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1-1-2007

## Financial Statements and Independent Auditors' Reports and Supplementary Information, 2006

City of De Soto

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# SUSAN MONTEE, CPA

Missouri State Auditor

March 9, 2007

Amy Rhodes, Finance Director/Treasurer

City of DeSoto

Jefferson County

17 Boyd Street

DeSoto, MO 63020-1747

Fiscal Period: One Year Ended October 31, 2006 ✓

Dear Ms. Rhodes:

In accordance with Section 105.145, RSMo, we acknowledge receipt of the financial report of your political subdivision for the above-described fiscal period.

Thank you for your cooperation in sending this information.

Sincerely,

SUSAN MONTEE, CPA  
STATE AUDITOR

A handwritten signature in black ink that reads "Judy Buerky".

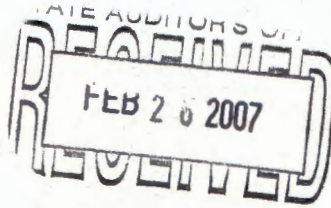
Judy Buerky  
Local Government Analyst

A handwritten signature in black ink, appearing to be a stylized "A" or similar character.



# City of De Soto

17 Boyd Street  
De Soto, MO 63020-1747  
Phone: (636) 586-3326  
Fax: (636) 586-9201



February 22, 2007

Susan Montee  
State Auditor of Missouri  
P.O. Box 869  
Jefferson City, MO 65102

Dear Ms. Montee:

State law requires the City of De Soto to file a financial report with your office each year. A certified public accountant, Schowalter & Jabouri, P.C have audited us. They have prepared an audit report for fiscal year ended October 31, 2006.

Enclosed you will find a copy of the audit report. This report has been completed and filed within the six-month time allowed.

If you should have any questions or need additional information, please contact myself.

Sincerely,

Amy Rhodes  
Finance Director / City Treasurer

Enclosure

**CITY OF DE SOTO, MISSOURI**

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

**October 31, 2006**



**SCHOWALTER & JABOURI, P.C.**  

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**CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF DE SOTO, MISSOURI

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CITY OF DE SOTO, MISSOURI

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# SCHOWALTER & JABOURI, P.C.

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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, 2006, 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.

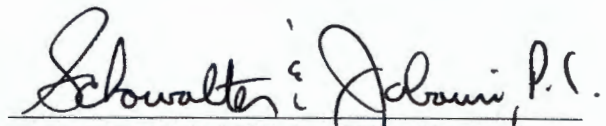
As discussed in Note 1, the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2006, and the respective changes in financial position, and, where applicable, cash flows, 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, 2007, 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 and related notes on pages 35 through 38, and the Schedule of Funding Progress on page 39 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 40 through 44 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, 2007



## CITY OF DESOTO, MISSOURI

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006 - 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, 2006. We encourage readers to consider the information presented here in conjunction with 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 \$4,023,103 (net assets). Of this amount, \$1,713,078 (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 \$1,037,864, primarily due to strict budgeting and revenue designated for future periods.
- ◆ As of the close of this current fiscal year, the City of De Soto's governmental funds reported combined ending fund balances of \$2,744,581.
- ◆ Approximately 16 percent of this total amount, \$434,556, 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 \$326,117 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 are comprised of 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 is 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, 2006 - 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, 2006. 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, 2006 - UNAUDITED

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**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 located in the additional supplementary information section of 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, 2006 - 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 as well as the schedule of funding progress for the City's pension plan 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 as additional 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 \$4,023,103 at the close of the fiscal year ended October 31, 2006. Because the City has elected to report on a modified cash basis, without capital assets, the City of De Soto's net assets consist of cash and investments only.

STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

OCTOBER 31, 2006

|                                    | Governmental Activities |                    | Primary Government Business-Type Activities |                    | Total              |                    | Component Unit Library |                  |
|------------------------------------|-------------------------|--------------------|---|--------------------|--------------------|--------------------|------------------------|------------------|
|                                    | 2005                    | 2006               | 2005  | 2006               | 2005               | 2006               | 2005                   | 2006             |
|                                    | -- ASSETS --            |                    |   |                    |                    |                    |                        |                  |
| Cash and investments.....          | \$2,009,279             | \$2,744,581        | \$975,960                                   | \$1,278,522        | \$2,985,239        | \$4,023,103        | \$161,994              | \$182,573        |
| <b>TOTAL ASSETS .....</b>          | <b>\$2,009,279</b>      | <b>\$2,744,581</b> | <b>\$975,960</b>                            | <b>\$1,278,522</b> | <b>\$2,985,239</b> | <b>\$4,023,103</b> | <b>\$161,994</b>       | <b>\$182,573</b> |
| -- NET ASSETS --                   |                         |                    |   |                    |                    |                    |                        |                  |
| Restricted for:                    |                         |                    |   |                    |                    |                    |                        |                  |
| Capital projects .....             | \$1,731,213             | \$2,173,007        | \$ --                                       | \$ --              | \$1,731,213        | \$2,173,007        | \$ --                  | \$ --            |
| Debt service .....                 | --                      | --                 | 54,413                                      | --                 | 54,413             | --                 | --                     | --               |
| Cemetery care - expendable .....   | 10,185                  | 11,796             | --  | --                 | 10,185             | 11,796             | --                     | --               |
| Cemetery care - nonexpendable..... | 124,862                 | 125,222            | --  | --                 | 124,862            | 125,222            | --                     | --               |
| Unrestricted.....                  | 143,019                 | 434,556            | 921,547                                     | 1,278,522          | 1,064,566          | 1,713,078          | 161,994                | 182,573          |
| <b>TOTAL NET ASSETS .....</b>      | <b>\$2,009,279</b>      | <b>\$2,744,581</b> | <b>\$975,960</b>                            | <b>\$1,278,522</b> | <b>\$2,985,239</b> | <b>\$4,023,103</b> | <b>\$161,994</b>       | <b>\$182,573</b> |

CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006 - UNAUDITED

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**Government-Wide Financial Analysis (continued)**

