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Financial Statements and Independent Auditors' Reports and Supplementary Information, 2005

City of De Soto

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CITY OF DE SOTO, MISSOURI

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORTS
AND SUPPLEMENTARY INFORMATION**

October 31, 2005



SCHOWALTER & JABOURI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF DE SOTO, MISSOURI

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CITY OF DE SOTO, MISSOURI

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INDEPENDENT AUDITORS' REPORT

City Council and City Manager
City of De Soto, Missouri

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of De Soto, Missouri (the "City") as of and for the year ended October 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

As discussed in Note 1, the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended October 31, 2005, and the respective changes in financial position and cash flows where applicable, thereof 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 January 11, 2006, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11, the Schedules of Revenues, Expenditures and Change in Fund Balance - Modified Cash Basis - Budget and Actual - General Fund, County Sales Tax Fund, and Capital Improvement Fund - Unaudited on pages 36 through 38, and the Schedule of Funding Progress on page 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and the schedule of insurance coverage on pages 41 through 47 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
January 11, 2006

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

As management of the City of De Soto, Missouri, we offer readers this narrative overview and analysis of the financial activities of the City of De Soto for the fiscal year ended October 31, 2005. We encourage readers to consider the information presented here in conjunction the City's financial statements and footnotes, which follow this section.

Financial Highlights

- ◆ The assets of the City of De Soto exceeded its liabilities at the close of the most recent fiscal year by \$2,985,239 (net assets). Of this amount, \$1,064,566 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ The government's total net assets increased by \$762,527, primarily due to strict budgeting and revenue designated for future projects.
- ◆ As of the close of this current fiscal year, the City of De Soto's governmental funds reported combined ending fund balances of \$2,009,279.
- ◆ Approximately 7 percent of this total amount, \$143,019, is available for spending at the government's discretion (unreserved fund balance).
- ◆ The General Fund has recovered from past deficit fund balances by reporting a balance of \$86,517 at fiscal year-end.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of De Soto's basic financial statements. The City of De Soto's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Required supplementary information and additional supplementary information are also included in addition to the basic financial statements.

Basis of Accounting

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions.

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Basis of Accounting (continued)

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

Government-wide financial statements

The *government-wide financial statements* are designed to provide a broad overview of the City of De Soto's finances, in a manner similar to a private-sector business. The government-wide financial statements include the statement of net assets and the statement of activities.

The *statement of net assets* presents information on all of the City of De Soto's assets and liabilities, (on a modified cash basis of accounting) with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of De Soto is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported on a modified cash basis.

Both of the government-wide financial statements distinguish functions of the City of De Soto that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of De Soto include general government, judicial, public safety (inclusive of fire and police), cemetery maintenance and public works. The business-type activities of the City of De Soto include water, sewer and sanitation.

The government-wide financial statements include the City of De Soto itself (*known as the primary government*). The financial statements also include the legally separate Public Library, the component unit of the City of De Soto for which the City is financially accountable. The City reports financial information for this component unit. The City of De Soto also had a component unit, the City of De Soto Public Facility Authority. This component unit had no activity for the year and no balances as of October 31, 2005. The government-wide financial statements can be found on pages 12-13 of this report.

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of De Soto, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of De Soto can be divided into two categories: governmental funds and proprietary funds.

Governmental funds

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Because the fund financial statements and the government-wide financial statements are prepared on the same basis of accounting (modified cash basis), there is no difference in the reported fund balances/net assets on these statements.

The City of De Soto maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, County Sales Tax Fund, and Capital Improvement Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation called "other governmental funds". Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Proprietary funds

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. The City of De Soto maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

The City of De Soto maintains one enterprise fund. Proprietary funds provide the same type of information as the government-wide financial statements. The proprietary fund financial statements provide separate information for the Water and Wastewater Fund as this is considered to be a major fund of the City of De Soto.

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required and Additional Supplementary Information

The City's budgetary comparison schedules are presented as required supplementary information immediately following the notes to the basic financial statements. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of De Soto, assets exceeded liabilities by \$2,985,239 at the close of the fiscal year ended October 31, 2005. Because the City has elected to report on a modified cash basis, without capital assets, the only portion of the City of De Soto's net assets is cash and investments.

STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

OCTOBER 31, 2005

	Primary Government						Component Unit	
	Governmental Activities		Business-Type Activities		Total		Library	
	2004	2005	2004	2005	2004	2005	2004	2005
-- ASSETS --								
Cash and investments	\$1,543,244	\$2,009,279	\$679,468	\$975,960	\$2,222,712	\$2,985,239	\$136,386	\$161,994
Internal balances.....	(112,473)	--	112,473	--	--	--	--	--
TOTAL ASSETS	\$1,430,771	\$2,009,279	\$791,941	\$975,960	\$2,222,712	\$2,985,239	\$136,386	\$161,994
-- NET ASSETS --								
Restricted for:								
Capital projects.....	\$1,356,046	\$1,731,213	\$ --	\$ --	\$1,356,046	\$1,731,213	\$ --	\$ --
Debt service	--	--	54,413	54,413	54,413	54,413	--	--
Cemetery care - expendable.....	17,135	10,185	--	--	17,135	10,185	--	--
Cemetery care - nonexpendable.....	123,587	124,862	--	--	123,587	124,862	--	--
Unrestricted.....	(65,997)	143,019	737,528	921,547	671,531	1,064,566	136,386	161,994
TOTAL NET ASSETS	\$1,430,771	\$2,009,279	\$791,941	\$975,960	\$2,222,712	\$2,985,239	\$136,386	\$161,994

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Government-wide Financial Analysis (continued)

A portion of the City of De Soto's net assets (64 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$1,064,566) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of De Soto is able to report positive balances in both categories of net assets for the government as a whole, with a 34% (\$762,527) increase in the Primary Government.

The changes in net assets are highlighted in the following table, which shows the City's revenues and expenses for the fiscal year. These two main components are subtracted to yield the change in net assets.

Revenue is further divided into two major components: program revenue and general revenue. Program revenue is defined as charges for sales and services, operating grants and contributions, and capital grants and contributions. General revenue includes taxes, investment income and other unrestricted revenue sources.

