



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE

March 19, 2003

**Contact: Andy Nielsen
515/281-5515**

The Office of Auditor of State today released an audit report on the City of De Soto, Iowa.

The City's receipts totaled \$950,983 for the year ended June 30, 2002. The receipts included \$171,378 in property tax, \$115,076 in tax increment financing collections, \$228,719 from the state, \$315,613 in charges for service and \$16,208 in interest on investments.

Disbursements for the year totaled \$876,616, and included \$168,800 for community protection, \$57,396 for human development, \$565,397 for home and community environment and \$85,023 for policy and administration.

This report contains recommendations to the City Council and other city officials. For example, the City should segregate accounting duties to the extent possible with the existing personnel, and procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The City has responded to each item in the report and stated that corrective action is being taken.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

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CITY OF DE SOTO
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

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City of De Soto

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|-----------------|---------------------|
| (Before January 2002) | | |
| Darold (Butch) Ostrander | Mayor | Jan 2002 |
| Mitch Crozier | Mayor Pro tem | Jan 2002 |
| Leslie Clemenson | Council Member | Jan 2002 |
| Michael Smith | Council Member | Jan 2003 |
| Larry Bennett | Council Member | Jan 2003 |
| Jack Stufflebeam | Council Member | Jan 2003 |
| Betty Doerr | Clerk/Treasurer | Indefinite |
| Bryan Jennings | Attorney | Indefinite |
| (After January 2002) | | |
| Matthew (Marty) Glanz | Mayor | Jan 2006 |
| Michael Smith | Mayor Pro tem | Jan 2003 |
| Larry Bennett | Council Member | Jan 2003 |
| Jack Stufflebeam | Council Member | Jan 2003 |
| Leslie Clemenson | Council Member | Jan 2006 |
| Mark O'Leary | Council Member | Jan 2006 |
| Betty Doerr | Clerk/Treasurer | Indefinite |
| Bryan Jennings | Attorney | Indefinite |

City of De Soto



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of De Soto, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of De Soto's management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As 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, 2001.

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, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of De Soto as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2003 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 4, 2003

City of De Soto

Financial Statements

City of De Soto
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

| | Governmental Fund Types | | | |
|---|-------------------------|--------------------|-----------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| Receipts: | | | | |
| Property tax | \$ 123,291 | 36,788 | 11,299 | - |
| Tax increment financing collections | - | 115,076 | - | - |
| Other city tax | 3,928 | - | - | - |
| Licenses and permits | 9,192 | - | - | - |
| Use of money and property | 12,407 | - | - | - |
| Intergovernmental | 21,554 | 80,819 | - | 75,438 |
| Charges for service | 53,448 | - | - | - |
| Special assessments | 1,893 | - | 36,578 | - |
| Miscellaneous | 16,451 | 8,834 | - | - |
| Total receipts | <u>242,164</u> | <u>241,517</u> | <u>47,877</u> | <u>75,438</u> |
| Disbursements: | | | | |
| Community Protection Program | 114,573 | 42,252 | 11,975 | - |
| Human Development Program | 51,543 | 4,195 | - | - |
| Home and Community Environment Program | 115,513 | 7,824 | 89,178 | 75,438 |
| Policy and Administration Program | 74,497 | 10,526 | - | - |
| Total disbursements | <u>356,126</u> | <u>64,797</u> | <u>101,153</u> | <u>75,438</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(113,962)</u> | <u>176,720</u> | <u>(53,276)</u> | <u>-</u> |
| Other financing sources (uses): | | | | |
| Sale of general fixed assets | 700 | - | - | - |
| Operating transfers in | 1,976 | - | 59,785 | - |
| Operating transfers out | - | (59,785) | - | - |
| Total other financing sources (uses) | <u>2,676</u> | <u>(59,785)</u> | <u>59,785</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | <u>(111,286)</u> | <u>116,935</u> | <u>6,509</u> | <u>-</u> |
| Balance beginning of year | <u>(120,714)</u> | <u>389,748</u> | <u>48,511</u> | <u>(54,737)</u> |
| Balance end of year | <u>\$ (232,000)</u> | <u>506,683</u> | <u>55,020</u> | <u>(54,737)</u> |

See notes to financial statements.