A portion of the City of De Soto's net assets (57 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$1,713,078) 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 35% (\$1,037,864) 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, 2006 - 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    |                   |
|                                      | 2005                    | 2006                | 2005                     | 2006                | 2005                | 2006                | 2005              | 2006              |
| <b>Revenues:</b>                     |                         |                     |                          |                     |                     |                     |                   |                   |
| Program Revenues:                    |                         |                     |                          |                     |                     |                     |                   |                   |
| Charges for Services                 | \$ 325,614              | \$ 348,882          | \$ 1,756,681             | \$ 1,953,664        | \$ 2,082,295        | \$ 2,302,546        | \$ 19,886         | \$ 25,970         |
| Operating Grants & Contributions     | 80,558                  | 146,167             | -                        | -                   | 80,558              | 146,167             | 9,250             | 1,422             |
| Capital Grants & Contributions       | 517,060                 | 317,471             | -                        | 100,000             | 517,060             | 417,471             | -                 | -                 |
| General Revenues:                    |                         |                     |                          |                     |                     |                     |                   |                   |
| Property Taxes                       | 329,674                 | 362,155             | -                        | -                   | 329,674             | 362,155             | 100,982           | 109,941           |
| Franchise Taxes                      | 803,897                 | 804,310             | -                        | -                   | 803,897             | 804,310             | -                 | -                 |
| Sales Taxes                          | 1,908,149               | 2,005,917           | -                        | -                   | 1,908,149           | 2,005,917           | 31,578            | 33,371            |
| Other Revenue                        | 166,918                 | 134,970             | 12,977                   | 38,787              | 179,895             | 173,757             | 2,662             | 4,284             |
| <b>Total Revenues</b>                | <b>4,131,870</b>        | <b>4,119,872</b>    | <b>1,769,658</b>         | <b>2,092,451</b>    | <b>5,901,528</b>    | <b>6,212,323</b>    | <b>164,358</b>    | <b>174,988</b>    |
| <b>Expenses:</b>                     |                         |                     |                          |                     |                     |                     |                   |                   |
| General Government                   | 647,569                 | 667,454             | -                        | -                   | 647,569             | 667,454             | -                 | -                 |
| Fire                                 | 205,829                 | 171,062             | -                        | -                   | 205,829             | 171,062             | -                 | -                 |
| Police/Comm./Animal Control          | 935,549                 | 979,000             | -                        | -                   | 935,549             | 979,000             | -                 | -                 |
| Street                               | 410,201                 | 433,392             | -                        | -                   | 410,201             | 433,392             | -                 | -                 |
| Survey / Building Inspection         | 70,915                  | 82,035              | -                        | -                   | 70,915              | 82,035              | -                 | -                 |
| Parks                                | 241,086                 | 232,430             | -                        | -                   | 241,086             | 232,430             | -                 | -                 |
| Cemetery                             | 9,457                   | 6,930               | -                        | -                   | 9,457               | 6,930               | -                 | -                 |
| Capital Outlay                       | 897,010                 | 532,844             | -                        | -                   | 897,010             | 532,844             | -                 | -                 |
| Debt Service                         | 135,746                 | 279,423             | 161,226                  | 160,145             | 296,972             | 439,568             | -                 | -                 |
| Water and Sewer                      | -                       | -                   | 885,176                  | 1,071,508           | 885,176             | 1,071,508           | -                 | -                 |
| Wastewater treatment                 | -                       | -                   | 146,061                  | 152,445             | 146,061             | 152,445             | -                 | -                 |
| Refuse                               | -                       | -                   | 393,176                  | 405,791             | 393,176             | 405,791             | -                 | -                 |
| Library                              | -                       | -                   | -                        | -                   | -                   | -                   | 138,750           | 154,409           |
| <b>Total Expenses</b>                | <b>3,553,362</b>        | <b>3,384,570</b>    | <b>1,585,639</b>         | <b>1,789,889</b>    | <b>5,139,001</b>    | <b>5,174,459</b>    | <b>138,750</b>    | <b>154,409</b>    |
| <b>Increase in Net Assets</b>        | <b>578,508</b>          | <b>735,302</b>      | <b>184,019</b>           | <b>302,562</b>      | <b>762,527</b>      | <b>1,037,864</b>    | <b>25,608</b>     | <b>20,579</b>     |
| <b>Net Assets, beginning of year</b> | <b>1,430,771</b>        | <b>2,009,279</b>    | <b>791,941</b>           | <b>975,960</b>      | <b>2,222,712</b>    | <b>2,985,239</b>    | <b>136,386</b>    | <b>161,994</b>    |
| <b>Net Assets, end of year</b>       | <b>\$ 2,009,279</b>     | <b>\$ 2,744,581</b> | <b>\$ 975,960</b>        | <b>\$ 1,278,522</b> | <b>\$ 2,985,239</b> | <b>\$ 4,023,103</b> | <b>\$ 161,994</b> | <b>\$ 182,573</b> |

**Governmental Activities**

Total governmental activities' revenue for the fiscal year was \$4,119,872. The largest single revenue source for the City was sales taxes of \$2,005,917. Certain revenues are generated that are specific to governmental program activities. These totaled \$812,520 in 2006.

Governmental activities increased the City of De Soto's net assets by \$735,302, accounting for 71 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, 2006 - UNAUDITED

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#### **Business-type Activities**

Total business-type activities' revenue for the fiscal year was \$2,092,451. All but \$138,787 of this revenue was generated for specific business-type activity expenses in 2006.

Business-type activities increased the City of De Soto's net assets by \$302,562, accounting for 29 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 \$2,744,581, an increase of \$735,302 in comparison with the prior year. Approximately 16 percent of this total amount, (\$434,556), 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 (\$1,010,326), 2) for future capital improvements (\$1,162,681), and 3) cemetery care (\$137,018).

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 \$326,117, while total fund balance was \$2,744,581.

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 allocated for the General Fund increased in the current year by \$51,978, while franchise fees and property taxes decreased from the prior year by \$27,498.

## CITY OF DESOTO, MISSOURI

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006 - UNAUDITED

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#### **Governmental Funds (continued)**

The County Sales Tax Fund has a total fund balance of \$1,010,326. The net increase in fund balance during the current year in this fund was \$154,130. This increase is primarily a result of major projects planned for future years.

The Capital Improvement Fund has a total fund balance of \$1,162,681. The net increase in fund balance during the current year was \$287,664. This increase is primarily a result of some capital improvement projects that were not completed in 2006 as anticipated and other major projects that are planned for future years.

#### **Proprietary Funds**

The City of De Soto's proprietary fund provides 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 \$1,278,522. 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 \$2,353,778 was increased by \$122,728.
- ◆ The total original expenditure budget of \$2,259,234 was increased by \$72,225.

#### **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 Note 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 2007 increase in property tax revenue is primarily due to anticipated new construction, residential and commercial, in the City of De Soto.



CITY OF DESOTO, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006 - UNAUDITED

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

- ◆ Construction of the Walgreens store was started in late November 2006 and expected to be completed in 2007. Sales tax revenue and the rebate agreements for this project, as well as the Wal-Mart 2004 agreement have been factored into the 2007 budget including a slight growth in the local economy.
- ◆ Health care cost and personnel costs, which make up a significant portion of the City's operating expenditures, continue to rise.
- ◆ Two major road and bridge projects are expected to be completed in 2007 with the use of East/West Gateway funds and City reserved funds from the County ½ Cent Sales Tax Fund.
- ◆ Three major water system improvements are expected to be constructed during the 2007 Budget Year. Funds for these projects are from available funds reserved from the prior year water rate increase.

All of these factors were considered in preparing the City of De Soto's budget for fiscal year 2007.