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Government-wide Financial Analysis (continued)

A summary of the City's changes in net assets follows:

	Changes in Net Assets							
	Governmental Activities		Business-type Activities		Total		Component Unit	
	2004	2005	2004	2005	2004	2005	2004	2005
Revenues:								
Program Revenues:								
Charges for Services	\$ 319,518	\$ 325,614	\$1,539,011	\$1,756,681	\$ 1,858,529	\$ 2,082,295	\$ 29,213	\$ 19,886
Operating Grants & Contributor	88,922	80,558	-	-	88,922	80,558	5,259	9,250
Capital Grants & Contributions	681,934	517,060	-	-	681,934	517,060	-	-
General Revenues:								
Property Taxes	324,134	329,674	-	-	324,134	329,674	97,794	100,982
Franchise Taxes	783,974	803,897	-	-	783,974	803,897	-	-
Sales Taxes	1,556,536	1,908,149	-	-	1,556,536	1,908,149	24,696	31,578
Other Revenue	124,419	166,918	4,937	12,977	129,356	179,895	1,040	2,662
Total Revenues	3,879,437	4,131,870	1,543,948	1,769,658	5,423,385	5,901,528	158,002	164,358
Expenses:								
General Government	739,751	647,569	-	-	739,751	647,589	-	-
Fire	126,996	205,829	-	-	126,996	205,829	-	-
Police/Comm./Animal Control	938,919	935,549	-	-	938,919	935,549	-	-
Street	449,609	410,201	-	-	449,609	410,201	-	-
Survey / Building Inspection	57,053	70,915	-	-	57,053	70,915	-	-
Parks	207,820	241,086	-	-	207,820	241,086	-	-
Cemetery	9,598	9,457	-	-	9,598	9,457	-	-
Capital Outlay	986,425	897,010	-	-	986,425	897,010	-	-
Debt Service	128,935	135,746	156,147	161,226	285,082	296,972	-	-
Water and Sewer	-	-	799,238	885,176	799,238	885,176	-	-
Wastewater treatment	-	-	137,146	146,061	137,146	146,061	-	-
Refuse	-	-	387,994	393,176	387,994	393,176	-	-
Library	-	-	-	-	-	-	155,135	138,750
Total Expenses	3,645,106	3,553,362	1,480,525	1,585,639	5,125,631	5,139,001	155,135	138,750
Increase in Net Assets	234,331	578,508	63,423	184,019	297,754	762,527	2,867	25,608
Net Assets, beginning of year	1,196,440	1,430,771	728,518	791,941	1,924,958	2,222,712	133,519	136,366
Net Assets, end of year	\$ 1,430,771	\$ 2,009,279	\$ 791,941	\$ 975,960	\$ 2,222,712	\$ 2,985,239	\$ 136,386	\$ 161,994

Governmental Activities

Total governmental activities' revenue for the fiscal year was \$4,131,870. The largest single revenue source for the City was sales taxes of \$1,908,149. Certain revenues are generated that are specific to governmental program activities. These totaled \$923,232 in 2005.

Governmental activities increased the City of De Soto's net assets by \$578,508, accounting for 76 percent of the growth in the government's net assets.

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Business-type Activities

Total business-type activities' revenue for the fiscal year was \$1,769,658. All but \$12,977 of this revenue was generated for specific business-type activity expenses in 2005.

Business-type activities increased the City of De Soto's net assets by \$184,019, accounting for 24 percent of the growth in the government's net assets.

Financial Analysis of the Government's Funds

As noted earlier, the City of De Soto uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of De Soto's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *expendable* resources. Such information is useful in assessing the City of De Soto's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of De Soto's governmental funds reported combined ending fund balances of \$2,009,279, an increase of \$578,508 in comparison with the prior year. Approximately 7 percent of this total amount, (\$143,019), constitute *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed: 1) for future capital road improvements (\$856,196), and 2) for future capital improvements (\$875,017)

The General Fund is the chief operating fund of the City of De Soto. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$86,517, while total fund balance was \$2,009,279.

The demand for city services within the General Fund continues to increase while the revenue has remained relatively constant. Taxes and franchise fees principally support revenue from the General Fund. Revenue from sales taxes increased in the current year by \$199,589, while franchise fees and property taxes were under budget \$43,977.

The County Sales Tax Fund has a total fund balance of \$856,196. The net increase in fund balance during the current year in this fund was \$242,921. This increase is primarily a result of projects planned for future years.

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Governmental Funds (continued)

The Capital Improvement Fund has a total fund balance of \$875,017. The net increase in fund balance during the current year was \$132,246. This increase is primarily a result of some capital improvement projects that were not completed in 2005 as anticipated.

Proprietary Funds

The City of De Soto's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Wastewater Fund at the end of the year were \$921,547. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of De Soto's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for the General Fund can be summarized as follows:

- ◆ The total original revenue budget of \$2,419,530 was increased by \$28,225.
- ◆ The total original expenditure budget of \$2,330,203 was increased by \$47,880.

Capital Asset and Debt Administration

The City of De Soto elected to present financial statements on a modified cash basis of accounting, thereby eliminating the reporting of capital assets and debt.

Additional information on the City of De Soto's debt can be found in Notes 3 and 4 of this report.

Economic Factors and Next Year's Budgets and Rates

- ◆ Real and personal property assessed values have continued to rise but the 2006 increase in property tax revenue is primarily due to new construction in the City of De Soto.
- ◆ Construction of the Wal-Mart store was completed in late October 2004. Sales tax revenue and the rebate agreement for this period has been factored into the 2006 budget including a slight growth in the local economy.

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005 - UNAUDITED

Economic Factors and Next Year's Budgets and Rates (continued)

- ◆ Health care costs and personnel costs, which make up a significant portion of the City's operating expenditures, continue to rise.
- ◆ Significant increases in water and sewer rates were factored into the budget for 2006 in anticipation of future system improvements.

All of these factors were considered in preparing the City of De Soto's budget for fiscal year 2006.

Requests for Information

This financial report is designed to provide a general overview of the City of De Soto's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Amy Rhodes, Finance Director, City of De Soto, 17 Boyd St, De Soto, Missouri 63020.