| Proprietary Fund Type Enterprise | Fiduciary Fund Type Trust | Total (Memorandum Only) |
|--|---------------------------------|-------------------------------|
| - | - | 171,378 |
| - | - | 115,076 |
| - | - | 3,928 |
| - | - | 9,192 |
| 12,356 | 25 | 24,788 |
| 48,538 | 2,370 | 228,719 |
| 262,165 | - | 315,613 |
| - | - | 38,471 |
| 17,339 | 1,194 | 43,818 |
| <u>340,398</u> | <u>3,589</u> | <u>950,983</u> |
| - | - | 168,800 |
| - | 1,658 | 57,396 |
| 277,444 | - | 565,397 |
| - | - | 85,023 |
| <u>277,444</u> | <u>1,658</u> | <u>876,616</u> |
| 62,954 | 1,931 | 74,367 |
| - | - | 700 |
| 50,398 | - | 112,159 |
| (50,398) | (1,976) | (112,159) |
| <u>-</u> | <u>(1,976)</u> | <u>700</u> |
| 62,954 | (45) | 75,067 |
| <u>483,759</u> | <u>395</u> | <u>746,962</u> |
| <u>546,713</u> | <u>350</u> | <u>822,029</u> |

City of De Soto

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

| | Actual | Less Funds Not Required be Budgeted | Net | Amended Budget |
|---|-------------------|---|----------------|-------------------|
| Receipts: | | | | |
| Property tax | \$ 171,378 | - | 171,378 | 160,411 |
| Tax increment financing collections | 115,076 | - | 115,076 | 114,250 |
| Other city tax | 3,928 | - | 3,928 | 16,019 |
| Licenses and permits | 9,192 | - | 9,192 | 2,995 |
| Use of money and property | 24,788 | - | 24,788 | 32,020 |
| Intergovernmental | 228,719 | - | 228,719 | 242,680 |
| Charges for service | 315,613 | - | 315,613 | 299,445 |
| Special assessments | 38,471 | - | 38,471 | 36,577 |
| Miscellaneous | 43,818 | 8,834 | 34,984 | 20,390 |
| Total receipts | <u>950,983</u> | <u>8,834</u> | <u>942,149</u> | <u>924,787</u> |
| Disbursements: | | | | |
| Community Protection Program | 168,800 | 14,239 | 154,561 | 182,960 |
| Human Development Program | 57,396 | - | 57,396 | 78,024 |
| Home and Community Environment Program | 565,397 | - | 565,397 | 693,940 |
| Policy and Administration Program | 85,023 | - | 85,023 | 108,686 |
| Total disbursements | <u>876,616</u> | <u>14,239</u> | <u>862,377</u> | <u>1,063,610</u> |
| Excess (deficiency) of receipts over (under) disbursements | 74,367 | (5,405) | 79,772 | (138,823) |
| Other financing sources, net | 700 | - | 700 | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 75,067 | (5,405) | 80,472 | (138,823) |
| Balance beginning of year | <u>746,962</u> | <u>6,328</u> | <u>740,634</u> | <u>858,127</u> |
| Balance end of year | <u>\$ 822,029</u> | <u>923</u> | <u>820,406</u> | <u>719,304</u> |

See notes to financial statements.

| <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u> | <u>Net</u> <u>as % of</u> <u>Amended</u> <u>Budget</u> |
|---|---|
| 10,967 | 107% |
| 826 | 101% |
| (12,091) | 25% |
| 6,197 | 307% |
| (7,232) | 77% |
| (13,961) | 94% |
| 16,168 | 105% |
| 1,894 | 105% |
| 14,594 | 172% |
| <u>17,362</u> | <u>102%</u> |
| 28,399 | 84% |
| 20,628 | 74% |
| 128,543 | 81% |
| 23,663 | 78% |
| <u>201,233</u> | <u>81%</u> |

City of De Soto
Statement of Indebtedness
Year ended June 30, 2002

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|---------------|----------------|--------------------------|
| General obligation capital loan notes: | | | |
| Fire truck | Dec 1, 1996 | 5.50% | \$ 70,000 |
| TIF improvements | Feb 1, 1998 | 4.05-4.35 | 250,000 |
| Highway #169 project | Nov 1, 1999 | 4.90-6.00 | 240,000 |
| 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 notes to financial statements.

| <u>Balance</u> <u>Beginning</u> <u>of Year</u> | <u>Redeemed</u> <u>During</u> <u>Year</u> | <u>Balance</u> <u>End of</u> <u>Year</u> | <u>Interest</u> <u>Paid</u> |
|--|---|--|--------------------------------|
| 30,000 | 10,000 | 20,000 | 1,375 |
| 55,000 | 55,000 | - | 2,393 |
| <u>220,000</u> | <u>20,000</u> | <u>200,000</u> | <u>11,785</u> |
| <u>\$ 305,000</u> | <u>85,000</u> | <u>220,000</u> | <u>15,553</u> |
| 175,000 | 25,000 | 150,000 | 8,363 |
| 171,000 | 6,000 | 165,000 | 6,292 |
| <u>\$ 346,000</u> | <u>31,000</u> | <u>315,000</u> | <u>14,655</u> |

City of De Soto

Notes to Financial Statements

June 30, 2002

(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, recreation, public improvements and general administrative services.

