

CITY OF DE SOTO

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2010

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City of De Soto

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Darold Ostrander	Mayor	Jan 2010
Dale Dippold	Mayor Pro tem	Jan 2012
Mike Bach	Council Member	Jan 2012
Josh Chapman	Council Member	Jan 2012
Don Kinnison	Council Member	Jan 2010
Matt Boston	Council Member	Jan 2010
(After January 2010)		
Josh Chapman	Mayor	Jan 2014
Matt Boston	Mayor Pro tem	Jan 2012
Mike Bach	Council Member	Jan 2012
Steve Cox	Council Member	Jan 2012
Ted Hansen	Council Member	Jan 2014
Brandon Hutcheson	Council Member	Jan 2014
Marcia Thomas	Clerk/Treasurer	Indefinite
DuWayne Dalen	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, 2010, 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.

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, 2009.

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, 2009, 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, 2010, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2010 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, 2009, 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.

December 23, 2010

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because 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.

2010 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$209,000, due primarily to the sale of land.
- The cash basis net assets of the City's business type activities increased approximately \$33,000 due primarily to receipts exceeding disbursements in the Enterprise Water and Sewer Funds.

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 and the City's indebtedness.

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, health and social services, 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.

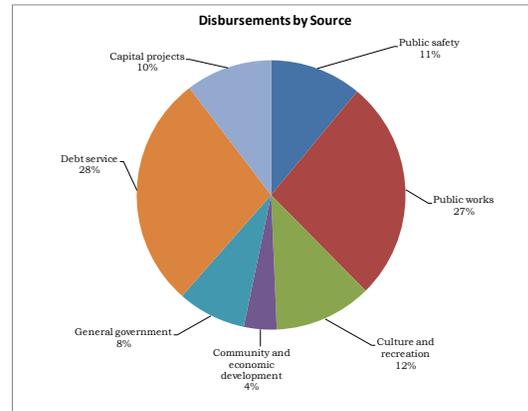
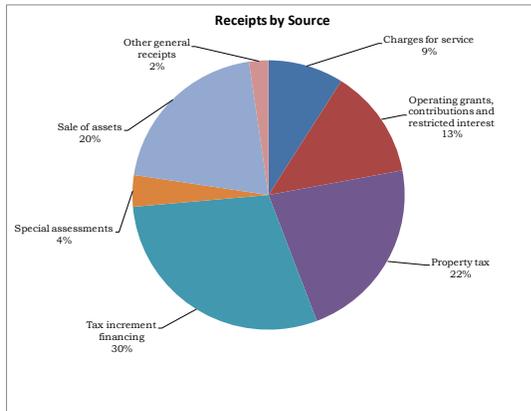
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds, considered to be major funds of the City.

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 increased sharply from a year ago, increasing from \$286,074 to \$495,468. 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, 2010
Receipts:	
Program receipts:	
Charges for service	\$ 97
Operating grants, contributions and restricted interest	142
General receipts:	
Property tax	240
Tax increment financing	318
Special assessments	41
Sale of assets	220
Other general receipts	25
Total receipts and transfers	<u>1,083</u>
Disbursements:	
Public safety	98
Public works	235
Culture and recreation	104
Community and economic development	35
General government	73
Debt service	249
Capital projects	92
Total disbursements	<u>886</u>
Change in cash basis net assets before transfers	197
Transfers, net	<u>12</u>
Change in cash basis net assets	209
Cash basis net assets beginning of year	<u>286</u>
Cash basis net assets end of year	<u><u>\$ 495</u></u>



Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 269
Sewer	156
Capital grants, contributions and restricted interest	558
General receipts:	
Unrestricted interest on investments	6
Bond proceeds	104
Total receipts	1,093
 Disbursements:	
Water	924
Sewer	124
Total disbursements	1,048
 Change in cash basis net assets before transfers	 45
Transfers, net	(12)
 Change in cash basis net assets	 33
Cash basis net assets beginning of year	900
Cash basis net assets end of year	\$ 933