CITY OF DE SOTO, MISSOURI

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
OCTOBER 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Library
-- ASSETS --				
Cash and investments.....	\$ 2,009,279	\$ 975,960	\$ 2,985,239	\$ 161,994
TOTAL ASSETS.....	\$ 2,009,279	\$ 975,960	\$ 2,985,239	\$ 161,994
-- NET ASSETS --				
Restricted for:				
Capital projects.....	\$ 1,731,213	\$ -	\$ 1,731,213	\$ -
Debt service.....	-	54,413	54,413	-
Cemetery care - expendable.....	10,185	-	10,185	-
Cemetery care - nonexpendable.....	124,862	-	124,862	-
Unrestricted.....	143,019	921,547	1,064,566	161,994
TOTAL NET ASSETS.....	\$ 2,009,279	\$ 975,960	\$ 2,985,239	\$ 161,994

See accompanying notes to the basic financial statements

CITY OF DE SOTO, MISSOURI

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED OCTOBER 31, 2005**

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Library
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants, Contributions and Debt Proceeds	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental Activities:								
City Council.....	\$ 779	\$ -	\$ -	\$ -	\$ (779)	\$ -	\$ (779)	\$ -
Municipal Court.....	68,283	238,186	-	-	169,903	-	169,903	-
General Administration.....	538,176	58,060	52,853	-	(427,263)	-	(427,263)	-
Fire Department.....	205,829	-	-	-	(205,829)	-	(205,829)	-
Police Department.....	704,846	3,686	11,582	-	(689,578)	-	(689,578)	-
Communications Division.....	174,823	-	-	-	(174,823)	-	(174,823)	-
Animal/Control Code.....	55,880	1,402	-	-	(54,478)	-	(54,478)	-
Surveyor Department.....	27,310	-	-	-	(27,310)	-	(27,310)	-
Street Department.....	410,201	-	-	-	(410,201)	-	(410,201)	-
Custodial Department.....	40,331	-	-	-	(40,331)	-	(40,331)	-
Fire/Building Inspection.....	43,605	-	-	-	(43,605)	-	(43,605)	-
Parks.....	241,086	23,585	15,123	30,630	(171,748)	-	(171,748)	-
Cemetery Maintenance.....	9,457	695	1,000	-	(7,762)	-	(7,762)	-
Capital Outlay.....	897,010	-	-	486,430	(410,580)	-	(410,580)	-
Debt Service:								
Principal.....	97,945	-	-	-	(97,945)	-	(97,945)	-
Interest and other expenses.....	37,801	-	-	-	(37,801)	-	(37,801)	-
Total Governmental Activities.....	3,553,362	325,614	80,558	517,060	(2,630,130)	-	(2,630,130)	-
Business-Type Activities:								
Water distribution and sewer collection.....	885,176	1,360,052	-	-	-	474,876	474,876	-
Wastewater treatment.....	146,061	-	-	-	-	(146,061)	(146,061)	-
Refuse service.....	393,176	396,629	-	-	-	3,453	3,453	-
Debt Service:								
Principal.....	100,000	-	-	-	-	(100,000)	(100,000)	-
Interest and other expenses.....	61,226	-	-	-	-	(61,226)	(61,226)	-
Total Business-Type Activities.....	1,585,639	1,756,681	-	-	-	171,042	171,042	-
Total Primary Government.....	\$ 5,139,001	\$ 2,082,295	\$ 80,558	\$ 517,060	(2,630,130)	171,042	(2,459,088)	-
Component Unit:								
Library.....	\$ 138,750	\$ 19,886	\$ 9,250	\$ -				(109,614)
General Revenues:								
Property taxes.....					329,674	-	329,674	100,982
Franchise taxes.....					803,897	-	803,897	-
Sales taxes.....					1,908,149	-	1,908,149	31,578
Investment income.....					35,858	11,946	47,804	1,573
Miscellaneous.....					131,060	1,031	132,091	1,089
Total General Revenues.....					3,208,638	12,977	3,221,615	135,222
Change in Net Assets.....					578,508	184,019	762,527	25,608
Net Assets, Beginning of the Year.....					1,430,771	791,941	2,222,712	136,386
Net Assets, End of the Year.....					\$ 2,009,279	\$ 975,960	\$ 2,985,239	\$ 161,994

See accompanying notes to the basic financial statements

CITY OF DE SOTO, MISSOURI

**BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
OCTOBER 31, 2005**

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General Fund	County Sales Tax Fund	Capital Improvement Fund	Other Governmental Funds	
-- ASSETS --					
Cash and investments.....	\$ 86,517	\$ 856,196	\$ 875,017	\$ 191,549	\$ 2,009,279
TOTAL ASSETS.....	\$ 86,517	\$ 856,196	\$ 875,017	\$ 191,549	\$ 2,009,279
-- FUND BALANCES --					
FUND BALANCES:					
Reserved for:					
Capital road improvements.....	\$ -	\$ 856,196	\$ -	\$ -	\$ 856,196
Capital improvements.....	-	-	875,017	-	875,017
Cemetery care - expendable.....	-	-	-	10,185	10,185
Cemetery care - nonexpendable.....	-	-	-	124,862	124,862
Unreserved.....	86,517	-	-	-	86,517
Unreserved, reported in nonmajor special revenue funds.....	-	-	-	56,502	56,502
TOTAL FUND BALANCES.....	\$ 86,517	\$ 856,196	\$ 875,017	\$ 191,549	\$ 2,009,279

See accompanying notes to the basic financial statements

CITY OF DE SOTO, MISSOURI

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005**

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General Fund	County Sales Tax Fund	Capital Improvement Fund	Other Governmental Funds	
REVENUES:					
Property, utility, franchise taxes.....	\$ 1,073,223	\$ -	\$ -	\$ 60,348	\$ 1,133,571
Sales tax.....	915,773	379,812	507,303	105,261	1,908,149
Burial fees.....	-	-	-	695	695
Licenses, permits and fees.....	62,782	-	-	-	62,782
Fines and forfeitures.....	233,447	-	-	7,971	241,418
Donations.....	-	-	-	1,000	1,000
Intergovernmental revenue.....	7,329	23,907	133,020	-	164,256
Interest and miscellaneous.....	174,422	23,240	43,024	81,696	322,382
Total Revenues.....	2,466,976	426,959	683,347	256,971	3,834,253
EXPENDITURES:					
Current:					
City Council.....	779	-	-	-	779
Municipal Court.....	68,283	-	-	-	68,283
General Administration.....	538,176	-	-	-	538,176
Fire Department.....	205,829	-	-	-	205,829
Police Department.....	702,769	-	-	2,077	704,846
Communications Division.....	174,823	-	-	-	174,823
Animal/Control Code.....	55,880	-	-	-	55,880
Surveyor Department.....	27,310	-	-	-	27,310
Street Department.....	410,201	-	-	-	410,201
Custodial Department.....	40,331	-	-	-	40,331
Fire/Building Inspection.....	43,605	-	-	-	43,605
Parks.....	-	-	-	241,086	241,086
Cemetery Maintenance.....	-	-	-	9,457	9,457
Capital Outlay.....	-	184,038	712,972	-	897,010
Debt Service:					
Principal.....	-	-	97,945	-	97,945
Interest and other.....	-	-	37,801	-	37,801
Total Expenditures.....	2,267,986	184,038	848,718	252,620	3,553,362
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	198,990	242,921	(165,371)	4,351	280,891
OTHER FINANCING SOURCES (USES):					
Construction loan proceeds.....	-	-	297,617	-	297,617
Operating transfers in.....	-	-	-	250	250
Operating transfers out.....	-	-	-	(250)	(250)
Total Other Financing Sources (Uses).....	-	-	297,617	-	297,617
NET CHANGES IN FUND BALANCES.....	198,990	242,921	132,246	4,351	578,508
FUND BALANCES, BEGINNING OF YEAR.....	(112,473)	613,275	742,771	187,198	1,430,771
FUND BALANCES, END OF YEAR.....	\$ 86,517	\$ 856,196	\$ 875,017	\$ 191,549	\$ 2,009,279