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 purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the De Soto Fire Department. In accordance with 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 the Dallas County Joint E911 Service Board.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 through other funds.

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Fund - The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Fund

Trust Fund - The Trust Fund is used to account for monies and properties received and held by the City in a trustee capacity. This includes an Expendable Trust Fund.

C. 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.

D. Budgets and Budgetary Accounting

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 four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2002 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.

(3) Notes Payable

Annual debt service requirements to maturity for the 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 |
| | 2003 | \$ 30,000 | 11,671 | 32,000 | 13,599 | 62,000 |
| 2004 | 30,000 | 10,141 | 32,000 | 12,192 | 62,000 | 22,333 |
| 2005 | 20,000 | 8,866 | 32,000 | 10,748 | 52,000 | 19,614 |
| 2006 | 20,000 | 7,846 | 32,000 | 9,280 | 52,000 | 17,126 |
| 2007 | 20,000 | 6,796 | 33,000 | 7,786 | 53,000 | 14,582 |
| 2008 | 25,000 | 5,716 | 33,000 | 6,229 | 58,000 | 11,945 |
| 2009 | 25,000 | 4,340 | 8,000 | 4,646 | 33,000 | 8,986 |
| 2010 | 10,000 | 2,940 | 8,000 | 4,339 | 18,000 | 7,279 |
| 2011 | 10,000 | 2,370 | 9,000 | 4,032 | 19,000 | 6,402 |
| 2012 | 10,000 | 1,790 | 9,000 | 3,686 | 19,000 | 5,476 |
| 2013 | 10,000 | 1,200 | 10,000 | 3,341 | 20,000 | 4,541 |
| 2014 | 10,000 | 600 | 10,000 | 2,957 | 20,000 | 3,557 |
| 2015 | - | - | 10,000 | 2,573 | 10,000 | 2,573 |
| 2016 | - | - | 11,000 | 2,189 | 11,000 | 2,189 |
| 2017 | - | - | 11,000 | 1,766 | 11,000 | 1,766 |
| 2018 | - | - | 11,000 | 1,344 | 11,000 | 1,344 |
| 2019 | - | - | 12,000 | 922 | 12,000 | 922 |
| 2020 | - | - | 12,000 | 461 | 12,000 | 461 |
| Total | \$ 220,000 | 64,276 | 315,000 | 92,090 | 535,000 | 156,366 |

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 a separate water revenue sinking account for the purpose of making the note principal and interest payment 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 to be 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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$12,833, equal to the required contribution for that year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal leave 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 termination payments payable to employees at June 30, 2002, primarily related to the General Fund, is as follows:

| Type of Benefit | Amount |
|--------------------------------|-----------------|
| Vacation and compensatory time | <u>\$ 3,100</u> |

This liability has been computed based on rates of pay in effect at June 30, 2002.

(6) Risk Management

The City of De Soto 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, 2002.

(7) Development and Rebate Agreements

The City has entered into a development agreement to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for development of a commercial building constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreement. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated to the developer at 100 percent for five consecutive years beginning in fiscal year 2001 and continuing through fiscal year 2005, and at 50 percent for two consecutive years beginning in fiscal year 2006 and continuing through fiscal year 2007. However, the total of all rebates paid shall not exceed \$35,000. All rebates cease after fiscal year 2007 or when \$35,000 of rebates have been paid, whichever occurs first.

During the year ended June 30, 2002, the City rebated \$3,804 of incremental taxes under the agreement.

(8) Urban Renewal Tax Increment Revenue Bond

During the year ended June 30, 2000, the City issued a \$120,000 urban renewal tax increment revenue bond under the provisions of Chapter 403 of the Code of Iowa. No proceeds were received by the City because the bond was issued to a project developer who agreed to construct certain minimum improvements on real property located within the De Soto Urban Renewal Area and enter into a minimum assessment agreement with the City, setting the minimum taxable value of the completed project at not less than \$1,100,000. In addition, the developer will construct streets, water, sewer, and utility rights-of-way that will be donated to the City.