**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 Street, De Soto, Missouri 63020.

CITY OF DE SOTO, MISSOURI

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
OCTOBER 31, 2006

|                                    | Primary Government         |                             |                     | Component Unit    |
|------------------------------------|----------------------------|-----------------------------|---------------------|-------------------|
|                                    | Governmental<br>Activities | Business-Type<br>Activities | Total               | Library           |
| -- ASSETS --                       |                            |                             |                     |                   |
| Cash and investments.....          | \$ 2,744,581               | \$ 1,278,522                | \$ 4,023,103        | \$ 182,573        |
| <b>TOTAL ASSETS.....</b>           | <b>\$ 2,744,581</b>        | <b>\$ 1,278,522</b>         | <b>\$ 4,023,103</b> | <b>\$ 182,573</b> |
| -- NET ASSETS --                   |                            |                             |                     |                   |
| Restricted for:                    |                            |                             |                     |                   |
| Capital projects.....              | \$ 2,173,007               | \$ -                        | \$ 2,173,007        | \$ -              |
| Cemetery care - expendable.....    | 11,796                     | -                           | 11,796              | -                 |
| Cemetery care - nonexpendable..... | 125,222                    | -                           | 125,222             | -                 |
| Unrestricted.....                  | 434,556                    | 1,278,522                   | 1,713,078           | 182,573           |
| <b>TOTAL NET ASSETS.....</b>       | <b>\$ 2,744,581</b>        | <b>\$ 1,278,522</b>         | <b>\$ 4,023,103</b> | <b>\$ 182,573</b> |

See accompanying notes to basic financial statements

**CITY OF DE SOTO, MISSOURI**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006**

| Functions/Programs:                           | Expenses            | Program Revenues                     |  |   | Net (Expense) Revenue and Changes in Net Assets |                             |                     | Component Unit<br>Library |
|---|---------------------|--------------------------------------|--|---|---|-----------------------------|---------------------|---------------------------|
|   |                     | Charges for<br>Services<br>and Sales | Operating<br>Grants and<br>Contributions | Capital Grants,<br>Contributions and<br>Debt Proceeds | Primary Government                              |                             | Total               |                           |
|   |                     |                                      |  |   | Governmental<br>Activities                      | Business-Type<br>Activities |                     |                           |
| <b>Primary Government:</b>                    |                     |                                      |  |   |   |                             |                     |                           |
| <b>Governmental Activities:</b>               |                     |                                      |  |   |   |                             |                     |                           |
| City Council.....                             | \$ 837              | \$ -                                 | \$ -                                     | \$ -  | \$ (837)  | \$ -                        | \$ (837)            | \$ -                      |
| Municipal Court.....                          | 63,087              | 239,415                              | -  | -   | 176,328   | -                           | 176,328             | -                         |
| General Administration.....                   | 561,469             | 75,254                               | 122,770                                  | -   | (363,445)                                       | -                           | (363,445)           | -                         |
| Fire Department.....                          | 171,062             | -                                    | -  | -   | (171,062)                                       | -                           | (171,062)           | -                         |
| Police Department.....                        | 732,876             | 3,786                                | 9,127                                    | -   | (719,963)                                       | -                           | (719,963)           | -                         |
| Communications Division.....                  | 192,060             | -                                    | -  | -   | (192,060)                                       | -                           | (192,060)           | -                         |
| Animal/Control Code.....                      | 54,064              | 945                                  | -  | -   | (53,119)  | -                           | (53,119)            | -                         |
| Surveyor Department.....                      | 29,852              | -                                    | -  | -   | (29,852)  | -                           | (29,852)            | -                         |
| Street Department.....                        | 433,392             | -                                    | -  | -   | (433,392)                                       | -                           | (433,392)           | -                         |
| Custodial Department.....                     | 42,061              | -                                    | -  | -   | (42,061)  | -                           | (42,061)            | -                         |
| Fire/Building Inspection.....                 | 52,183              | -                                    | -  | -   | (52,183)  | -                           | (52,183)            | -                         |
| Parks.....                                    | 232,430             | 22,725                               | 12,485                                   | -   | (197,220)                                       | -                           | (197,220)           | -                         |
| Cemetery Maintenance.....                     | 6,930               | 6,757                                | 1,785                                    | -   | 1,612   | -                           | 1,612               | -                         |
| Capital Outlay.....                           | 532,844             | -                                    | -  | 317,471   | (215,373)                                       | -                           | (215,373)           | -                         |
| <b>Debt Service:</b>                          |                     |                                      |  |   |   |                             |                     |                           |
| Principal.....                                | 235,946             | -                                    | -  | -   | (235,946)                                       | -                           | (235,946)           | -                         |
| Interest and other expenses.....              | 43,477              | -                                    | -  | -   | (43,477)  | -                           | (43,477)            | -                         |
| <b>Total Governmental Activities.....</b>     | <b>3,384,570</b>    | <b>348,882</b>                       | <b>146,167</b>                           | <b>317,471</b>  | <b>(2,572,050)</b>                              | <b>-</b>                    | <b>(2,572,050)</b>  | <b>-</b>                  |
| <b>Business-Type Activities:</b>              |                     |                                      |  |   |   |                             |                     |                           |
| Water distribution and sewer collection.....  | 1,071,508           | 1,543,280                            | -  | 100,000   | -   | 571,772                     | 571,772             | -                         |
| Wastewater treatment.....                     | 152,445             | -                                    | -  | -   | -   | (152,445)                   | (152,445)           | -                         |
| Refuse service.....                           | 405,791             | 410,384                              | -  | -   | -   | 4,593                       | 4,593               | -                         |
| <b>Debt Service:</b>                          |                     |                                      |  |   |   |                             |                     |                           |
| Principal.....                                | 105,000             | -                                    | -  | -   | -   | (105,000)                   | (105,000)           | -                         |
| Interest and other expenses.....              | 55,145              | -                                    | -  | -   | -   | (55,145)                    | (55,145)            | -                         |
| <b>Total Business-Type Activities.....</b>    | <b>1,789,889</b>    | <b>1,953,664</b>                     | <b>-</b>                                 | <b>100,000</b>  | <b>-</b>  | <b>263,775</b>              | <b>263,775</b>      | <b>-</b>                  |
| <b>Total Primary Government.....</b>          | <b>\$ 5,174,459</b> | <b>\$ 2,302,546</b>                  | <b>\$ 146,167</b>                        | <b>\$ 417,471</b>                                     | <b>(2,572,050)</b>                              | <b>263,775</b>              | <b>(2,308,275)</b>  | <b>-</b>                  |
| <b>Component Unit:</b>                        |                     |                                      |  |   |   |                             |                     |                           |
| Library.....                                  | \$ 154,409          | \$ 25,970                            | \$ 1,422                                 | \$ -  |   |                             |                     | (127,017)                 |
| <b>General Revenues:</b>                      |                     |                                      |  |   |   |                             |                     |                           |
| Property taxes.....                           |                     |                                      |  |   | 362,155   | -                           | 362,155             | 109,941                   |
| Franchise taxes.....                          |                     |                                      |  |   | 804,310   | -                           | 804,310             | -                         |
| Sales taxes.....                              |                     |                                      |  |   | 2,005,917                                       | -                           | 2,005,917           | 33,371                    |
| Investment income.....                        |                     |                                      |  |   | 79,243  | 37,454                      | 116,697             | 2,723                     |
| Miscellaneous.....                            |                     |                                      |  |   | 55,727  | 1,333                       | 57,060              | 1,561                     |
| <b>Total General Revenues.....</b>            |                     |                                      |  |   | <b>3,307,352</b>                                | <b>38,787</b>               | <b>3,346,139</b>    | <b>147,596</b>            |
| <b>Change in Net Assets.....</b>              |                     |                                      |  |   | <b>735,302</b>                                  | <b>302,562</b>              | <b>1,037,864</b>    | <b>20,579</b>             |
| <b>Net Assets, Beginning of the Year.....</b> |                     |                                      |  |   | <b>2,009,279</b>                                | <b>975,960</b>              | <b>2,985,239</b>    | <b>161,994</b>            |
| <b>Net Assets, End of the Year.....</b>       |                     |                                      |  |   | <b>\$ 2,744,581</b>                             | <b>\$ 1,278,522</b>         | <b>\$ 4,023,103</b> | <b>\$ 182,573</b>         |