Total business type activities cash basis net assets increased from a year ago, increasing from \$900,251 to \$933,057. The cash basis net assets of the City's business type activities increased primarily due to receipts exceeding disbursements in the Enterprise, Water Fund and Sewer Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of De Soto completed the year, its governmental funds reported a combined fund balance of \$495,468, an increase of more than \$286,000 above last year's total of \$209,394. 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 increased \$239,255 from the prior year to \$157,208. This increase is primarily due to the sale of land.
- The Road Use Tax Fund cash balance increased by \$8,154 to \$75,986 during the fiscal year. This increase was attributable to revenues exceeding expectations.
- The Tax Increment Financing Fund cash balance decreased \$51,868 to \$154,773 during the fiscal year. This decrease is due to the City utilizing TIF revenues to help fund the new water tower project.
- The Debt Service Fund cash balance decreased by \$20,825 to \$0 during the fiscal year. The City ensured that the fund zeroed out at the end of the fiscal year by matching revenue streams to the debt service payments.
- The Capital Projects Fund cash balance increased by \$15,010 to \$49,205 during the fiscal year. This increase was due to special assessments received during the year exceeding the required amount to cover debt service.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased by \$10,925 to \$581,278, due primarily to receipts exceeding disbursements.
- The Enterprise, Sewer Fund cash balance increased by \$21,881 to \$351,779, due to receipts exceeding disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on April 20, 2010 and resulted in an increase in receipts and disbursements. Revenues were increased to account for the sale of a City lot. Increases in disbursements related to the construction of a frontage road, additional hours of police protection, fire department building expense, mosquito control and library management software.

The City's receipts were \$334,322 more than budgeted receipts. This was primarily due to the City receiving more financial assistance on the water tower project than anticipated through a CDBG grant and State Revolving Fund.

The disbursements were \$1,808,112 less than budgeted due to several factors:

- 1) The City amended the budget to add the cost of the new frontage road. However, work was not completed by the end of the fiscal year, therefore no funds were expended.
- 2) The amount budgeted for the new water tower for this fiscal year far exceeded the amount expended.

The City exceeded the amounts budgeted after the amendment in debt service and capital projects functions for the year ended June 30, 2010 due to budgeting expenditures in improper functions.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,797,000 in long-term notes, as follows:

Outstanding Debt at Year-End	
	June 30, 2010
General obligation capital loan notes	\$ 1,692,000
Revenue capital loan notes	105,000
Total	<u>\$ 1,797,000</u>

City debt payments in FY2010 reduced outstanding debt by \$243,000. Debt increased as a result of issuing general obligation capital loan notes to help finance the water tower project.

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 \$1,692,000 is below its constitutional debt limit of \$2,138,152.

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 2011 budget, tax rates, and fees charged for various City activities. The City's FY2011 assessed value has increased \$275,922 from the FY2010 level.

The fiscal year 2011 budget includes total receipts of \$1,505,952 and expenditures of \$1,488,574.

The fiscal year 2011 levy is \$14.46535 per \$1,000 of taxable valuation, which is a slight increase from fiscal year 2010.

These parameters were taken into account when adopting the budget for fiscal year 2011.

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 Marcia Thomas, 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, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public Safety	\$ 98,220	28,393	14,992	-
Public Works	235,309	54,552	93,597	-
Health and social services	400	-	-	-
Culture and recreation	103,897	4,955	18,515	-
Community and economic development	34,498	-	8,935	-
General government	72,524	-	5,756	-
Debt service	248,551	-	-	-
Capital projects	92,127	8,927	-	-
Total governmental activities	885,526	96,827	141,795	-
Business type activities:				
Water	923,525	269,007	-	557,948
Sewer	124,421	155,738	-	-
Total business type activities	1,047,946	424,745	-	557,948
Total	\$ 1,933,472	521,572	141,795	557,948

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Hotel/Motel tax
 Special assessments
 Unrestricted interest on investments
 Bond proceeds
 Miscellaneous
 Sale of assets
 Transfers
 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
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