The amount outstanding at June 30, 2002 is \$120,000. The bond is payable solely from TIF revenues and the debt does not constitute a liability of the City.

(9) Deficit Balances

The General Fund had a deficit balance of \$232,000 at June 30, 2002. The City is investigating options for eliminating the deficit.

The Capital Projects, Economic Development Project Fund had a deficit balance of \$54,737 at June 30, 2002. The deficit balance was the result of a land purchase by the City in 1999. The deficit will be eliminated upon receipt of funds from the sale of the land.

(10) Subsequent Events

In August and September 2002, the City entered into a street repair contract for \$36,900 and a street project contract for \$59,530. These projects will be financed from the Special Revenue, Road Use Tax Fund.

In January 2003, the City issued \$500,000 of general obligation bonds and entered into a construction contract for \$440,000 for a sewer extension project.

Supplemental Information

City of De Soto
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

| | |
|--|-------------------|
| Receipts: | |
| Property tax | <u>\$ 123,291</u> |
| Other city tax: | |
| Mobile home tax | 3,300 |
| Cable franchise tax | <u>628</u> |
| | <u>3,928</u> |
| Licenses and permits | <u>9,192</u> |
| Use of money and property: | |
| Interest on investments | 3,827 |
| Rent | <u>8,580</u> |
| | <u>12,407</u> |
| Intergovernmental: | |
| State allocation | 10,865 |
| Bank franchise tax | 2,213 |
| State and community highway safety grant | 1,644 |
| County library | 3,545 |
| Fire contracts | <u>3,287</u> |
| | <u>21,554</u> |
| Charges for service: | |
| Sanitation fees | 51,118 |
| Cemetery fees | 2,120 |
| Miscellaneous | <u>210</u> |
| | <u>53,448</u> |
| Special assessments | <u>1,893</u> |
| Miscellaneous: | |
| Sales tax collected | 31 |
| Refunds and reimbursements | 11,625 |
| Fines | 2,982 |
| Donations and contributions | 1,435 |
| Miscellaneous | <u>378</u> |
| | <u>16,451</u> |
| Total receipts | <u>242,164</u> |

Schedule 1

City of De Soto
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

Disbursements:

Community Protection Program:

Police:

| | |
|----------------------|---------------|
| Personal services | 61,566 |
| Contractual services | 1,567 |
| Commodities | 6,410 |
| Capital outlay | 5,701 |
| | <u>75,244</u> |

Traffic control 831

Fire:

| | |
|----------------------|---------------|
| Personal services | 1,235 |
| Contractual services | 11,435 |
| Commodities | 8,707 |
| Capital outlay | 13,413 |
| | <u>34,790</u> |

Street lighting 3,468

Disaster services 240
114,573

Human Development Program:

Animal control:

| | |
|----------------------|------------|
| Contractual services | 427 |
| Commodities | 73 |
| | <u>500</u> |

Community pride:

| | |
|----------------------|--------------|
| Contractual services | 643 |
| Commodities | 766 |
| | <u>1,409</u> |

Library:

| | |
|----------------------|---------------|
| Personal services | 22,069 |
| Contractual services | 2,325 |
| Commodities | 1,913 |
| Capital outlay | 10,495 |
| | <u>36,802</u> |

City of De Soto
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

Disbursements (continued):

Human Development Program:

Parks:

| | |
|----------------------|---------------|
| Personal services | 4,690 |
| Contractual services | 1,737 |
| Commodities | 840 |
| Capital outlay | 5,565 |
| | <u>12,832</u> |
| | <u>51,543</u> |

Home and Community Environment Program:

Garbage collection:

| | |
|----------------------|---------------|
| Contractual services | <u>46,255</u> |
|----------------------|---------------|

Cemetery:

| | |
|----------------------|---------------|
| Personal services | 4,732 |
| Contractual services | 13 |
| Commodities | 1,220 |
| Capital outlay | 5,069 |
| | <u>11,034</u> |

Streets:

| | |
|----------------------|----------------|
| Personal services | 9,991 |
| Contractual services | 2,580 |
| Commodities | 5,343 |
| Capital outlay | 40,310 |
| | <u>58,224</u> |
| | <u>115,513</u> |

Policy and Administration Program:

Mayor and Council Members:

| | |
|----------------------|---------------|
| Personal services | 2,535 |
| Contractual services | 13,002 |
| Commodities | 119 |
| | <u>15,656</u> |