See accompanying notes to basic financial statements

CITY OF DE SOTO, MISSOURI

**BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS  
OCTOBER 31, 2006**

|  | Major Funds       |                             |                                | Nonmajor Funds                 | Total<br>Governmental<br>Funds |
|--|-------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
|  | General<br>Fund   | County<br>Sales<br>Tax Fund | Capital<br>Improvement<br>Fund | Other<br>Governmental<br>Funds |                                |
| -- ASSETS --   |                   |                             |                                |                                |                                |
| Cash and investments.....                                      | \$ 326,117        | \$ 1,010,326                | \$ 1,162,681                   | \$ 245,457                     | \$ 2,744,581                   |
| <b>TOTAL ASSETS.....</b>                                       | <b>\$ 326,117</b> | <b>\$ 1,010,326</b>         | <b>\$ 1,162,681</b>            | <b>\$ 245,457</b>              | <b>\$ 2,744,581</b>            |
| -- FUND BALANCES --  |                   |                             |                                |                                |                                |
| FUND BALANCES:   |                   |                             |                                |                                |                                |
| Reserved for:  |                   |                             |                                |                                |                                |
| Capital road improvements.....                                 | \$ -              | \$ 1,010,326                | \$ -                           | \$ -                           | \$ 1,010,326                   |
| Capital improvements.....                                      | -                 | -                           | 1,162,681                      | -                              | 1,162,681                      |
| Cemetery care - expendable.....                                | -                 | -                           | -                              | 11,796                         | 11,796                         |
| Cemetery care - nonexpendable.....                             | -                 | -                           | -                              | 125,222                        | 125,222                        |
| Unreserved.....  | 326,117           | -                           | -                              | -                              | 326,117                        |
| Unreserved, reported in nonmajor<br>special revenue funds..... | -                 | -                           | -                              | 108,439                        | 108,439                        |
| <b>TOTAL FUND BALANCES.....</b>                                | <b>\$ 326,117</b> | <b>\$ 1,010,326</b>         | <b>\$ 1,162,681</b>            | <b>\$ 245,457</b>              | <b>\$ 2,744,581</b>            |

See accompanying notes to 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, 2006

|  | Major Funds       |                             |                                | Nonmajor Funds                 | Total<br>Governmental<br>Funds |
|--|-------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
|  | General<br>Fund   | County Sales<br>Tax<br>Fund | Capital<br>Improvement<br>Fund | Other<br>Governmental<br>Funds |                                |
| <b>REVENUES:</b>   |                   |                             |                                |                                |                                |
| Property, utility, franchise taxes.....                      | \$1,100,721       | \$ -                        | \$ -                           | \$ 65,744                      | \$ 1,166,465                   |
| Sales tax.....   | 967,751           | 391,717                     | 535,213                        | 111,236                        | 2,005,917                      |
| Burial fees.....   | -                 | -                           | -                              | 1,495                          | 1,495                          |
| Licenses, permits and fees.....                              | 62,514            | -                           | -                              | -                              | 62,514                         |
| Fines and forfeitures.....                                   | 232,368           | -                           | -                              | 8,129                          | 240,497                        |
| Donations.....   | -                 | -                           | -                              | 1,785                          | 1,785                          |
| Intergovernmental revenue.....                               | -                 | 16,995                      | -                              | -                              | 16,995                         |
| Interest and miscellaneous.....                              | 206,610           | 48,816                      | 51,065                         | 47,547                         | 354,038                        |
| <b>Total Revenues.....</b>                                   | <b>2,569,964</b>  | <b>457,528</b>              | <b>586,278</b>                 | <b>235,936</b>                 | <b>3,849,706</b>               |
| <b>EXPENDITURES:</b>   |                   |                             |                                |                                |                                |
| Current:   |                   |                             |                                |                                |                                |
| City Council.....  | 837               | -                           | -                              | -                              | 837                            |
| Municipal Court.....   | 63,087            | -                           | -                              | -                              | 63,087                         |
| General Administration.....                                  | 561,469           | -                           | -                              | -                              | 561,469                        |
| Fire Department.....   | 171,062           | -                           | -                              | -                              | 171,062                        |
| Police Department.....                                       | 730,297           | -                           | -                              | 2,579                          | 732,876                        |
| Communications Division.....                                 | 192,060           | -                           | -                              | -                              | 192,060                        |
| Animal/Control Code.....                                     | 54,064            | -                           | -                              | -                              | 54,064                         |
| Surveyor Department.....                                     | 29,852            | -                           | -                              | -                              | 29,852                         |
| Street Department.....                                       | 433,392           | -                           | -                              | -                              | 433,392                        |
| Custodial Department.....                                    | 42,061            | -                           | -                              | -                              | 42,061                         |
| Fire/Building Inspection.....                                | 52,183            | -                           | -                              | -                              | 52,183                         |
| Parks.....   | -                 | -                           | -                              | 232,430                        | 232,430                        |
| Cemetery Maintenance.....                                    | -                 | -                           | -                              | 6,930                          | 6,930                          |
| Capital Outlay.....  | -                 | 303,398                     | 229,446                        | -                              | 532,844                        |
| Debt Service:  |                   |                             |                                |                                |                                |
| Principal.....   | -                 | -                           | 235,946                        | -                              | 235,946                        |
| Interest and other.....                                      | -                 | -                           | 43,477                         | -                              | 43,477                         |
| <b>Total Expenditures.....</b>                               | <b>2,330,364</b>  | <b>303,398</b>              | <b>508,869</b>                 | <b>241,939</b>                 | <b>3,384,570</b>               |
| <b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES.....</b> | <b>239,600</b>    | <b>154,130</b>              | <b>77,409</b>                  | <b>(6,003)</b>                 | <b>465,136</b>                 |
| <b>OTHER FINANCING SOURCES:</b>                              |                   |                             |                                |                                |                                |
| Construction loan proceeds.....                              | -                 | -                           | 102,383                        | -                              | 102,383                        |
| Proceeds from sale of land.....                              | -                 | -                           | 107,872                        | 59,911                         | 167,783                        |
| <b>Total Other Financing<br/>    Sources.....</b>            | <b>-</b>          | <b>-</b>                    | <b>210,255</b>                 | <b>59,911</b>                  | <b>270,166</b>                 |
| <b>NET CHANGES IN FUND BALANCES...</b>                       | <b>239,600</b>    | <b>154,130</b>              | <b>287,664</b>                 | <b>53,908</b>                  | <b>735,302</b>                 |
| <b>FUND BALANCES, BEGINNING<br/>OF YEAR.....</b>             |                   |                             |                                |                                |                                |
|  | 86,517            | 856,196                     | 875,017                        | 191,549                        | 2,009,279                      |
| <b>FUND BALANCES, END OF YEAR.....</b>                       | <b>\$ 326,117</b> | <b>\$ 1,010,326</b>         | <b>\$ 1,162,681</b>            | <b>\$ 245,457</b>              | <b>\$ 2,744,581</b>            |

