



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

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**NEWS RELEASE**

FOR RELEASE January 16, 2006

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Bouton, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$205,556 for the year ended June 30, 2004. The receipts included \$19,447 in property tax, \$4,204 from charges for service, \$29,120 from operating grants, contributions and restricted interest, \$58,508 from capital grants, contributions and restricted interest, \$10,472 from local option sales tax, \$10,558 from grants and contributions not restricted to specific purpose, \$143 from unrestricted investment earnings, \$70,000 from loan proceeds and \$3,104 from other general receipts.

Disbursements for the year totaled \$182,553, and included \$77,737 for public safety, \$50,771 for capital projects and \$16,251 for culture and recreation.

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

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**CITY OF BOUTON**

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

**JUNE 30, 2004**

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**City of Bouton**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Bob Barrow	Mayor	Jan 2004
Kelly Allis	Council Member	Resigned Dec 2003
Jesse James	Council Member	Jan 2004
Leora James	Council Member	Jan 2004
Linda Neville	Council Member	Jan 2004
Dee Paschell	Council Member	Jan 2004
<b>(After January 2004)</b>		
Jesse James	Mayor	Resigned Oct 2004
Bob Barrow(Appointed)	Mayor	Nov 2005
Arlene Greiner	Council Member	Jan 2006
Tim Hudspeth(Appointed)	Council Member	Nov 2005
Kindal James	Council Member	Jan 2006
Leora James	Council Member	Jan 2006
Wesley Musgrove	Council Member	Resigned Oct 2004
Linda Neville	Council Member	Jan 2006
Betty Tingwald	Clerk/Treasurer	Indefinite
Robert L. Horak	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Bouton, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Bouton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

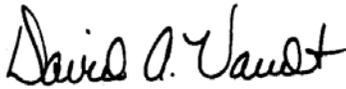
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the City of Bouton as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 7, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005 on our consideration of the City of Bouton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 10 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Bouton's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 8, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Bouton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

### **2004 FINANCIAL HIGHLIGHTS**

- The City's total cash basis net assets increased by approximately \$23,000 due to entering into a \$70,000 loan for road resurfacing and using \$50,000 of the proceeds of this loan during the fiscal year ended June 30, 2004.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the indebtedness of the City.

### **Basis of Accounting**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

The Statement of Activities and Net Assets includes one kind of activity:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statement*

The City has one kind of fund:

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

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

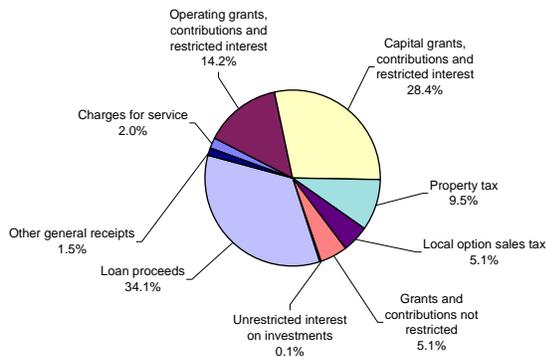
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased approximately \$23,000 from a year ago, increasing from \$63,420 to \$86,423. The analysis that follows focuses on the changes in cash balances for governmental activities.

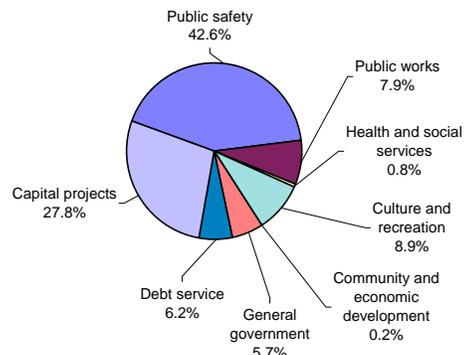
**Changes in Cash Basis Net Assets of Governmental Activities**