Clerk/Treasurer:

| | |
|----------------------|---------------|
| Personal services | 21,991 |
| Contractual services | 4,142 |
| Commodities | 1,323 |
| | <u>27,456</u> |

Schedule 1

City of De Soto
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

| | |
|---|----------------------------|
| Disbursements (continued): | |
| Policy and Administration Program: | |
| Legal and professional: | |
| Contractual services | <u>7,393</u> |
| Planning and zoning: | |
| Personal services | 2,373 |
| Commodities | 37 |
| | <u>2,410</u> |
| City Hall: | |
| Contractual services | 6,338 |
| Commodities | 882 |
| | <u>7,220</u> |
| General administration: | |
| Insurance: | |
| Contractual services | <u>14,362</u> |
| | <u>74,497</u> |
| Total disbursements | <u>356,126</u> |
| | |
| Deficiency of receipts under disbursements | <u>(113,962)</u> |
| | |
| Other financing sources: | |
| Sale of general fixed assets | 700 |
| Operating transfers in: | |
| Expendable Trust: | |
| Library Gift | <u>1,976</u> |
| Total other financing sources | <u>2,676</u> |
| | |
| Deficiency of receipts and other financing sources under disbursements | (111,286) |
| | |
| Balance beginning of year | <u>(120,714)</u> |
| | |
| Balance end of year | <u><u>\$ (232,000)</u></u> |

See accompanying independent auditor's report.

City of De Soto

City of De Soto
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

| | Road Use Tax | Employee Benefits |
|---|--------------------|----------------------|
| Receipts: | | |
| Property tax | \$ - | 36,788 |
| Tax increment financing collections | - | - |
| Intergovernmental: | | |
| Road use tax allocation | 80,819 | - |
| Miscellaneous: | | |
| Donations | - | - |
| Total receipts | <u>80,819</u> | <u>36,788</u> |
| Disbursements: | | |
| Community Protection Program: | | |
| Personal services | - | 21,078 |
| Contractual services | 6,935 | - |
| Commodities | - | - |
| Capital outlay | - | - |
| | <u>6,935</u> | <u>21,078</u> |
| Human Development Program: | | |
| Personal services | - | 4,195 |
| Home and Community Environment Program: | | |
| Personal services | - | 4,020 |
| Contractual services | - | - |
| | <u>-</u> | <u>4,020</u> |
| Policy and Administration Program: | | |
| Personal services | - | 10,526 |
| Total disbursements | <u>6,935</u> | <u>39,819</u> |
| Excess (deficiency) of receipts over (under) disbursements | 73,884 | (3,031) |
| Other financing uses: | | |
| Operating transfers out: | | |
| Debt Service | - | - |
| Excess (deficiency) of receipts over (under) disbursements and other financing uses | 73,884 | (3,031) |
| Balance beginning of year | <u>259,484</u> | <u>37,271</u> |
| Balance end of year | <u>\$ 333,368</u> | <u>34,240</u> |

See accompanying independent auditor's report.

| Tax Increment Financing | De Soto Volunteer Fire Dept., Inc. | Total |
|-------------------------------|---|----------|
| - | - | 36,788 |
| 115,076 | - | 115,076 |
| - | - | 80,819 |
| - | 8,834 | 8,834 |
| 115,076 | 8,834 | 241,517 |
| - | - | 21,078 |
| - | - | 6,935 |
| - | 8,239 | 8,239 |
| - | 6,000 | 6,000 |
| - | 14,239 | 42,252 |
| - | - | 4,195 |
| - | - | 4,020 |
| 3,804 | - | 3,804 |
| 3,804 | - | 7,824 |
| - | - | 10,526 |
| 3,804 | 14,239 | 64,797 |
| 111,272 | (5,405) | 176,720 |
| (59,785) | - | (59,785) |
| 51,487 | (5,405) | 116,935 |
| 86,665 | 6,328 | 389,748 |
| 138,152 | 923 | 506,683 |

Schedule 3

City of De Soto
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

| | |
|---|-------------------------|
| Receipts: | |
| Property tax | \$ 11,299 |
| Special assessments | 36,578 |
| Total receipts | <u>47,877</u> |
| Disbursements: | |
| Community Protection Program: | |
| Debt service: | |
| Principal redemption | 10,000 |
| Interest payments | 1,375 |
| Administration fee | 600 |
| | <u>11,975</u> |
| Home and Community Environment Program: | |
| Debt service: | |
| Principal redemption | 75,000 |
| Interest payments | 14,178 |
| | <u>89,178</u> |
| Total disbursements | <u>101,153</u> |
| Deficiency of receipts under disbursements | (53,276) |
| Other financing sources: | |
| Operating transfers in: | |
| Special Revenue: | |
| Tax Increment Financing | <u>59,785</u> |
| Excess of receipts and other financing sources over disbursements | 6,509 |
| Balance beginning of year | <u>48,511</u> |
| Balance end of year | <u><u>\$ 55,020</u></u> |

See accompanying independent auditor's report.