See accompanying notes to basic financial statements

CITY OF DE SOTO, MISSOURI

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS - PROPRIETARY FUND  
OCTOBER 31, 2006

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|                           | <u>Water and<br/>Wastewater<br/>Enterprise<br/>Fund</u> |
|---------------------------|---|
| -- ASSETS --              |   |
| Cash and investments..... | \$ 1,278,522  |
| TOTAL ASSETS.....         | <u>\$ 1,278,522</u>                                     |
| -- NET ASSETS --          |   |
| Unrestricted.....         | <u>\$ 1,278,522</u>                                     |
| TOTAL NET ASSETS.....     | <u><u>\$ 1,278,522</u></u>                              |

See accompanying notes to 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 FISCAL YEAR ENDED OCTOBER 31, 2006

|  | <u>Water and<br/>Wastewater<br/>Enterprise<br/>Fund</u> |
|--|---|
| <b>OPERATING REVENUES:</b>                       |   |
| Water sales.....                                 | \$ 970,313  |
| Sewer charges.....                               | 501,149   |
| Refuse collection.....                           | 410,384   |
| Meter deposits.....                              | 849   |
| Other operating revenues.....                    | <u>72,302</u>   |
| <br>Total Operating Revenues.....                | <br><u>1,954,997</u>                                    |
| <b>OPERATING EXPENSES:</b>                       |   |
| Water distribution and sewer collection.....     | 1,071,508   |
| Wastewater treatment.....                        | 152,445   |
| Refuse service.....                              | <u>405,791</u>  |
| <br>Total Operating Expenses.....                | <br><u>1,629,744</u>                                    |
| <br>OPERATING INCOME.....                        | <br><u>325,253</u>                                      |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>        |   |
| Interest income.....                             | 37,454  |
| Principal expense.....                           | (105,000)   |
| Interest expense.....                            | (53,002)  |
| Paying agent fees.....                           | (2,143)   |
| Grant income.....                                | <u>100,000</u>  |
| <br>Total Non-Operating Revenues (Expenses)..... | <br><u>(22,691)</u>                                     |
| <br>CHANGE IN NET ASSETS.....                    | <br>302,562   |
| Net Assets, Beginning of Year.....               | <u>975,960</u>  |
| Net assets, End of Year.....                     | <u>\$ 1,278,522</u>                                     |

See accompanying notes to basic financial statements

CITY OF DE SOTO, MISSOURI

STATEMENT OF CASH FLOWS -  
MODIFIED CASH BASIS - PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006

|   | <u>Water and<br/>Wastewater<br/>Enterprise<br/>Fund</u> |
|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |
| Receipts from customers.....  | \$ 1,954,148  |
| Payments to suppliers.....  | (1,160,522)   |
| Payments to employees.....  | (469,221)   |
| Receipts of customer utility deposits.....  | 25,500  |
| Refunds of customer utility deposits.....   | (24,652)  |
|   | <u>325,253</u>  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                            |   |
| Principal paid on note and capital lease.....   | (105,000)   |
| Interest paid on note and capital lease.....  | (53,002)  |
| Fiscal agent fees paid on note and capital lease.....                                       | (2,143)   |
| Grant income received.....  | 100,000   |
|   | <u>(60,145)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |
| Interest and dividends.....   | 37,454  |
|   | <u>37,454</u>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS.....</b>                                       | <b>302,562</b>  |
| <b>CASH AND CASH EQUIVALENTS:</b>   |   |
| Beginning of year.....  | 975,960   |
| End of year.....  | <u>\$ 1,278,522</u>                                     |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH<br/>PROVIDED BY OPERATING ACTIVITIES:</b> |   |
| Operating income.....   | \$ 325,253  |
|   | <u>\$ 325,253</u>                                       |

See accompanying notes to basic financial statements



CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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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, 2006

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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, 2006

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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, 2006

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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, 2006

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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, 2006

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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.

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 2005 was approximately \$56,800,000. The tax levy per \$100 of assessed value was \$.7508.

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, 2006

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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, 2006

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2. CASH AND INVESTMENTS (continued)

The deposits and investments held at October 31, 2006, and reported at cost, are as follows:

| Type                                 | Maturities | Cost               |
|--------------------------------------|------------|--------------------|
| Governmental Activities:             |            |                    |
| Deposits:                            |            |                    |
| Demand deposits .....                | N/A        | \$ 786,992         |
| Money market .....                   | N/A        | 6,484              |
| Certificate of deposits .....        | < 1 year   | 126,847            |
| Cash on hand.....                    | N/A        | 500                |
| Investments:                         |            |                    |
| External Investment Pool.....        | N/A        | 1,018,628          |
| Federal Home Loan Mortgage Corp..... | < 1 year   | <u>805,130</u>     |
| Total Deposits and Investments ..... |            | <u>2,744,581</u>   |
| Business-Type Activities:            |            |                    |
| Deposits and Investments:            |            |                    |
| Demand deposits .....                | N/A        | 810,705            |
| Federal Home Loan Mortgage Corp..... | < 1 year   | <u>467,817</u>     |
| Total Deposits and Investments ..... |            | <u>1,278,522</u>   |
| Total Primary Government .....       |            | <u>\$4,023,103</u> |
| Component Unit:                      |            |                    |
| Deposits:                            |            |                    |
| Demand deposits .....                | N/A        | \$ 96,523          |
| Certificate of deposits .....        | < 1 year   | 86,000             |
| Cash on hand.....                    | NA         | <u>50</u>          |
| Total Deposits .....                 |            | <u>\$ 182,573</u>  |



CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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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, 2006, none of the City's deposits were exposed to custodial credit risk.

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, 2006 the City had no investments which were 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, 2006 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, 2006, the City's investments were rated as follows:

| <u>Description</u>                      | <u>Financial Institution</u> | <u>Amount</u> | <u>Rating</u> |
|---|------------------------------|---------------|---------------|
| Federal Home Loan<br>Mortgage Corp..... | National City                | \$ 772,639    | A-1+          |
| Federal Home Loan<br>Mortgage Corp..... | National City                | \$ 500,308    | A-1+          |

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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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 Corps..... | 40%                  |

3. LONG-TERM DEBT

Long-term debt as of October 31, 2006, consists of the following:

A. Notes Payable

|  |           |
|--|-----------|
| Note payable to National City Bank, collateralized by a fire truck; payable in monthly installments of \$2,408 including interest at 4.75% with the unpaid principal due in full March 28, 2007 .....                  | \$ 18,741 |
| 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 29, 2011 ..... | 115,056   |

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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3. LONG-TERM DEBT (continued)

A. Notes Payable (continued)

Note payable to First State Community Bank, collateralized by a first deed of trust, payable in monthly installments of \$4,637 including interest at 5.510% with the unpaid principal due in full March 7, 2007 .....