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

Governmental Business Type		
Activities	Activities	Total
(54,835)	-	(54,835)
(87,160)	-	(87,160)
(400)	-	(400)
(80,427)	-	(80,427)
(25,563)	-	(25,563)
(66,768)	-	(66,768)
(248,551)	-	(248,551)
(83,200)	-	(83,200)
(646,904)	-	(646,904)
-	(96,570)	(96,570)
-	31,317	31,317
-	(65,253)	(65,253)
(646,904)	(65,253)	(712,157)

218,226	-	218,226
21,549	-	21,549
317,912	-	317,912
10,204	-	10,204
41,448	-	41,448
3,051	6,028	9,079
-	104,481	104,481
11,458	-	11,458
220,000	-	220,000
12,450	(12,450)	-
856,298	98,059	954,357
209,394	32,806	242,200
286,074	900,251	1,186,325
\$ 495,468	933,057	1,428,525

75,986	-	75,986
154,773	-	154,773
58,296	-	58,296
206,413	933,057	1,139,470
\$ 495,468	933,057	1,428,525

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, 2010

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 152,584	-	-
Tax increment financing	-	-	317,912
Other city tax	10,204	-	-
Licenses and permits	7,712	-	-
Use of money and property	13,509	-	-
Intergovernmental	18,859	93,597	-
Charges for service	72,337	-	-
Special assessments	-	-	-
Miscellaneous	22,533	-	1,000
Total receipts	<u>297,738</u>	<u>93,597</u>	<u>318,912</u>
Disbursements			
Operating:			
Public Safety	84,987	-	-
Public Works	49,072	85,443	90,722
Health and social services	400	-	-
Culture and recreation	73,389	-	-
Community and economic development	360	-	33,438
General government	70,012	-	-
Debt service	-	-	154,493
Capital projects	-	-	92,127
Total disbursements	<u>278,220</u>	<u>85,443</u>	<u>370,780</u>
Excess of receipts over disbursements	<u>19,518</u>	<u>8,154</u>	<u>(51,868)</u>
Other financing sources(uses):			
Sale of assets	220,000	-	-
Operating transfers in	5,316	-	-
Operating transfers out	(5,579)	-	-
Total other financing sources(uses)	<u>219,737</u>	<u>-</u>	<u>-</u>
Net change in cash balances	239,255	8,154	(51,868)
Cash balances beginning of year	(82,047)	67,832	206,641
Cash balances end of year	<u>\$ 157,208</u>	<u>75,986</u>	<u>154,773</u>
Cash Basis Fund Balances			
Unreserved:			
General fund	157,208	-	-
Special revenue funds	-	75,986	154,773
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 157,208</u>	<u>75,986</u>	<u>154,773</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
21,549	-	65,642	239,775
-	-	-	317,912
-	-	-	10,204
-	-	-	7,712
-	-	75	13,584
-	-	6,467	118,923
-	-	-	72,337
-	41,448	-	41,448
-	8,935	8,107	40,575
21,549	50,383	80,291	862,470

-	-	13,233	98,220
-	-	10,072	235,309
-	-	-	400
-	-	30,508	103,897
-	700	-	34,498
-	-	2,512	72,524
94,058	-	-	248,551
-	-	-	92,127
94,058	700	56,325	885,526
(72,509)	49,683	23,966	(23,056)

-	-	-	220,000
51,684	-	-	57,000
-	(34,673)	(4,298)	(44,550)
51,684	(34,673)	(4,298)	232,450
(20,825)	15,010	19,668	209,394
20,825	34,195	38,628	286,074
-	49,205	58,296	495,468