City of De Soto
Schedule of Cash Transactions
Capital Projects Fund
Year ended June 30, 2002

| | <u>Economic Development Project</u> |
|---|---|
| Receipts: | |
| Intergovernmental: | |
| Railroad assistance | \$ 75,438 |
| Disbursements: | |
| Home and Community Environment Program: | |
| Contractual services | <u>75,438</u> |
| Net | - |
| Balance beginning of year | <u>(54,737)</u> |
| Balance end of year | <u><u>\$ (54,737)</u></u> |

See accompanying independent auditor's report.

City of De Soto
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

| | Water | Water Revenue Sinking |
|--|----------------|-----------------------------|
| Receipts: | | |
| Use of money and property: | | |
| Interest on investments | \$ 6,550 | - |
| Intergovernmental: | | |
| Capitalization grants for drinking water state revolving fund grant | 48,538 | - |
| Charges for service: | | |
| Sale of water | 137,317 | - |
| Installations and connections | 140 | - |
| Sewer rental fees | - | - |
| | <u>137,457</u> | <u>-</u> |
| Miscellaneous: | | |
| Refunds and reimbursements | 6,488 | - |
| Customer deposits | 4,050 | - |
| Sales tax collected | 6,426 | - |
| | <u>16,964</u> | <u>-</u> |
| Total receipts | <u>209,509</u> | <u>-</u> |
| Disbursements: | | |
| Home and Community Environment Program: | | |
| Administration: | | |
| Contractual services | 13,149 | - |
| Commodities | 194 | - |
| Capital outlay | 2,331 | - |
| | <u>15,674</u> | <u>-</u> |
| Plant and collection: | | |
| Personal services | 51,472 | - |
| Contractual services | 9,395 | - |
| Commodities | 1,606 | - |
| Capital outlay | 24,133 | - |
| | <u>86,606</u> | <u>-</u> |

| Water Revenue Reserve | Water Capital Improvement | Sewer Rental | Total |
|-----------------------|---------------------------|--------------|---------|
| 722 | - | 5,084 | 12,356 |
| - | - | - | 48,538 |
| - | - | - | 137,317 |
| - | - | - | 140 |
| - | - | 124,708 | 124,708 |
| - | - | 124,708 | 262,165 |
| - | - | - | 6,488 |
| - | - | - | 4,050 |
| - | - | 375 | 6,801 |
| - | - | 375 | 17,339 |
| 722 | - | 130,167 | 340,398 |
| - | - | - | 13,149 |
| - | - | - | 194 |
| - | - | - | 2,331 |
| - | - | - | 15,674 |
| - | - | 41,414 | 92,886 |
| - | - | 57,663 | 67,058 |
| - | - | 5,309 | 6,915 |
| - | - | 20,346 | 44,479 |
| - | - | 124,732 | 211,338 |

City of De Soto
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

| | Water | Water Revenue Sinking |
|---|-------------------|-----------------------------|
| Disbursements (continued): | | |
| Home and Community Environment Program: | | |
| Distribution: | | |
| Contractual services | 3,457 | - |
| Commodities | 6 | - |
| Capital outlay | 928 | - |
| | <u>4,391</u> | <u>-</u> |
| Debt service: | | |
| Principal redemption | - | 31,000 |
| Interest payments | - | 14,655 |
| Fees | - | 386 |
| | <u>-</u> | <u>46,041</u> |
| Total disbursements | <u>106,671</u> | <u>46,041</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>102,838</u> | <u>(46,041)</u> |
| Other financing sources (uses): | | |
| Operating transfers in (out): | | |
| Enterprise: | | |
| Water | - | 47,398 |
| Water Revenue Sinking | (47,398) | - |
| Water Capital Improvement | (3,000) | - |
| Total other financing sources (uses) | <u>(50,398)</u> | <u>47,398</u> |
| Excess of receipts and other financing sources over disbursements and other financing uses | 52,440 | 1,357 |
| Balance beginning of year | <u>211,191</u> | <u>15,942</u> |
| Balance end of year | <u>\$ 263,631</u> | <u>17,299</u> |