|  |            |
|--|------------|
|  | 378,207    |
|  | \$ 512,004 |

The annual requirements, to be paid out of the Capital Improvement Fund, to retire the notes payable above as of October 31, 2006, are as follows:

| Year Ending<br>October 31, _____ | Principal | Interest  | Total     |
|----------------------------------|-----------|-----------|-----------|
| 2007.....                        | \$413,391 | \$ 14,952 | \$428,343 |
| 2008.....                        | 17,483    | 5,582     | 23,065    |
| 2009.....                        | 18,589    | 4,476     | 23,065    |
| 2010.....                        | 19,765    | 3,300     | 23,065    |
| 2011.....                        | 42,776    | 2,050     | 44,826    |
| Total.....                       | \$512,004 | \$ 30,360 | \$542,364 |

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, 2006:

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

3. LONG-TERM DEBT (continued)

B. Capital Lease (continued)

| <u>Year Ending October 31,</u>                          |                   |
|---|-------------------|
| 2007 .....  | \$ 64,070         |
| 2008 .....  | 64,070            |
| 2009 .....  | 64,070            |
| 2010 .....  | <u>64,070</u>     |
| Total future minimum lease payments...                  | 256,280           |
| Less amount representing interest.....                  | <u>(25,588)</u>   |
| Present value of future minimum<br>lease payments ..... | <u>\$ 230,692</u> |

Changes in long-term debt during the year ended October 31, 2006, were as follows:

|                                    | Balance<br>Outstanding<br>November 1,<br>2005 | Additions        | Retirements       | Balance<br>Outstanding<br>October 31,<br>2006 | Amounts<br>Due Within<br>One Year |
|------------------------------------|---|------------------|-------------------|---|-----------------------------------|
| Notes payable.....                 | \$ 593,770                                    | \$102,383        | \$ 184,149        | \$ 512,004                                    | \$ 413,391                        |
| Capital lease<br>obligations ..... | <u>282,489</u>                                | <u>--</u>        | <u>51,797</u>     | <u>230,692</u>                                | <u>54,048</u>                     |
|                                    | <u>\$ 876,259</u>                             | <u>\$102,383</u> | <u>\$ 235,946</u> | <u>\$ 742,696</u>                             | <u>\$ 467,439</u>                 |

4. PROPRIETARY FUND LONG-TERM DEBT

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

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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4. PROPRIETARY FUND LONG-TERM DEBT (continued)

Lease Purchase Agreement (continued)

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.

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

|   |                       |
|---|-----------------------|
| 2007 .....  | \$ 82,368             |
| 2008 .....  | 85,696                |
| 2009 .....  | 83,836                |
| 2010 .....  | 81,906                |
| 2011 .....  | 84,801                |
| 2012-2016 .....   | 414,479               |
| 2017-2021 .....   | 409,722               |
| 2022 .....  | <u>82,350</u>         |
| <br>Total future minimum lease payments .....               | <br>1,325,158         |
| <br>Less amount representing interest.....                  | <br><u>(455,158)</u>  |
| <br>Present value of future<br>minimum lease payments ..... | <br><u>\$ 870,000</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.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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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.

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 2.8% (general), 2.3% (police) and 9.3% (fire) 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 2006, the City's annual pension cost of \$38,643 was equal to the required and actual contributions. The required contribution was determined as part of the February 29, 2004 and/or February 28, 2005 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2006 included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually,

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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6. RETIREMENT PLAN (continued)

c. Annual Pension Cost (continued)

(b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back -0- years for men and -0- years for women, 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, 2006 was 17 years.

Three-Year Trend Information

| <u>Fiscal<br/>Year<br/>Ending</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|-----------------------------------|--|--|---------------------------------------|
| 06/30/04                          | \$33,140                                 | 100%   | \$0                                   |
| 06/30/05                          | \$33,790                                 | 100%   | \$0                                   |
| 06/30/06                          | \$38,643                                 | 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.

CITY OF DE SOTO, MISSOURI

NOTES TO BASIC FINANCIAL STATEMENTS  
OCTOBER 31, 2006

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8. ECONOMIC DEPENDENCY

Approximately 45% of city sales tax revenues received are collected by one retail outlet located in the City.

9. SUBSEQUENT EVENT

Subsequent to year end, the City sold a storage building for approximately \$53,000.



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, 2006**

|  | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------|-------------------|-------------------|---|
|  | Original          | Final             |                   |   |
| <b>REVENUES:</b>                                     |                   |                   |                   |   |
| Property, utility, franchise taxes.....              | \$ 1,148,068      | \$ 1,148,068      | \$ 1,100,721      | \$ (47,347)   |
| Sales tax.....                                       | 831,290           | 831,290           | 967,751           | 136,461   |
| Licenses, permits and fees.....                      | 60,270            | 60,270            | 62,514            | 2,244   |
| Fines and forfeitures.....                           | 200,500           | 200,500           | 232,368           | 31,868  |
| Intergovernmental revenue.....                       | 6,000             | 6,000             | -                 | (6,000)   |
| Interest and miscellaneous.....                      | 107,650           | 230,378           | 206,610           | (23,768)  |
| <b>Total Revenues.....</b>                           | <b>2,353,778</b>  | <b>2,476,506</b>  | <b>2,569,964</b>  | <b>93,458</b>   |
| <b>EXPENDITURES:</b>                                 |                   |                   |                   |   |
| Current:   |                   |                   |                   |   |
| City Council.....                                    | 1,063             | 1,063             | 837               | 226   |
| Municipal Court.....                                 | 62,787            | 62,787            | 63,087            | (300)   |
| General Administration.....                          | 514,619           | 548,262           | 561,469           | (13,207)  |
| Fire Department.....                                 | 161,699           | 175,881           | 171,062           | 4,819   |
| Police Department.....                               | 705,058           | 714,458           | 730,297           | (15,839)  |
| Communications Division.....                         | 189,169           | 189,169           | 192,060           | (2,891)   |
| Animal/Control Code.....                             | 58,753            | 58,753            | 54,064            | 4,689   |
| Surveyor Department.....                             | 29,679            | 29,679            | 29,852            | (173)   |
| Street Department.....                               | 433,000           | 448,000           | 433,392           | 14,608  |
| Custodial Department.....                            | 44,149            | 44,149            | 42,061            | 2,088   |
| Fire/Building Inspection.....                        | 59,258            | 59,258            | 52,183            | 7,075   |
| <b>Total Expenditures.....</b>                       | <b>2,259,234</b>  | <b>2,331,459</b>  | <b>2,330,364</b>  | <b>1,095</b>  |
| <b>EXCESS OF REVENUES OVER<br/>EXPENDITURES.....</b> | <b>94,544</b>     | <b>145,047</b>    | <b>239,600</b>    | <b>94,553</b>   |
| <b>OTHER FINANCING SOURCES:</b>                      |                   |                   |                   |   |
| Operating transfers in.....                          | 75,000            | 75,000            | -                 | (75,000)  |
| <b>Total Other Financing Sources.....</b>            | <b>75,000</b>     | <b>75,000</b>     | <b>-</b>          | <b>(75,000)</b>   |
| <b>NET CHANGE IN FUND BALANCE.....</b>               | <b>169,544</b>    | <b>220,047</b>    | <b>239,600</b>    | <b>19,553</b>   |
| <b>FUND BALANCE, BEGINNING OF YEAR.....</b>          | <b>86,517</b>     | <b>86,517</b>     | <b>86,517</b>     | <b>-</b>  |
| <b>FUND BALANCE, END OF YEAR.....</b>                | <b>\$ 256,061</b> | <b>\$ 306,564</b> | <b>\$ 326,117</b> | <b>\$ 19,553</b>  |