	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service	\$ 4,204
Operating grants, contributions and restricted interest	29,120
Capital grants, contributions and restricted interest	58,508
General receipts:	
Property tax	19,447
Local option sales tax	10,472
Grants and contributions not restricted	10,558
Unrestricted interest on investments	143
Loan proceeds	70,000
Other general receipts	3,104
<b>Total receipts</b>	<b>205,556</b>
Disbursements:	
Public safety	77,737
Public works	14,389
Health and social services	1,377
Culture and recreation	16,251
Community and economic development	375
General government	10,345
Debt service	11,308
Capital projects	50,771
<b>Total disbursements</b>	<b>182,553</b>
Increase in cash basis net assets	23,003
Cash basis net assets beginning of year	63,420
Cash basis net assets end of year	\$ 86,423

**Receipts by Source**



**Disbursements by Function**



The increase in cash basis net assets is due to a bank loan received during the year for road resurfacing, which was not completely spent.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Bouton completed the year, its governmental funds reported a combined fund balance of \$86,423, an increase of more than \$23,000 above last year's total of \$63,420. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$4,174 from the prior year to \$48,319. The decrease is attributable to an increase in disbursements related to fire protection and street lights. Miscellaneous receipts include \$5,355 from donations and fund raisers for the softball recreation program.
- The Road Use Tax Fund cash balance increased by \$2,871 to \$11,568 during the fiscal year.
- The Bouton Area Fire Fighters Association cash balance increased by \$1,591 to \$3,821 during the fiscal year.
- The Debt Service Fund cash balance increased to \$1,107 during the fiscal year. This was the first year the City levied property tax for debt service payments, so it was a new fund.
- The Capital Projects Fund cash balance increased to \$21,608 during the fiscal year. This increase was attributable to loan proceeds not entirely spent in fiscal 2004. The City intends to use this money to complete the street project.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The budget was overspent in the public safety, health and social services, culture and recreation, community and economic development, debt service and capital projects functions.

## **DEBT ADMINISTRATION**

At June 30, 2004, the City had \$81,569 in bank loan indebtedness, compared to \$19,931 last year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit is \$97,700.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Bouton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities. The City's fiscal year 2005 assessed property values had no significant change from the fiscal year 2004 level. The City levied the maximum \$8.10 per \$1,000 of taxable valuation for the general levy and began levying \$6,500 for debt service.

The proposed fiscal year 2005 budget contains total revenues of \$49,608 and expenditures of \$55,023. If these estimates are realized, the City's budgeted cash balance is expected to decrease by \$5,415 by the close of fiscal year 2005.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Betty Tingwald, City Clerk, P.O. Box 101, Bouton, Iowa 50039.

## **Basic Financial Statements**

**City of Bouton**

City of Bouton

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
<b>Functions/Programs:</b>					
Governmental activities:					
Public safety	\$ 77,737	4,017	7,766	56,129	(9,825)
Public works	14,389	-	11,362	-	(3,027)
Health and social services	1,377	-	-	-	(1,377)
Culture and recreation	16,251	-	5,684	-	(10,567)
Community and economic development	375	-	-	-	(375)
General government	10,345	187	-	-	(10,158)
Debt service	11,308	-	4,308	-	(7,000)
Capital projects	50,771	-	-	2,379	(48,392)
Total	\$ 182,553	4,204	29,120	58,508	(90,721)
<b>General Receipts:</b>					
Property tax levied for:					
General purposes					15,340
Debt service					4,107
Local option sales tax					10,472
Grants and contributions not restricted to specific purpose					10,558
Unrestricted interest on investments					143
Loan proceeds					70,000
Miscellaneous					3,104
Total general receipts					113,724
Change in cash basis net assets					23,003
Cash basis net assets beginning of year					63,420
Cash basis net assets end of year					\$ 86,423
<b>Cash Basis Net Assets</b>					
Restricted:					
Streets					\$ 11,568
Debt service					1,107
Other purposes					25,429
Unrestricted					48,319
<b>Total cash basis net assets</b>					\$ 86,423

See notes to financial statements.

