.

Recommendation – The City should develop policies and procedures to ensure compliance with the Code of Iowa.

Response – Procedures have been implemented in February 2007 to properly record interest income.

Conclusion – Response accepted.