-	-	-	157,208
-	-	58,296	289,055
-	49,205	-	49,205
-	49,205	58,296	495,468

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, 2010

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 269,007	155,738	424,745
Total operating receipts	269,007	155,738	424,745
Operating disbursements:			
Business type activities	151,773	124,421	276,194
Total operating disbursements	151,773	124,421	276,194
Excess (deficiency) of operating receipts over (under) operating disbursements	117,234	31,317	148,551
Non-operating receipts (disbursements)			
Intergovernmental	557,948	-	557,948
Interest on investments	3,014	3,014	6,028
General obligation bond proceeds	104,481	-	104,481
Debt service	(89,885)	-	(89,885)
Capital projects	(681,867)	-	(681,867)
Net non-operating receipts (disbursements)	(106,309)	3,014	(103,295)
Excess of receipts over disbursements	10,925	34,331	45,256
Operating transfers out	-	(12,450)	(12,450)
Net change in cash balances	10,925	21,881	32,806
Cash balances beginning of year	570,353	329,898	900,251
Cash balances end of year	\$ 581,278	351,779	933,057
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved	581,278	351,779	933,057
Total cash basis fund balances	\$ 581,278	351,779	933,057

See notes to financial statements.

City of De Soto

Notes to Financial Statements

June 30, 2010

(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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable 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 not meeting the definition of the preceding categories. 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 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 Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, 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 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, 2010, disbursements exceeded the amounts budgeted in the debt service and capital project functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 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
	2011	\$ 295,000	\$ 72,433	\$ 9,000	\$ 4,032	\$ 304,000
2012	302,000	63,998	9,000	3,686	311,000	67,684
2013	270,000	54,226	10,000	3,341	280,000	57,567
2014	50,000	45,655	10,000	2,957	60,000	48,612
2015	40,000	42,945	10,000	2,573	50,000	45,518
2016-2020	240,000	179,720	57,000	6,681	297,000	186,401
2021-2025	305,000	107,348	-	-	305,000	107,348
2026-2028	190,000	20,873	-	-	190,000	20,873
	<u>\$ 1,692,000</u>	<u>\$ 587,198</u>	<u>\$ 105,000</u>	<u>\$ 23,270</u>	<u>\$ 1,797,000</u>	<u>\$ 610,468</u>

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 4.30% of their annual covered salary and the City is required to contribute 6.65% 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 year ended June 30, 2010 was \$17,124, equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$430 for single coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$2,398 and plan members eligible for benefits contributed \$423 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick 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, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,371
Personal	488
Sick time	1,859
Compensatory time	<u>1,686</u>
Total	<u>\$ 12,404</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency Fund	\$ 4,298
	Capital Projects	1,018
		<u>5,316</u>
Debt Service	General	5,579
	Capital Projects	33,655
	Enterprise:	
	Sewer	12,450
		<u>51,684</u>
Total		<u>\$ 57,000</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,657 during the year ended June 30, 2010.

(9) 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, 2010.

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 239,775	-	-
Tax increment financing collections	317,912	-	-
Other city tax	10,204	-	-
Licenses and permits	7,712	-	-
Use of money and property	13,584	6,028	-
Intergovernmental	118,923	557,948	-
Charges for service	72,337	424,745	-
Special assessments	41,448	-	-
Miscellaneous	40,575	-	4,456
Total receipts	862,470	988,721	4,456
Disbursements:			
Public safety	98,220	-	4,668
Public works	235,309	-	-
Health and social services	400	-	-
Culture and recreation	103,897	-	-
Community and economic development	34,498	-	-
General government	72,524	-	-
Debt service	248,551	89,885	-
Capital projects	92,127	-	-
Business type activities	-	958,061	-
Total disbursements	885,526	1,047,946	4,668
Excess (deficiency) of receipts over (under) disbursements	(23,056)	(59,225)	(212)
Other financing sources, net	232,450	92,031	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	209,394	32,806	(212)
Balances beginning of year	286,074	900,251	15,411
Balances end of year	\$ 495,468	933,057	15,199