See accompanying notes to the basic financial statements

CITY OF DE SOTO, MISSOURI

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS - PROPRIETARY FUND
OCTOBER 31, 2005

	<u>Water and Wastewater Enterprise Fund</u>
-- ASSETS --	
CURRENT ASSETS:	
Cash and investments.....	\$ 921,547
Total Current Assets.....	<u>921,547</u>
NONCURRENT ASSETS:	
Restricted cash and investments.....	<u>54,413</u>
Total Noncurrent Assets.....	<u>54,413</u>
TOTAL ASSETS.....	<u><u>\$ 975,960</u></u>
-- NET ASSETS --	
Restricted for:	
Debt service.....	\$ 54,413
Unrestricted.....	<u>921,547</u>
TOTAL NET ASSETS.....	<u><u>\$ 975,960</u></u>

See accompanying notes to the basic financial statements

CITY OF DE SOTO, MISSOURI

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN
FUND NET ASSETS - MODIFIED CASH BASIS - PROPRIETARY FUND
FOR THE YEAR ENDED OCTOBER 31, 2005

	<u>Water and Wastewater Enterprise Fund</u>
OPERATING REVENUES:	
Water sales.....	\$ 757,233
Sewer charges.....	531,469
Refuse collection.....	396,629
Meter deposits.....	3,677
Other operating revenues.....	<u>68,704</u>
 Total Operating Revenues.....	 <u>1,757,712</u>
OPERATING EXPENSES:	
Water distribution and sewer collection.....	885,176
Wastewater treatment.....	146,061
Refuse service.....	<u>393,176</u>
 Total Operating Expenses.....	 <u>1,424,413</u>
 OPERATING INCOME.....	 <u>333,299</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income.....	11,946
Principal expense.....	(100,000)
Interest expense.....	(58,558)
Paying agent fees.....	<u>(2,668)</u>
 Total Non-Operating Revenues (Expenses).....	 <u>(149,280)</u>
 CHANGE IN NET ASSETS.....	 184,019
Net Assets, Beginning of Year.....	<u>791,941</u>
Net assets, End of Year.....	<u>\$ 975,960</u>

See accompanying notes to the basic financial statements

CITY OF DE SOTO, MISSOURI

STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS - PROPRIETARY FUND
FOR THE YEAR ENDED OCTOBER 31, 2005

	<u>Water and Wastewater Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers.....	\$ 1,754,035
Payments to suppliers.....	(949,795)
Payments to employees.....	(474,618)
Receipts of customer utility deposits.....	21,534
Refunds of customer utility deposits.....	(17,857)
	<hr/>
Net Cash Provided by Operating Activities.....	333,299
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on note and capital lease.....	(100,000)
Interest paid on note and capital lease.....	(58,558)
Fiscal agent fees paid on note and capital lease.....	(2,668)
	<hr/>
Net Cash Used In Capital and Related Financing Activities.....	(161,226)
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends.....	11,946
	<hr/>
Net Cash Provided by Investing Activities.....	11,946
 NET INCREASE IN CASH AND CASH EQUIVALENTS.....	 184,019
 CASH AND CASH EQUIVALENTS:	
Beginning of year.....	791,941
End of year.....	<u>\$ 975,960</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income.....	<u>\$ 333,299</u>
	<hr/>
Net Cash Provided By Operating Activities.....	<u>\$ 333,299</u>

See accompanying notes to the basic financial statements

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of De Soto, Missouri (the "City"), is a third-class city under Missouri Statutes and operates under a Council-Manager form of government. The City Council consists of five members elected at large for terms of three years. The City Council annually elects one of its members as Mayor to preside at Council meetings and to serve as the official head of the City. The City Manager serves as the administrative head of the City government.

As discussed further in Note 1, these financial statements are presented on the modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which cash GASB prevails.

The Reporting Entity:

The City's financial reporting entity is composed of the following:

Primary Government:	City of De Soto, Missouri
Blended Component Unit:	City of De Soto Public Facilities Authority
Discretely Presented Component Unit:	City of De Soto Public Library

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

Blended Component Unit

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City Council, or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The City of De Soto Public Facilities Authority (the "Authority") is a blended component unit. The Authority had no activity for the year.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is the City of De Soto Public Library (the "Library").

The component units do not issue separately audited component unit financial statements.

Related Organization

The City Council appoints the governing members of the City of De Soto Industrial Development Authority, but the City's accountability for this organization does not extend beyond making such appointments. As such, this related organization is not included as a component unit within the City's financial reporting entity.

Basis of Presentation

Government-Wide Financial Statements:

The statement of net assets and the statement of activities present financial information about the primary government (the City) and its component units. These statements include the financial activities of the reporting entity, except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or part by fees charged to external parties for goods or services.

The statement of net assets presents the financial condition of the governmental activities and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the City and each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Amounts reported as *program revenues* include (a) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; and (b) grants and contributions that are restricted to meeting the operational or capital

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Government-Wide Financial Statements (continued):

requirements of a particular program. Revenues not classified as *program revenues* are presented as general revenues and include all taxes. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of that fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings result from non-exchange transactions.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Fund Financial Statements (continued):

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund

The General fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The reporting entity includes the following special revenue funds:

- * County Sales Tax Fund - This fund accounts for taxes received from Jefferson County that are required to be used for capital improvements to publicly maintained roads.
- * Capital Improvement Fund - This fund accounts for a city sales tax that is required to be used for funding of capital improvements (streets, recreation, equipment).

Parks Fund - This fund accounts for the portion of the tax levy set for the park and is used for the development and maintenance of the City's parks.

Special Police Training Fund - This fund accounts for a percentage of court receipts that are required to be used for POST training.