City of Bouton

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

Year ended June 30, 2004

	Special Revenue		
	General	Road Use Tax	Bouton Area Fire Fighters Association
Receipts:			
Property tax	\$ 14,243	-	-
Other city tax	11,569	-	-
Licenses and permits	187	-	-
Use of money and property	9,683	35	6
Intergovernmental	-	11,327	56,129
Charges for service	-	-	4,017
Miscellaneous	14,914	-	6,960
Total receipts	50,596	11,362	67,112
Disbursements:			
Operating:			
Public safety	12,216	-	65,521
Public works	5,898	8,491	-
Health and social services	1,377	-	-
Culture and recreation	16,251	-	-
Community and economic development	375	-	-
General government	10,345	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	46,462	8,491	65,521
Excess (deficiency) of receipts over (under) disbursements	4,134	2,871	1,591
Other financing sources (uses):			
Loan proceeds	-	-	-
Operating transfers in	-	-	-
Operating transfers out	(8,308)	-	-
Total other financing sources (uses)	(8,308)	-	-
Net change in cash balances	(4,174)	2,871	1,591
Cash balances beginning of year	52,493	8,697	2,230
Cash balances end of year	\$ 48,319	11,568	3,821
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	48,319	-	-
Special revenue funds	-	11,568	3,821
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 48,319	11,568	3,821

See notes to financial statements.

Debt Service	Capital Projects	Total
3,815	-	18,058
292	-	11,861
-	-	187
-	79	9,803
-	-	67,456
-	-	4,017
-	2,300	24,174
4,107	2,379	135,556
-	-	77,737
-	-	14,389
-	-	1,377
-	-	16,251
-	-	375
-	-	10,345
11,308	-	11,308
-	50,771	50,771
11,308	50,771	182,553
(7,201)	(48,392)	(46,997)
-	70,000	70,000
8,308	-	8,308
-	-	(8,308)
8,308	70,000	70,000
1,107	21,608	23,003
-	-	63,420
1,107	21,608	86,423
1,107	-	1,107
-	-	48,319
-	-	15,389
-	21,608	21,608
1,107	21,608	86,423

City of Bouton

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

The City of Bouton is a political subdivision of the State of Iowa located in Dallas County. It was first incorporated in 1911 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services.

A. Reporting Entity

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

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

Blended Component Unit

The Bouton Area Fire Fighters Association is an entity which is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. The Association is reported as part of the City and blended as a Special Revenue Fund. The Association is incorporated under Chapter 504A of the Code of Iowa to receive donations for the benefit of the Bouton Fire Department. The donations and grants are to be used to purchase items not included in the City's budget.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Dallas County Assessor's Conference Board, Dallas County Emergency Management Commission and Dallas County Joint Emergency 911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities are supported by tax and intergovernmental revenues.

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

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

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

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

Fund Financial Statement - A separate financial statement is provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Bouton Area Fire Fighters Association Fund is used to account for donations, grants and fund raising activity to support the Bouton Fire Department.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

C. Measurement Focus and Basis of Accounting

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, community and economic development, debt service and capital projects functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

**(3) Loans Payable**

Annual debt service requirements to maturity for bank loans are as follows:

Year Ending June 30,	Bank Loans		
	Principal	Interest	Total
2005	\$ 5,981	4,015	9,996
2006	6,346	3,656	10,002
2007	6,729	3,283	10,012
2008	7,132	2,885	10,017
2009	55,381	2,467	57,848
Total	\$ 81,569	16,306	97,875

**(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll for the year ended June 30, 2004. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$371, equal to the required contribution for the year.

**(5) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	<u>\$ 8,308</u>

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

**(6) Local Government Risk Pool**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2004 were \$3,095.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event of a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and surety bond coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(7) Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and a fund financial statement which present information for individual major funds rather than by fund type.