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
239,775	204,948	204,948	34,827
317,912	300,000	300,000	17,912
10,204	25,649	25,649	(15,445)
7,712	9,200	9,200	(1,488)
19,612	14,438	14,438	5,174
676,871	417,276	417,276	259,595
497,082	498,378	498,378	(1,296)
41,448	26,692	26,692	14,756
36,119	15,832	15,832	20,287
1,846,735	1,512,413	1,512,413	334,322
93,552	99,799	109,799	16,247
235,309	231,027	502,027	266,718
400	-	800	400
103,897	119,915	128,901	25,004
34,498	25,850	35,850	1,352
72,524	75,903	85,903	13,379
338,436	94,058	94,058	(244,378)
92,127	-	-	(92,127)
958,061	2,779,578	2,779,578	1,821,517
1,928,804	3,426,130	3,736,916	1,808,112
(82,069)	(1,913,717)	(2,224,503)	2,142,434
324,481	2,173,000	2,401,986	(2,077,505)
242,412	259,283	177,483	64,929
1,170,914	-	-	1,170,914
1,413,326	259,283	177,483	1,235,843

City of De Soto

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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 nine 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. 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 Enterprise 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 \$310,786. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service and capital project 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, 2010

	De Soto Volunteer				Total
	Employee Benefits	Library Trust	Emergency Fund	Fire Dept., Inc.	
Receipts					
Property tax	\$ 61,344	-	4,298	-	65,642
Use of money and property	-	75	-	-	75
Intergovernmental	-	6,467	-	-	6,467
Miscellaneous	-	3,651	-	4,456	8,107
Total receipts	61,344	10,193	4,298	4,456	80,291
Disbursements:					
Operating:					
Public safety	8,565	-	-	4,668	13,233
Public works	10,072	-	-	-	10,072
Culture and recreation	21,252	9,256	-	-	30,508
General government	2,512	-	-	-	2,512
Total disbursements	42,401	9,256	-	4,668	56,325
Excess (deficiency) of receipts over (under) disbursements	18,943	937	4,298	(212)	23,966
Other financing uses:					
Operating transfers out	-	-	(4,298)	-	(4,298)
Net change in cash balances	18,943	937	-	(212)	19,668
Cash balances beginning of year	12,351	10,866	-	15,411	38,628
Cash balances end of year	\$ 31,294	11,803	-	15,199	58,296
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 31,294	11,803	-	15,199	58,296
Total cash basis fund balances	\$ 31,294	11,803	-	15,199	58,296

See accompanying independent auditor's report.

City of De Soto

City of De Soto
 Schedule of Indebtedness
 Year ended June 30, 2010

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
Fire Truck	Sep 1, 2003	4.10-4.40%	116,000
Sewer Ext. Project	May 10, 2007	4.15-4.65%	425,000
Urban Renewal	May 1, 2008	6.30%	480,000
Water Tower	Jun 1, 2009	2.50%	305,000
Water Tower	Oct 7, 2009	3.00%	97,000
Water Tower	May 6, 2009	3.50%	558,000
Total			:
Revenue capital loan notes			
Water	May 1, 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
\$ 50,000	-	10,000	40,000	\$ 2,940
50,000	-	15,000	35,000	1,913
395,000	-	15,000	380,000	17,365
480,000	-	-	480,000	30,240
305,000	-	105,000	200,000	7,625
-	97,000	97,000	-	2,102
549,463	8,537	1,000	557,000	17,417
\$ 1,829,463	105,537	243,000	1,692,000	\$ 79,602
113,000	-	8,000	105,000	4,339
\$ 113,000	-	8,000	105,000	\$ 4,339

City of De Soto
 Bond and Note Maturities
 June 30, 2010

General Obligation Capital Loan Notes						
Year Ending June 30,	Highway # 169 Project Issued Nov 1, 1999		Fire Truck Issued Sep 1, 2003		Sewer Ext. Project Issued May 10, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	5.80 %	\$ 10,000	4.10-4.20 %	\$ 10,000	4.25 %	\$ 15,000
2012	5.90	10,000	4.20-4.30	10,000	4.25	15,000
2013	6.00	10,000	4.30-4.35	15,000	4.25	15,000
2014	6.00	10,000		-	4.25	20,000
2015		-		-	4.15	20,000
2016		-		-	4.20	20,000
2017		-		-	4.25	20,000
2018		-		-	4.30	20,000
2019		-		-	4.30	20,000
2020		-		-	4.35	25,000
2021		-		-	4.40	25,000
2022		-		-	4.45	25,000
2023		-		-	4.50	25,000
2024		-		-	4.55	25,000
2025		-		-	4.60	30,000
2026		-		-	4.63	30,000
2027		-		-	4.65	30,000
2028		-		-		-
Total		<u>\$ 40,000</u>		<u>\$ 35,000</u>		<u>\$ 380,000</u>

Revenue Capital Loan Notes			
Year Ending June 30,	Water Issued Mar 13, 2001		
	Interest Rates	Amount	Total
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>\$ 105,000</u>	<u>\$ 105,000</u>

See accompanying independent auditor's report.