Cemetery Maintenance Fund - This fund accounts for receipts collected for lots sold, burial fees and contributions made and is used for the maintenance and upkeep of the City's cemetery.

- * Reported as major funds.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent Funds

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that support the City's programs. The reporting entity includes the following permanent fund which is reported as nonmajor:

Cemetery Perpetual Care Fund

Proprietary Funds:

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

Water and Wastewater Enterprise Fund - This fund accounts for activities in providing water, wastewater and refuse services to the public.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and fund financial statements are prepared using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions except that the purchases of investments are recorded as assets. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Cash and Cash Equivalents

The City considers cash and cash equivalents in proprietary funds to be cash on hand, demand deposits and all highly liquid investments with an original maturity of 1 year or less to be cash equivalents.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied at the end of August and mailed to residents in November, at which time they are payable. All unpaid taxes levied become delinquent January 1 of the following year.

In prior years, the City had billed and collected its own property taxes. On August 1, 1996, the City entered into an agreement with Jefferson County, Missouri to prepare and collect tax bills for the City for agreed upon compensation.

The assessed valuation of tangible taxable property included within the City's boundaries for the calendar year 2004 was approximately \$49,100,000. The tax levy per \$100 of assessed value was \$.7752.

Fund Balance - Reserved

The City reserves those portions of fund equity legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Net assets represents the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use by outside parties or by law through constitutional provisions or enabling legislation. All other net assets are reported unrestricted. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Activity

Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Elimination of interfund activity has been made for governmental activities in the government-wide financial statements.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. No extraordinary or special items occurred during the year.

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool available to all City funds. For financial reporting purposes, investments are allocated in proportion to each fund's cash balance to the total cash balance.

The City is governed by the deposit and investment limitations of state law which authorizes the following types of investments: United States Treasury Bills, Federal Agency Obligations, Obligations of Government Sponsored Corporations, Certificates of Deposits and Repurchase Agreements collateralized by government securities.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

2. CASH AND INVESTMENTS (continued)

The deposits and investments held at October 31, 2005, and reported at cost, are as follows:

<u>Type</u>	<u>Maturities</u>	<u>Cost</u>
Governmental Activities:		
Deposits:		
Demand deposits	N/A	\$ 756,439
Money market	N/A	5,140
Certificate of deposits	< 1 year	125,015
Cash on hand.....	N/A	500
Investments:		
External Investment Pool.....	N/A	831,308
Federal Home Loan Mortgage Corp.....	< 1 year	<u>290,877</u>
Total Deposits and Investments		<u>2,009,279</u>
Business-Type Activities:		
Deposits and Investments:		
Demand deposits	N/A	518,295
Federal Home Loan Mortgage Corp.....	< 1 year	<u>457,665</u>
Total Deposits and Investments		<u>975,960</u>
Total Primary Government		<u><u>\$2,985,239</u></u>
Component Unit:		
Deposits:		
Demand deposits	N/A	\$ 65,944
Certificate of deposits	< 1 year	96,000
Cash on hand.....	NA	<u>50</u>
Total Deposits.....		<u><u>\$ 161,994</u></u>

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

2. CASH AND INVESTMENTS (continued)

Custodial Credit Risk - Deposits

For a deposit, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy does not include custodial credit risk requirements. As of October 31, 2005, \$225,404 of the City's bank balance of \$1,422,404 was exposed to custodial credit risk, as follows:

Uncollateralized \$225,404

As of October 31, 2005, \$55,998 of the Library's bank balance was collateralized with securities held by the pledging financial institution. The Library's investment policy does not include custodial credit risk requirements.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of October 31, 2005 the City had no investments which are subject to custodial credit risk. The City does not have a policy for custodial credit risk relating to investments.

Investment Interest Rate Risk

The City has no policy in place to minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The City's investments held at October 31, 2005 have maturities of less than one year.

Investment Credit Risk

The City has no policy in place to minimize credit risk, the risk of loss due to the failure of the security issuer or backer by pre-qualifying the institution with which the City will do business.

At October 31, 2005, the City's investment was rated as follows:

<u>Description</u>	<u>Financial Institution</u>	<u>Amount</u>	<u>Rating</u>
Federal Home Loan Mortgage Corp.....	National City	\$ 748,542	A-1+

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

2. CASH AND INVESTMENTS (continued)

Concentration of Investment Credit Risk

Concentration of credit risk is required to be disclosed by the City for any single investment that represents 5% or more of total investments (excluding investments issued by or explicitly guaranteed by the US Government, investments in mutual funds, investments in external investment pools and investments in other pooled investments).

The City has no policy in place to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of securities.

The City's investment concentrations are stated in the schedule below.

<u>Description</u>	<u>Concentration</u>
City:	
Federal Home Loan Mortgage Corp.....	100%

3. LONG-TERM DEBT

Long-term debt as of October 31, 2005, consists of the following:

A. Notes Payable

Note payable to National City Bank, collateralized by a fire truck; payable in monthly installments of \$2,407 including interest at 4.75% with the unpaid principal due in full March 28, 2006	\$ 46,029
Note payable to Eagle Bank and Trust Company, collateralized by a sweeper; payable in one payment of interest of \$285.43 and principal of \$6,000 on April 9, 2006 and one payment of \$7,505.23 due on October 9, 2006	13,347
Note payable to First State Community Bank, collateralized by land; payable in monthly installments in the amount of \$1,922 including interest at 6.150% with the unpaid principal due in full October, 2011	236,776

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

3. LONG-TERM DEBT (continued)

A. Notes Payable (continued)

* Construction note payable to First State Community Bank, payable in 2 monthly installments in the amount of \$4,538 including interest at 5.15% with the unpaid principal due in full March 2006	<u>297,618</u>
	<u>\$ 593,770</u>

* The total principal available to the City to draw on is \$400,000.

The annual requirements, to be paid out of the Capital Improvement Fund, to retire the notes payable above as of October 31, 2005, are as follows:

<u>Year Ending October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006.....	\$365,818	\$ 22,001	\$387,819
2007.....	9,383	13,743	23,126
2008.....	9,976	13,150	23,126
2009.....	10,607	12,519	23,126
2010.....	11,278	11,848	23,126
2011.....	<u>186,708</u>	<u>11,134</u>	<u>197,842</u>
Total	<u>\$593,770</u>	<u>\$ 84,395</u>	<u>\$678,165</u>

B. Capital Lease

During the year ended October 31, 2000, the City entered into a lease for a fire truck that is classified as a capital lease. The total cost of all items under the capital lease was approximately \$490,000. In March of 2003, the City refinanced the lease.