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, 2006

|  | Budgeted Amounts |            | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|------------|-------------------|---|
|  | Original         | Final      |                   |   |
| REVENUES:                                    |                  |            |                   |   |
| Sales tax.....                               | \$ 390,728       | \$ 390,728 | \$ 391,717        | \$ 989  |
| Intergovernmental revenue.....               | 160,000          | 160,000    | 16,995            | (143,005)   |
| Interest and miscellaneous.....              | 20,000           | 20,000     | 48,816            | 28,816  |
| Total Revenues.....                          | 570,728          | 570,728    | 457,528           | (113,200)   |
| EXPENDITURES:                                |                  |            |                   |   |
| Capital outlay.....                          | 539,550          | 539,550    | 303,398           | 236,152   |
| Total Expenditures.....                      | 539,550          | 539,550    | 303,398           | 236,152   |
| EXCESS OF REVENUES OVER<br>EXPENDITURES..... | 31,178           | 31,178     | 154,130           | 122,952   |
| OTHER FINANCING USES:                        |                  |            |                   |   |
| Operating transfers out.....                 | (75,000)         | (75,000)   | -                 | 75,000  |
| Total Other Financing Uses.....              | (75,000)         | (75,000)   | -                 | 75,000  |
| NET CHANGE IN FUND BALANCE.....              | (43,822)         | (43,822)   | 154,130           | 197,952   |
| FUND BALANCE, BEGINNING OF YEAR.....         | 856,196          | 856,196    | 856,196           | -   |
| FUND BALANCE, END OF YEAR.....               | \$ 812,374       | \$ 812,374 | \$ 1,010,326      | \$ 197,952  |

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, 2006

|  | Budgeted Amounts  |                   | Actual<br>Amounts   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------|-------------------|---------------------|---|
|  | Original          | Final             |                     |   |
| <b>REVENUES:</b>   |                   |                   |                     |   |
| Sales tax.....   | \$ 520,000        | \$ 520,000        | \$ 535,213          | \$ 15,213   |
| Intergovernmental revenue.....                               | 118,538           | 118,538           | -                   | (118,538)   |
| Interest and miscellaneous.....                              | 24,000            | 24,000            | 51,065              | 27,065  |
| <b>Total Revenues.....</b>                                   | <b>662,538</b>    | <b>662,538</b>    | <b>586,278</b>      | <b>(76,260)</b>   |
| <b>EXPENDITURES:</b>   |                   |                   |                     |   |
| Capital outlay.....  | 671,368           | 671,368           | 229,446             | 441,922   |
| Debt service:  |                   |                   |                     |   |
| Principal.....   | -                 | -                 | 235,946             | (235,946)   |
| Interest and other.....                                      | -                 | -                 | 43,477              | (43,477)  |
| <b>Total Expenditures.....</b>                               | <b>671,368</b>    | <b>671,368</b>    | <b>508,869</b>      | <b>162,499</b>  |
| <b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES.....</b> | <b>(8,830)</b>    | <b>(8,830)</b>    | <b>77,409</b>       | <b>86,239</b>   |
| <b>OTHER FINANCING SOURCES:</b>                              |                   |                   |                     |   |
| Construction loan proceeds.....                              | -                 | -                 | 102,383             | 102,383   |
| Proceeds from sale of land.....                              | -                 | -                 | 107,872             | 107,872   |
| <b>Total Other Financing Sources.....</b>                    | <b>-</b>          | <b>-</b>          | <b>210,255</b>      | <b>210,255</b>  |
| <b>NET CHANGE IN FUND BALANCES.....</b>                      | <b>(8,830)</b>    | <b>(8,830)</b>    | <b>287,664</b>      | <b>296,494</b>  |
| <b>FUND BALANCE, BEGINNING OF YEAR.....</b>                  | <b>875,017</b>    | <b>875,017</b>    | <b>875,017</b>      | <b>-</b>  |
| <b>FUND BALANCE, END OF YEAR.....</b>                        | <b>\$ 866,187</b> | <b>\$ 866,187</b> | <b>\$ 1,162,681</b> | <b>\$ 296,494</b>                                       |

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

CITY OF DE SOTO, MISSOURI

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
OCTOBER 31, 2006

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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 17, 2005 or as amended by the City Council on October 16, 2006.

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

CITY OF DE SOTO, MISSOURI

SCHEDULE OF FUNDING PROGRESS - EMPLOYEES RETIREMENT SYSTEM  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006

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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<br>Valuation<br>Date | (a)<br>Actuarial<br>Value<br>of Assets | (b)<br>Entry Age<br>Actuarial<br>Accrued<br>Liability | (b-a)<br>Unfunded<br>Accrued<br>Liability<br>(UAL) | (a/b)<br>Funded<br>Ratio | (c)<br>Annual<br>Covered<br>Payroll | [b-a]/c]<br>UAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|--|---|--|--------------------------|-------------------------------------|---|
| 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                           | --  |
| 02/28/06                       | 2,061,308                              | 1,368,344   | (692,964)  | 151%                     | 1,372,040                           | --  |

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, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual 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, 2006

|                           | Special Revenue Funds |                                    |                                 | Permanent Fund                     | Total<br>Nonmajor<br>Governmental<br>Funds |
|---------------------------|-----------------------|------------------------------------|---------------------------------|------------------------------------|--|
|                           | Parks<br>Fund         | Special<br>Police Training<br>Fund | Cemetery<br>Maintenance<br>Fund | Cemetery<br>Perpetual Care<br>Fund |  |
| -- ASSETS --              |                       |                                    |                                 |                                    |  |
| Cash and investments..... | \$ 90,013             | \$ 18,426                          | \$ 11,796                       | \$ 125,222                         | \$ 245,457                                 |
| TOTAL ASSETS.....         | <u>\$ 90,013</u>      | <u>\$ 18,426</u>                   | <u>\$ 11,796</u>                | <u>\$ 125,222</u>                  | <u>\$ 245,457</u>                          |
| -- FUND BALANCES --       |                       |                                    |                                 |                                    |  |
| FUND BALANCES:            |                       |                                    |                                 |                                    |  |
| Unreserved.....           | \$ 90,013             | \$ 18,426                          | \$ 11,796                       | \$ 125,222                         | \$ 245,457                                 |
| TOTAL FUND BALANCES.....  | <u>\$ 90,013</u>      | <u>\$ 18,426</u>                   | <u>\$ 11,796</u>                | <u>\$ 125,222</u>                  | <u>\$ 245,457</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, 2006**