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

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Less		Budgeted Amounts		Final to Net Variance
		Funds Not Required to be Budgeted	Net	Original	Final	
Receipts:						
Property tax	\$ 18,058	-	18,058	15,829	20,746	(2,688)
Other city tax	11,861	-	11,861	8,000	8,000	3,861
Licenses and permits	187	-	187	187	187	-
Use of money and property	9,803	6	9,797	1,300	1,300	8,497
Intergovernmental	67,456	56,129	11,327	13,380	13,380	(2,053)
Special assessments	-	-	-	8,508	8,508	(8,508)
Charges for service	4,017	4,017	-	-	-	-
Miscellaneous	24,174	6,960	17,214	2,000	2,000	15,214
Total receipts	135,556	67,112	68,444	49,204	54,121	14,323
Disbursements:						
Public safety	77,737	65,521	12,216	10,200	6,567	(5,649)
Public works	14,389	-	14,389	15,950	22,450	8,061
Health and social services	1,377	-	1,377	800	800	(577)
Culture and recreation	16,251	-	16,251	10,100	10,100	(6,151)
Community and economic development	375	-	375	200	200	(175)
General government	10,345	-	10,345	13,600	13,600	3,255
Debt service	11,308	-	11,308	4,208	4,208	(7,100)
Capital projects	50,771	-	50,771	-	-	(50,771)
Total disbursements	182,553	65,521	117,032	55,058	57,925	(59,107)
Excess (deficiency) of receipts over (under) disbursements	(46,997)	1,591	(48,588)	(5,854)	(3,804)	(44,784)
Other financing sources, net	70,000	-	70,000	-	-	70,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	23,003	1,591	21,412	(5,854)	(3,804)	25,216
Balances beginning of year	63,420	2,230	61,190	19,302	19,302	41,888
Balances end of year	\$ 86,423	3,821	82,602	13,448	15,498	67,104

See accompanying independent auditor's report.

City of Bouton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Special Revenue, Bouton Area Fire Fighters Association Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,867. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, community and economic development, debt service and capital projects functions.

**City of Bouton**

**Other Supplementary Information**

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City of Bouton  
Schedule of Indebtedness  
Year ended June 30, 2004

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Obligation	Date of Issue	Interest Rates
Loans:		
Post office building	Jun 1, 1996	8.00%
Street resurfacing	Oct 7, 2003	4.25%
Total		

See accompanying independent auditor's report.

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Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 37,564	19,931	-	7,033	12,898	1,275
70,000	-	70,000	1,329	68,671	1,671
	\$ 19,931	70,000	8,362	81,569	2,946

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**Schedule 2**

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City of Bouton  
Loan Maturities  
June 30, 2004

Year Ending June 30,	<u>Post Office Building</u>		<u>Street Resurfacing</u>		Total
	<u>Issued Jun 1, 1996</u>		<u>Issued Oct 7, 2003</u>		
	Interest Rates	Amount	Interest Rates	Amount	
2005	8.00%	\$ 2,556	4.25%	\$ 3,425	5,981
2006	8.00	2,768	4.25	3,578	6,346
2007	8.00	2,998	4.25	3,731	6,729
2008	8.00	3,243	4.25	3,889	7,132
2009	8.00	1,333	4.25	54,048	55,381
Total		<u>\$ 12,898</u>		<u>\$ 68,671</u>	<u>81,569</u>

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Bouton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 8, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

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

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Bouton'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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Bouton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

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

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

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 8, 2005

City of Bouton  
Schedule of Findings  
Year ended June 30, 2004

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Cash receipt collections, bank deposits, receipt recording and payroll are all done by the same person. Also, the preparation, check signing and posting of disbursements for the Road Use Tax Fund is done by the same person.

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

Response – We will review procedures and improve our segregation of duties.

Conclusion – Response accepted.

- (B) Credit Cards – The City has credit cards for use by certain employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We have changed procedures and will adopt a written policy for credit card use.

Conclusion – Response accepted.

- (C) Financial Management – Several bank charges for insufficient funds during the year were noted. Also, service charges are being charged monthly on small accounts.

Recommendation – The City should implement procedures to ensure funds needed for operations are readily available and are transferred to the checking account in a timely manner to avoid deficit balances in these accounts. Bank accounts should be consolidated if feasible to simplify accounting procedures.

City of Bouton

Schedule of Findings

Year ended June 30, 2004

Response – We will combine bank accounts to improve this situation.

Conclusion – Response accepted.

- (D) City Records and Accounting Procedures – The City did not have an established chart of accounts. General and subsidiary ledgers were not established to record receipt and disbursement activity and monthly bank reconciliations were not performed.

Additionally, prenumbered receipts were not issued consistently and checks received were not restrictively endorsed “For Deposit Only” upon collection.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” General and subsidiary ledgers should be maintained to facilitate timely financial and budgetary report preparation. The subsidiary ledgers should be reconciled to the receipt and disbursement journals each month. Additionally, monthly reconciliations should be performed between financial reports and bank balances, with any reconciling errors resolved in a timely manner.

Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. These receipts should be recorded and reconciled with timely deposits, and the reconciliation should be reviewed periodically by an independent person. Checks received should be restrictively endorsed “For Deposit Only” at the time of collection to provide additional control over cash in the office.

Response – We will comply with recommendations.

Conclusion – Response accepted.

- (E) Disbursements – Invoices were not marked paid or cancelled to help prevent possible duplicate payment. Invoices or other supporting documentation could not always be located for review. In addition, certain invoices or other supporting documentation did not contain proper approval by the City Council. Also, checks were sometimes countersigned in advance.

Recommendation – To aid in preventing duplicate payment, all invoices and supporting documentation should be marked paid or stamped “paid” with the date of payment. All disbursements should be supported by original invoices or other supporting documentation. All invoices or other supporting documentation should reflect the Council’s approval. In addition, all checks should only be signed and countersigned when the completed check and appropriate supporting documentation is available for review. Prior to signing, the checks and supporting documentation should be reviewed for propriety.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

City of Bouton

Schedule of Findings

Year ended June 30, 2004

- (F) Records of Accounts – Softball and the Bouton Community Kids maintain separate accounting records pertaining to their operations. The financial transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “a City shall keep accountings which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – We will include all City accounts on the City’s accounting records, annual budget and monthly Clerk’s report.

Conclusion – Response accepted.

- (G) Bouton Area Fire Fighters Association – Financial reports were not prepared on a periodic basis for review by the governing board. Additionally, monthly bank statements, cancelled checks and deposit slips were not retained and checks were issued out of numerical sequence.

Recommendation – The Bouton Area Fire Fighters Association should prepare periodic financial reports showing all accounting activity and bank balances and submit the reports to the proper governing board. All supporting bank account documentation should be retained and checks should be issued in numerical order and all check numbers should be accounted for.

Response – We will get an accounting ledger to show our bank activity. We will also be more diligent at making sure we use one check book at a time and will document in our ledger any out of sequence checks if it happens.

Conclusion – Response accepted.

City of Bouton  
Schedule of Findings  
Year ended June 30, 2004

**Other Findings Related to Statutory Reporting:**

- (1) Official Depositories – A resolution naming official depositories has not been approved by the City Council.

Recommendation – The City should adopt a resolution naming official depositories and maximum deposit amounts for each depository.

Response – We will adopt a resolution for this.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, community and economic development, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – We will amend the budget in the future if necessary.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were posted, a summary of all receipts were not posted as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should include a summary of all receipts with the posting of the Council proceedings as required by the Code of Iowa.

City of Bouton  
Schedule of Findings  
Year ended June 30, 2004

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of noncompliance with the deposit and investments provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- (9) City Code of Ordinances – The City Code of Ordinances has not been recodified in the last five years as required.

Recommendation – Chapter 380.8(1)(c) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – We will adopt a new Code of Ordinances.

Conclusion – Response accepted.

- (10) Uniform Chart of Accounts – The City’s accounting system does not use the Uniform Chart of Accounts for City Governments in Iowa.

Recommendation – The City should establish an accounting system that uses the uniform chart of accounts to properly identify transactions of the City for reporting and budgeting purposes.

Response – We will use the uniform chart of accounts with the new accounting system.

Conclusion – Response accepted.

- (11) Annual Financial Report – The City prepared the annual financial report for the fiscal year ended June 30, 2004. However, the report did not include all separately maintained records for the year as required by Chapter 384.22 of the Code of Iowa. In addition, the report did not accurately reflect the activity of the City.

Recommendation – The Annual Financial Report should be completed and filed as required by Chapter 384.22 of the Code of Iowa.

Response – We will include all separately maintained accounts on the annual financial report to accurately reflect the City activity.

Conclusion – Response accepted.

- (12) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

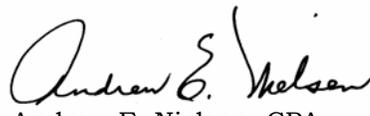
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City of Bouton

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Gina L. Cunningham, CPA, Senior Auditor  
Marc D. Johnson, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State