The following is a schedule of future minimum lease payments, to be paid out of the Capital Improvement Fund, under the capital lease together with the present value of the net minimum lease payments as of October 31, 2005:

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

3. LONG-TERM DEBT (continued)

B. Capital Lease (continued)

<u>Year Ending October 31,</u>	
2006	\$ 64,070
2007	64,070
2008	64,070
2009	64,070
2010	<u>64,070</u>
 Total future minimum lease payments ...	 320,350
 Less amount representing interest.....	 <u>(37,861)</u>
 Present value of future minimum lease payments	 <u>\$ 282,489</u>

Changes in long-term debt during the year ended October 31, 2005, were as follows:

	Balance Outstanding November 1, 2004	Additions	Retirements	Balance Outstanding October 31, 2005	Amounts Due Within One Year
Notes payable.....	\$ 344,457	\$297,617	\$ 48,304	\$ 593,770	\$ 365,818
Capital lease obligations	<u>332,130</u>	<u>--</u>	<u>49,641</u>	<u>282,489</u>	<u>51,797</u>
	<u>\$ 676,587</u>	<u>\$297,617</u>	<u>\$ 97,945</u>	<u>\$ 876,259</u>	<u>\$ 417,615</u>

4. PROPRIETARY FUND LONG-TERM DEBT

Long-term debt of the Water and Wastewater Enterprise Fund as of October 31, 2005, consists of the following:

\$505,000 Combined Waterworks and Sewerage System Revenue Bonds, Series 1994, principal payable in various installments on July 1, plus interest at various rates from 5.25% - 6.25% payable in semiannual installments on January 1 and July 1	<u>\$ 70,000</u>
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CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

4. PROPRIETARY FUND LONG-TERM DEBT (continued)

Changes in long-term debt during the year ended October 31, 2005, were as follows:

	Balance Outstanding November 1, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	Balance Outstanding October 31, <u>2005</u>	Amounts Due Within <u>One Year</u>
Revenue bonds ..	\$ <u>135,000</u>	\$ <u>--</u>	\$ <u>65,000</u>	\$ <u>70,000</u>	\$ <u>70,000</u>

The annual requirements to retire the above long-term debt are as follows:

<u>Year Ending October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006.....	\$ <u>70,000</u>	\$ <u>4,375</u>	\$ <u>74,375</u>

Lease Purchase Agreement

The City of De Soto (the "City") entered into a lease purchase agreement with UMB Bank, N. A. (the "Bank") on March 1, 2002. The City leased City Hall (the "Site") and the project (costs of acquiring, constructing, furnishing and equipping improvements to the Site, to the City's combined waterworks and sewerage system and to the City's public works building) to the Bank until March 1, 2022. Consideration for the leasing of the project site is that the Bank will issue and sell the lease participation certificates. The City simultaneously executed a lease with the Bank for the site and project. The term of this lease is twenty consecutive one-year renewal terms ending October 31 of each year and terminating March 2, 2022. Upon making the last payment, the Bank will deed the site and project back to the City. Rental payments are principal and interest payments and fees connected with the lease participation certificates. The bonds are secured by the Bank's interest in the site lease.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

4. PROPRIETARY FUND LONG-TERM DEBT (continued)

Lease Purchase Agreement (continued)

Future minimum lease payments under the capital lease are as follows:

2006	\$ 83,846
2007	82,368
2008	85,696
2009	83,836
2010	81,906
2011-2015	418,393
2016-2020	408,707
2021-2022	<u>164,253</u>
 Total future minimum lease payments	 1,409,005
 Less amount representing interest	 <u>(504,005)</u>
 Present value of future minimum lease payments	 <u>\$ 905,000</u>

5. COMMITMENTS AND CONTINGENCIES

Contracts

In the normal course of operations, the City has contracted for various services such as refuse, law enforcement system data, animal pound, computer hardware and software maintenance, property tax billings and collections, etc. Each agreement contains clauses for continuation and/or termination.

6. RETIREMENT PLAN

a. Plan Description

The City of De Soto participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

6. RETIREMENT PLAN (continued)

a. Plan Description (continued)

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

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

b. Funding Status

The City of De Soto's full-time employees do not contribute to the pension plan. The City is required to contribute at an actuarially determined rate; the current rate is 2.4% (general) and 2.3% (police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the City. The contribution provisions of the City are established by state statute.

c. Annual Pension Cost

For 2005, the City's annual pension cost of \$33,790 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2003 and/or February 29, 2004 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, (d) pre-retirement mortality based on the 1983 Group Annuity

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

6. RETIREMENT PLAN (continued)

c. Annual Pension Cost (continued)

Mortality table, and e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at February 28, 2005 was 18 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/03	\$ 46,758	100%	\$0
06/30/04	\$ 33,140	100%	\$0
06/30/05	\$ 33,790	100%	\$0

7. PUBLIC ENTITY RISK POOL

The City is a member of the Missouri Intergovernmental Risk Management Association (MIRMA), which provides protected self-insurance to member political subdivisions. MIRMA is enabled by Missouri statutes, RSMo 537.620 through 537.755. Participating members pool risks through annual assessments based upon the member's total annual payroll for the calendar year. Supplemental assessments to members are also provided for by MIRMA's by-laws.

The City reports its assessments as an insurance expenditure or expense, as appropriate for the fund type.

8. ECONOMIC DEPENDENCY

Approximately 50% of city sales tax revenues received are collected by three retail outlets located in the City.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2005

9. SUBSEQUENT EVENT

Subsequent to year end, the City drew down the remainder of the \$400,000 construction loan (see Note 3).