|  | Special Revenue Funds |                                    |                                 | Permanent Fund                     | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-----------------------|------------------------------------|---------------------------------|------------------------------------|--|
|  | Parks<br>Fund         | Special<br>Police Training<br>Fund | Cemetery<br>Maintenance<br>Fund | Cemetery<br>Perpetual Care<br>Fund |  |
| REVENUES:  |                       |                                    |                                 |                                    |  |
| Property, utility, franchise taxes.....              | \$ 65,744             | \$ -                               | \$ -                            | \$ -                               | \$ 65,744                                  |
| Sales tax.....                                       | 111,236               | -                                  | -                               | -                                  | 111,236                                    |
| Burial fees.....                                     | -                     | -                                  | 1,135                           | 360                                | 1,495                                      |
| Fines and forfeitures.....                           | -                     | 8,129                              | -                               | -                                  | 8,129                                      |
| Donations.....                                       | -                     | -                                  | 1,785                           | -                                  | 1,785                                      |
| Interest and miscellaneous.....                      | 41,438                | 488                                | 5,621                           | -                                  | 47,547                                     |
| <b>Total Revenues.....</b>                           | <b>218,418</b>        | <b>8,617</b>                       | <b>8,541</b>                    | <b>360</b>                         | <b>235,936</b>                             |
| EXPENDITURES:  |                       |                                    |                                 |                                    |  |
| Current:   |                       |                                    |                                 |                                    |  |
| Police Department.....                               | -                     | 2,579                              | -                               | -                                  | 2,579                                      |
| Parks.....   | 232,430               | -                                  | -                               | -                                  | 232,430                                    |
| Cemetery Maintenance.....                            | -                     | -                                  | 6,930                           | -                                  | 6,930                                      |
| <b>Total Expenditures.....</b>                       | <b>232,430</b>        | <b>2,579</b>                       | <b>6,930</b>                    | <b>-</b>                           | <b>241,939</b>                             |
| EXCESS OF REVENUES OVER<br>(UNDER) EXPENDITURES..... | (14,012)              | 6,038                              | 1,611                           | 360                                | (6,003)                                    |
| OTHER FINANCING<br>SOURCES (USES):                   |                       |                                    |                                 |                                    |  |
| Proceeds from sale of land.....                      | 59,911                | -                                  | -                               | -                                  | 59,911                                     |
| <b>Total Other Financing<br/>Sources (Uses).....</b> | <b>59,911</b>         | <b>-</b>                           | <b>-</b>                        | <b>-</b>                           | <b>59,911</b>                              |
| NET CHANGES IN<br>FUND BALANCES.....                 | 45,899                | 6,038                              | 1,611                           | 360                                | 53,908                                     |
| FUND BALANCES,<br>BEGINNING OF YEAR.....             | 44,114                | 12,388                             | 10,185                          | 124,862                            | 191,549                                    |
| <b>FUND BALANCES, END OF YEAR.....</b>               | <b>\$ 90,013</b>      | <b>\$ 18,426</b>                   | <b>\$ 11,796</b>                | <b>\$ 125,222</b>                  | <b>\$ 245,457</b>                          |

CITY OF DE SOTO, MISSOURI

WATER AND WASTEWATER ENTERPRISE FUND  
SCHEDULE OF INSURANCE COVERAGE  
OCTOBER 31, 2006

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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, 2006, through June 30, 2007:

- |   |   |
|---|---|
| A. Fire and Extended Coverage:                            | Limits: 100% replacement cost including Earthquake all locations<br>Deductible: \$1,000 per occurrence                                  |
| B. Money and Securities and Employee Fidelity             | Limits: \$100,000 per occurrence<br>Deductible: None  |
| C. Contractors' Equipment                                 | Limits: \$1,138,200<br>Deductible: \$1,000  |
| D. Automobile Bodily Injury and Property Damage Liability | Limits: \$2,500,000 per occurrence<br>Deductible: None  |
| E. Automobile Physical Damage                             | Limits: Actual cash value<br>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<br>Deductible: None  |
| G. Comprehensive General Liability:                       | Limits: \$2,500,000<br>Deductible: None   |

Including:

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

CITY OF DE SOTO, MISSOURI

WATER AND WASTEWATER ENTERPRISE FUND  
SCHEDULE OF INSURANCE COVERAGE (CONTINUED)  
OCTOBER 31, 2006

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|    |                                |  |
|----|--------------------------------|--|
| H. | Employment Practices Liability | Limits: \$1,000,000<br>Deductible: \$5,000   |
| I. | Workmens' Compensation         | Limits: Statutory<br>Deductible: None  |
| J. | Employers' Liability           | Limits: \$2,000,000<br>Deductible: None  |
| K. | Airport Liability              | Limits: \$2,000,000 per occurrence<br>Aggregate: \$2,000,000<br>Deductible: None   |
| L. | Boiler & Machinery             | Limits: \$100% replacement cost all locations<br>Deductibles:<br>a) Other than otherwise herein specified:<br>\$1,000<br>b) Business income and extra expense for electrical power generating locations:<br>thirty (30) days<br>c) Hazardous substance clean up: \$50,000<br>d) Gas turbines, steam turbines and internal combustion engines/generators greater than 2,000 KW: \$175,000 per occurrence<br>e) Internal combustion engines/generators 2,000 KW or less: \$25,000 per occurrence<br>f) Electrical transformers under 10,000 KVA: \$5,000<br>g) Electrical transformers 10,000 to 29,000 KVA: \$25,000<br>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, 2006

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M. Insurance Companies Participating:

| <u>Company</u>  | <u>Policy #</u>          | <u>Coverage</u>  |
|---|--------------------------|--|
| Midwest Employers Casualty Corp.                              | EWC007265                | Workers' Compensation                                      |
| Lexington Insurance Co.                                       | III5231                  | Property & Earthquake                                      |
| Commonwealth Insurance Co.                                    | US6281                   | Property & Earthquake                                      |
| Landmark American Insurance Co.                               | NHT346832                | Property & Earthquake                                      |
| Homeland Insurance Co.  | 27XSP3433                | Property & Earthquake                                      |
| Lloyds of London  | GEP7325                  | Property & Earthquake                                      |
| Essex Insurance Co.   | ESP4619                  | Property & Earthquake                                      |
| Commonwealth Insurance Co.                                    | US6282                   | Property & Earthquake                                      |
| The St. Paul Travelers Insurance co.                          | BMC4403193<br>YXB300403J | Boiler & Machinery   |
| Genesis Insurance Co.   | YXB300403J               | Auto, General, Public<br>Officials and Police<br>Liability |
| Ace Property and Casualty Insurance Co.                       | AAPN00978772003          | Airport Liability  |
| Fidelity & Deposit Company<br>Company of Maryland<br>(Zurich) | CCP006101601             | Crime  |

# SCHOWALTER & JABOURI, P.C.

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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 accompanying financial statements of the governmental activities, the business-type activities, the accompanying 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 11, 2007. 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. 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's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as follows:

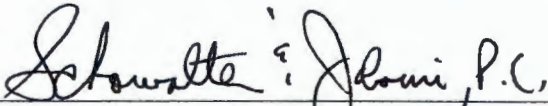
- Currently, the Finance Director has access to every aspect or process of the core accounting functions. The Finance Director also prepares the bank reconciliation and journal entries, which are not approved by an appropriate management-level employee

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

#### 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*.

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, 2007