See accompanying independent auditor's report.

| Water Revenue Reserve | Water Capital Improvement | Sewer Rental | Total |
|-----------------------|---------------------------|--------------|----------|
| - | - | - | 3,457 |
| - | - | - | 6 |
| - | - | - | 928 |
| - | - | - | 4,391 |
| - | - | - | 31,000 |
| - | - | - | 14,655 |
| - | - | - | 386 |
| - | - | - | 46,041 |
| - | - | 124,732 | 277,444 |
| 722 | - | 5,435 | 62,954 |
| - | 3,000 | - | 50,398 |
| - | - | - | (47,398) |
| - | - | - | (3,000) |
| - | 3,000 | - | - |
| 722 | 3,000 | 5,435 | 62,954 |
| 29,357 | 9,750 | 217,519 | 483,759 |
| 30,079 | 12,750 | 222,954 | 546,713 |

Schedule 6

City of De Soto
Schedule of Cash Transactions
Trust Fund
Year ended June 30, 2002

| | <u>Expendable Trust Fund - Library Gift</u> |
|--|---|
| Receipts: | |
| Use of money and property: | |
| Interest on investments | <u>\$ 25</u> |
| Intergovernmental: | |
| Library open access | 394 |
| Enrich Iowa | <u>1,976</u> |
| | <u>2,370</u> |
| Miscellaneous: | |
| Donations | <u>1,194</u> |
| Total receipts | <u>3,589</u> |
| Disbursements: | |
| Human Development Program: | |
| Commodities | <u>1,658</u> |
| Excess of receipts over disbursements | 1,931 |
| Other financing uses: | |
| Operating transfers out: | |
| General | <u>(1,976)</u> |
| Deficiency of receipts under disbursements and other financing uses | (45) |
| Balance beginning of year | <u>395</u> |
| Balance end of year | <u><u>\$ 350</u></u> |

See accompanying independent auditor's report.

City of De Soto

City of De Soto

Note Maturities

June 30, 2002

| General Obligation Capital Loan Notes | | | | | |
|--|----------------------------------|------------------|--|-------------------|----------------|
| Year Ending June 30, | Fire Truck Issued Dec 1, 1996 | | Highway #169 Project Issued Nov 1, 1999 | | Total |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2003 | 5.50% | \$ 10,000 | 4.90% | \$ 20,000 | 30,000 |
| 2004 | 5.50 | 10,000 | 5.00 | 20,000 | 30,000 |
| 2005 | | - | 5.10 | 20,000 | 20,000 |
| 2006 | | - | 5.25 | 20,000 | 20,000 |
| 2007 | | - | 5.40 | 20,000 | 20,000 |
| 2008 | | - | 5.50 | 25,000 | 25,000 |
| 2009 | | - | 5.60 | 25,000 | 25,000 |
| 2010 | | - | 5.70 | 10,000 | 10,000 |
| 2011 | | - | 5.80 | 10,000 | 10,000 |
| 2012 | | - | 5.90 | 10,000 | 10,000 |
| 2013 | | - | 6.00 | 10,000 | 10,000 |
| 2014 | | - | 6.00 | 10,000 | 10,000 |
| 2015 | | - | | - | - |
| 2016 | | - | | - | - |
| 2017 | | - | | - | - |
| 2018 | | - | | - | - |
| 2019 | | - | | - | - |
| 2020 | | - | | - | - |
| Total | | <u>\$ 20,000</u> | | <u>\$ 200,000</u> | <u>220,000</u> |

See accompanying independent auditor's report.

| Revenue Capital | | | | | |
|--------------------|-------------------|---------------------|-------------------|----------------|--|
| Loan Notes | | | | | |
| Water | | Water | | | |
| Issued Feb 1, 1998 | | Issued Mar 13, 2001 | | | |
| Interest Rates | Amount | Interest Rates | Amount | Total | |
| 4.55% | \$ 25,000 | 3.84% | \$ 7,000 | 32,000 | |
| 4.70 | 25,000 | 3.84 | 7,000 | 32,000 | |
| 4.80 | 25,000 | 3.84 | 7,000 | 32,000 | |
| 4.90 | 25,000 | 3.84 | 7,000 | 32,000 | |
| 5.00 | 25,000 | 3.84 | 8,000 | 33,000 | |
| 5.10 | 25,000 | 3.84 | 8,000 | 33,000 | |
| | - | 3.84 | 8,000 | 8,000 | |
| | - | 3.84 | 8,000 | 8,000 | |
| | - | 3.84 | 9,000 | 9,000 | |
| | - | 3.84 | 9,000 | 9,000 | |
| | - | 3.84 | 10,000 | 10,000 | |
| | - | 3.84 | 10,000 | 10,000 | |
| | - | 3.84 | 10,000 | 10,000 | |
| | - | 3.84 | 11,000 | 11,000 | |
| | - | 3.84 | 11,000 | 11,000 | |
| | - | 3.84 | 11,000 | 11,000 | |
| | - | 3.84 | 12,000 | 12,000 | |
| | - | 3.84 | 12,000 | 12,000 | |
| | <u>\$ 150,000</u> | | <u>\$ 165,000</u> | <u>315,000</u> | |