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DE SOTO, MISSOURI

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
MODIFIED CASH BASIS - BUDGET AND ACTUAL - GENERAL FUND - UNAUDITED
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property, utility, franchise taxes.....	\$ 1,117,200	\$ 1,117,200	\$ 1,073,223	\$ (43,977)
Sales tax.....	887,550	915,775	915,773	(2)
Licenses, permits and fees.....	56,780	56,780	62,782	6,002
Fines and forfeitures.....	155,500	155,500	233,447	77,947
Intergovernmental revenue.....	6,000	6,000	7,329	1,329
Interest and miscellaneous.....	196,500	196,500	174,422	(22,078)
Total Revenues.....	2,419,530	2,447,755	2,466,976	19,221
EXPENDITURES:				
Current:				
City Council.....	1,363	1,363	779	584
Municipal Court.....	56,293	56,293	68,283	(11,990)
General Administration.....	560,608	560,608	538,176	22,432
Fire Department.....	168,660	206,595	205,829	766
Police Department.....	724,617	724,617	702,769	21,848
Communications Division.....	194,934	194,934	174,823	20,111
Animal/Control Code.....	56,778	56,778	55,880	898
Surveyor Department.....	16,408	26,353	27,310	(957)
Street Department.....	449,356	449,356	410,201	39,155
Custodial Department.....	43,277	43,277	40,331	2,946
Fire/Building Inspection.....	57,909	57,909	43,605	14,304
Total Expenditures.....	2,330,203	2,378,083	2,267,986	110,097
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	89,327	69,672	198,990	129,318
OTHER FINANCING SOURCES:				
Operating transfers in.....	100,000	100,000	-	(100,000)
Total Other Financing Sources.....	100,000	100,000	-	(100,000)
NET CHANGE IN FUND BALANCE.....	189,327	169,672	198,990	29,318
FUND BALANCE, BEGINNING OF YEAR.....	(112,473)	(112,473)	(112,473)	-
FUND BALANCE, END OF YEAR.....	\$ 76,854	\$ 57,199	\$ 86,517	\$ 29,318

See accompanying independent auditors' report and
notes to required supplementary information

CITY OF DE SOTO, MISSOURI

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
 MODIFIED CASH BASIS - BUDGET AND ACTUAL -
 COUNTY SALES TAX FUND - UNAUDITED
 FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Sales tax.....	\$ 375,785	\$ 375,785	\$ 379,812	\$ 4,027
Intergovernmental revenue.....	-	-	23,907	23,907
Interest and miscellaneous.....	6,000	6,000	23,240	17,240
Total Revenues.....	381,785	381,785	426,959	45,174
EXPENDITURES:				
Capital outlay.....	313,000	313,000	184,038	128,962
Total Expenditures.....	313,000	313,000	184,038	128,962
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	68,785	68,785	242,921	174,136
OTHER FINANCING USES:				
Operating transfers out.....	(100,000)	(100,000)	-	100,000
Total Other Financing Uses.....	(100,000)	(100,000)	-	100,000
NET CHANGE IN FUND BALANCE.....	(31,215)	(31,215)	242,921	274,136
FUND BALANCE, BEGINNING OF YEAR.....	613,275	613,275	613,275	-
FUND BALANCE, END OF YEAR.....	\$ 582,060	\$ 582,060	\$ 856,196	\$ 274,136

See accompanying independent auditors' report and
 notes to required supplementary information

CITY OF DE SOTO, MISSOURI

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
 MODIFIED CASH BASIS - BUDGET AND ACTUAL -
 CAPITAL IMPROVEMENT FUND - UNAUDITED
 FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Sales tax.....	\$ 420,000	\$ 508,000	\$ 507,303	\$ (697)
Intergovernmental revenue.....	131,355	131,355	133,020	1,665
Interest and miscellaneous.....	20,500	20,500	43,024	22,524
Total Revenues.....	571,855	659,855	683,347	23,492
EXPENDITURES:				
Capital outlay.....	543,950	818,612	712,972	105,640
Debt service:				
Principal.....	-	-	97,945	(97,945)
Interest and other.....	-	-	37,801	(37,801)
Total Expenditures.....	543,950	818,612	848,718	(30,106)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	27,905	(158,757)	(165,371)	(6,614)
OTHER FINANCING SOURCES:				
Construction loan proceeds.....	-	402,500	297,617	(104,883)
Total Other Financing Sources.....	-	402,500	297,617	(104,883)
NET CHANGE IN FUND BALANCES.....	27,905	243,743	132,246	(111,497)
FUND BALANCE, BEGINNING OF YEAR.....	742,771	742,771	742,771	-
FUND BALANCE, END OF YEAR.....	\$ 770,676	\$ 986,514	\$ 875,017	\$ (111,497)

See accompanying independent auditors' report and
 notes to required supplementary information

CITY OF DE SOTO, MISSOURI

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OCTOBER 31, 2005

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Chapter 67 RSMo, the City adopts a budget for each governmental fund.
2. Prior to November, the Finance Director, who serves as the budget officer, submits to the City Council a proposed budget for the fiscal year beginning on the following November 1. The proposed budget includes estimated revenues and proposed expenditures for all budgeted funds. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
3. A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the City Council, the budget document is available for public inspection.
4. Prior to November 1, the budget is legally enacted by a vote of the City Council.
5. Subsequent to its formal approval of the budget, the City Council has the authority to make necessary adjustments to the budget by formal vote of the Council. Adjustments made during the year are reflected in the budget information included in the financial statements.

Budgeted amounts are as originally adopted on October 18, 2004 or as amended by the City Council on October 17, 2005.

6. Budgets are prepared and adopted on the modified cash basis of accounting, recognizing revenues when collected and expenditures when paid.

Actual expenditures exceeded budgeted expenditures in the Capital Improvement fund.

CITY OF DE SOTO, MISSOURI

**SCHEDULE OF FUNDING PROGRESS - EMPLOYEES RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005**

The following required supplementary information relates to the City of De Soto's participation in Missouri LAGERS, an agent multiple-employer public retirement system.

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[b-a]/c] UAL as a Percentage of Covered Payroll
02/28/03	\$1,682,777	\$1,065,813	\$(616,964)	158%	\$1,339,779	--
02/29/04	1,817,777	1,252,490	(565,287)	145%	1,333,144	--
02/28/05	1,879,534	1,238,487	(641,047)	152%	1,290,190	--

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2001 annual actuarial valuations. For a complete description of the actuarial valuations, please contact the LAGERS office in Jefferson City.

ADDITIONAL SUPPLEMENTARY INFORMATION

CITY OF DE SOTO, MISSOURI

COMBINING BALANCE SHEET - MODIFIED CASH BASIS -
NONMAJOR GOVERNMENTAL FUNDS
OCTOBER 31, 2005

	<u>Special Revenue Funds</u>			<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Parks Fund</u>	<u>Special Police Training Fund</u>	<u>Cemetery Maintenance Fund</u>	<u>Cemetery Perpetual Care Fund</u>	
-- ASSETS --					
Cash and investments.....	\$ 44,114	\$ 12,388	\$ 10,185	\$ 124,862	\$ 191,549
TOTAL ASSETS.....	<u>\$ 44,114</u>	<u>\$ 12,388</u>	<u>\$ 10,185</u>	<u>\$ 124,862</u>	<u>\$ 191,549</u>
-- FUND BALANCES --					
FUND BALANCES:					
Unreserved.....	\$ 44,114	\$ 12,388	\$ 10,185	\$ 124,862	\$ 191,549
TOTAL FUND BALANCES.....	<u>\$ 44,114</u>	<u>\$ 12,388</u>	<u>\$ 10,185</u>	<u>\$ 124,862</u>	<u>\$ 191,549</u>