Urban Renewal Issued May 1, 2008		Water Tower Issued Jun 1, 2009		Water Tower Issued May 6, 2009		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
6.30 %	\$ -	2.50 %	\$ 200,000	3.00 %	\$ 60,000	\$ 295,000
6.30	-		-	3.00	267,000	302,000
6.30	-		-	3.00	230,000	270,000
6.30	20,000		-		-	50,000
6.30	20,000		-		-	40,000
6.30	25,000		-		-	45,000
6.30	25,000		-		-	45,000
6.30	25,000		-		-	45,000
6.30	30,000		-		-	50,000
6.30	30,000		-		-	55,000
6.30	30,000		-		-	55,000
6.30	35,000		-		-	60,000
6.30	35,000		-		-	60,000
6.30	35,000		-		-	60,000
6.30	40,000		-		-	70,000
6.30	40,000		-		-	70,000
6.30	45,000		-		-	75,000
6.30	45,000		-		-	45,000
	<u>\$ 480,000</u>		<u>\$ 200,000</u>		<u>\$ 557,000</u>	<u>\$ 1,692,000</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, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 23, 2010. 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, 2009.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of De Soto's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the city of De Soto's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of De Soto's financial statements will not be

prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A), (B) and (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

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, 2010 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.

The City of De Soto's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of De Soto's responses and, accordingly, we express no opinion on them.

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, CMA, P.L.C.

December 23, 2010

City of De Soto

City of De Soto

Schedule of Findings

Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(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.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. 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, 2010

Response – The City implemented utility billing reconciliations in January 2011 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 deficiencies 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 Attorney is writing a policy regarding personal software being installed on City-owned computers and logging off unattended computers to add to our employee handbook. The City Attorney is writing a policy that passwords are to be changed periodically and computers are to be logged off when unattended. This policy will be added to the City’s employee handbook.

Conclusion – Response accepted. The City should also develop a written disaster recovery plan.

(D) Financial Statement Presentation – The City does not have an internal control system designed to provide for the preparation of the financial statements and disclosures that are fairly presented in conformity with cash basis of accounting. As is inherent in many organizations of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply cash basis accounting principles in preparing the financial statements and the related disclosures. However, the City should obtain additional knowledge through reading relevant accounting literature and attending local education courses.

Recommendation – We recognize with a limited number of office employees, preparation of the financial statements is difficult. However, we recommend that City officials continue reviewing operating procedures in order to obtain maximum internal control possible under the circumstances.

Response – City official will continue to review operating procedures in order to obtain maximum internal controls.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of De Soto

Schedule of Findings

Year ended June 30, 2010

Findings Related to Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the debt service and capital project functions. In addition, health and social services and community and economic development function budgets were 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, Mayor, Owner, HiWay Auto & Tire	Tires and auto service	\$ 705
Darold Ostrander, Mayor, Owner, B & B Leasing	Equipment rental and supplies	\$ 961

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor do not appear to represent conflicts of interest since total transactions with each individual business were less than \$2,500 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, 2010

- (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) Payment of General Obligation Capital Loan Notes – Certain general obligation bonds were paid from the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Special Revenue, Tax Increment Fund to the Debt Service Fund for future funding contributions. Payments of the capital loan notes should then be disbursed from the Debt Service Fund.

Response – Procedures have been implemented to ensure that all General Obligation Loan Notes will be paid from the Debt Service Fund.

Conclusion – Response accepted.

- (9) 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 January 2011 to properly record interest income.

Conclusion – Response accepted.