City of De Soto



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of De Soto, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 4, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of De Soto's operations for the year ended June 30, 2002 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. Prior audit statutory comments have been resolved except for item (1).

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 opinion on the financial statements and not to provide assurance 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. The reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a 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 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. Prior audit reportable conditions have not been resolved and are repeated as items (A) and (B).

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.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 4, 2003

City of De Soto
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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 performing 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) Computer usage - performance of all general accounting functions and overall control of data input and output.

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

Response - We will do our best to obtain the maximum internal control possible under the circumstances. We will be reviewing our operating procedures to see what changes can be made.

Conclusion - Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquencies 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. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - We propose to follow your recommendation of monthly reconciliation of utility billings collections and delinquencies as well as deposits and collections. We will also have a Council Member review the reconciliation. We also plan to get a written procedure for this in place. We are working with our software provider for some answers to this.

Conclusion - Response accepted.

City of De Soto

Schedule of Findings

Year ended June 30, 2002

(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 the personal use of computers and software, personal software being installed on City owned computers, personal usage of the internet or e-mail, password privacy and confidentiality, or logging off unattended computers.
- (2) Passwords are not periodically changed and computers are not always password protected before leaving 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 offsite.

Response - The City has already attended to the password comment. We now have put in place a screen saver password on each computer as well as a password to log on to the accounting software. We will be working on written procedures providing for changing passwords in a timely way as well as establishing written policies regarding the personal use of computers and software, personal software being installed and personal usage of the internet or e-mail.

The Mayor is working with the Fire Department on the disaster recovery plan.

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.

Response - We will be working on developing an office procedures and standardized accounting manual for the office.

Conclusion - Response accepted.

City of De Soto

Schedule of Findings

Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution for Earlham Savings Bank was exceeded during the year ended June 30, 2002.

Recommendation - A new resolution in an amount sufficient to cover anticipated balances at the approved depository should be adopted by the City Council.

Response - The City adopted a new resolution at the February 18, 2003 Council meeting naming Earlham Savings Bank as our depository and setting the maximum deposit amount at \$1,200,000.

Conclusion - Response accepted.

- (2) Certified Budget - Disbursements during the year ended June 30, 2002 did not exceed the amounts budgeted.
- (3) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (4) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------|--------|
| Butch Ostrander, Mayor, Owner of Hi-Way Auto and Tire Service | Repair, parts and supplies | \$ 771 |

In accordance with Chapter 362.5(11) of the Code of Iowa, this does not appear to represent a conflict of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

- (6) 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 ensure that the coverage is adequate for current operations.
- (7) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments - Except as noted in item (1), no instances on non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of De Soto

Schedule of Findings

Year ended June 30, 2002

- (9) Revenue Notes - We noted no instances of non-compliance with the provisions of the City's revenue note resolutions.
- (10) Financial Condition - The General Fund had a deficit balance at June 30, 2002 of \$232,000, and the Capital Projects, Economic Development Project Fund had a deficit balance of \$54,737 at June 30, 2002.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to sound financial position.

Response - The Council is investigating ways to reduce the General Fund deficit. We are looking at selling property currently owned by the City to reduce a portion of the deficit. We are also reviewing where money is spent from and moving some street expenses to the Special Revenue, Road Use Tax Fund. We are also reviewing past expenditures to see if there were areas that money was taken out of the General Fund when it could have come out of another area.

Conclusion - Response acknowledged. The General Fund deficit increased over 90% from the prior fiscal year and the Capital Projects Fund deficit remained unchanged. The City should address these deficits in the next budget cycle as well as develop a long-range plan to eliminate the deficits and return the funds to a sound financial position.

City of De Soto

Staff

This audit was performed by:

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Jedd D. Moore, Assistant Auditor

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Deputy Auditor of State