CITY OF DE SOTO, MISSOURI

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005**

	Special Revenue Funds			Permanent Fund	Total Nonmajor Governmental Funds
	Parks Fund	Special Police Training Fund	Cemetery Maintenance Fund	Cemetery Perpetual Care Fund	
REVENUES:					
Property, utility, franchise taxes.....	\$ 60,348	\$ -	\$ -	\$ -	\$ 60,348
Sales tax.....	105,261	-	-	-	105,261
Burial fees.....	-	-	695	-	695
Fines and forfeitures.....	-	7,971	-	-	7,971
Donations.....	-	-	-	1,000	1,000
Interest and miscellaneous.....	79,443	166	2,062	25	81,696
Total Revenues.....	245,052	8,137	2,757	1,025	256,971
EXPENDITURES:					
Current:					
Police Department.....	-	2,077	-	-	2,077
Parks.....	241,086	-	-	-	241,086
Cemetery Maintenance.....	-	-	9,457	-	9,457
Total Expenditures.....	241,086	2,077	9,457	-	252,620
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	3,966	6,060	(6,700)	1,025	4,351
OTHER FINANCING SOURCES (USES):					
Operating transfers in.....	-	-	-	250	250
Operating transfers out.....	-	-	(250)	-	(250)
Total Other Financing Sources (Uses).....	-	-	(250)	250	-
NET CHANGES IN FUND BALANCES.....	3,966	6,060	(6,950)	1,275	4,351
FUND BALANCES, BEGINNING OF YEAR.....	40,148	6,328	17,135	123,587	187,198
FUND BALANCES, END OF YEAR.....	\$ 44,114	\$ 12,388	\$ 10,185	\$ 124,862	\$ 191,549

CITY OF DE SOTO, MISSOURI

WATER AND WASTEWATER ENTERPRISE FUND
SCHEDULE OF INSURANCE COVERAGE
OCTOBER 31, 2005

The City is a member of the Missouri Intergovernmental Risk Management Association (MIRMA), which provides protected self-insurance to member political subdivisions. The following coverages are in effect for the period July 1, 2005, through June 30, 2006:

- | | | |
|----|--|---|
| A. | Fire and Extended Coverage: | Limits: 100% replacement cost including Earthquake all locations
Deductible: \$1,000 per occurrence |
| B. | Money and Securities and Employee Fidelity | Limits: \$100,000 per occurrence
Deductible: None |
| C. | Contractors' Equipment | Limits: \$1,038,800
Deductible: \$1,000 |
| D. | Automobile Bodily Injury and Property Damage Liability | Limits: \$2,500,000 per occurrence
Aggregate: \$7,500,000
Deductible: None |
| E. | Automobile Physical Damage | Limits: Actual cash value
Deductible: \$1,000 on vehicles $\frac{3}{4}$ ton and under and \$2,500 on vehicles over $\frac{3}{4}$ ton |
| F. | Uninsured Motorist | Limits: \$25,000 per person, \$50,000 per occurrence
Deductible: None |
| G. | Comprehensive General Liability Including: | Limits: \$2,500,000
Aggregate \$7,500,000
Deductible: None |
1. Manufacturers and contractors' liability
 2. Owners, landlords and tenants liability
 3. Contractual liability
 4. Products liability
 5. Completed operations liability
 6. Fire damage legal liability
 7. Liquor liability
 8. Public officials liability
 9. Police professional liability
 10. Special events liability
 11. Airport liability
 12. Sewer back-up liability

CITY OF DE SOTO, MISSOURI

WATER AND WASTEWATER ENTERPRISE FUND
SCHEDULE OF INSURANCE COVERAGE (CONTINUED)
OCTOBER 31, 2005

H.	Employment Practices Liability	Limits: \$1,000,000 Deductible: \$5,000
I.	Workmens' Compensation	Limits: Statutory Deductible: None
J.	Employers' Liability	Limits: \$1,000,000 Deductible: None
K.	Airport Liability	Limits: \$2,000,000 per occurrence Aggregate: \$2,000,000 Deductible: None
L.	Boiler & Machinery	Limits: \$100% replacement cost all locations Deductibles: a) Other than otherwise herein specified: \$1,000 b) Business income and extra expense for electrical power generating locations: thirty (30) days c) Hazardous substance clean up: \$50,000 d) Gas turbines, steam turbines and internal combustion engines/generators greater than 2,000 KW: \$175,000 per occurrence e) Internal combustion engines/generators 2,000 KW or less: \$25,000 per occurrence f) Electrical transformers under 10,000 KVA: \$5,000 g) Electrical transformers 10,000 to 29,000 KVA: \$25,000 h) Electrical transformers 30,000 KVA and greater: \$50,000

CITY OF DE SOTO, MISSOURI

WATER AND WASTEWATER ENTERPRISE FUND
SCHEDULE OF INSURANCE COVERAGE (CONTINUED)
OCTOBER 31, 2005

M. Insurance Companies Participating:

<u>Company</u>	<u>Policy #</u>	<u>Coverage</u>
Midwest Employers Casualty Corp.	EWC007265	Workers' Compensation
Lexington Insurance Co.	8754099	Property & Earthquake
Commonwealth Insurance Co.	US5694	Property & Earthquake
U.S. Fire Insurance Co.	2450054817	Property & Earthquake
Landmark American Insurance Co.	NHD341004	Property & Earthquake
Essex Insurance Co.	ESP3434	Property & Earthquake
The St. Paul Travelers Insurance co.	M5JBMC544 D3193TIL05	Boiler & Machinery
Genesis Insurance Co.	YXB300403H	Auto, General, Public Officials and Police Liability
Ace Property and Casualty Insurance Co.	AAPN00978772002	Airport Liability

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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

City Council and City Manager
City of De Soto, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of De Soto, Missouri (the "City"), as of and for the year ended October 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 11, 2006. Our report on the financial statements disclosed that, as described in Note 1, the City prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in

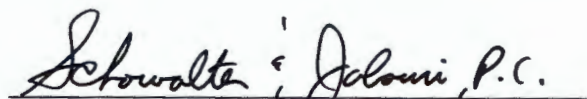
Internal Control Over Financial Reporting (continued)

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated January 11, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated January 11, 2006.

This report is intended solely for the information of the City Council, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
January 11, 2006