

**CITY OF BAXTER**

Baxter, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2004

With Independent Auditor's Reports

**CITY OF BAXTER**  
Contents

	<u>Pages</u>
City Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-10
Statement of Activities and Net Assets – Cash Basis	11-12
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Governmental Funds	13
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds	14-15
Notes to the Financial Statements	16-20
Budgetary Comparison Schedule of Receipts, Disbursements And Changes in Cash Balances – Budget and Actual (Cash Basis) All Governmental and Proprietary Funds	21-22
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	23
Schedule of Long-Term Debt and Interest	24-25
Bond and Note Maturities	26
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	27-28
Schedule of Findings	29-32

**CITY OF BAXTER**  
City Officials  
June 30, 2004

<u>Name</u>	<u>Prior to January 1, 2004</u> <u>Title</u>	<u>Term Expires</u>
Doug Bishop	Mayor	December 31, 2003
Paul Geilenfeldt	Mayor Pro Tem	December 31, 2003
Bryan DeJong	Council Member	December 31, 2005
Jane Hanson	Council Member	December 31, 2005
Larry Hesson	Council Member	December 31, 2003
Monte Kinzel	Council Member	December 31, 2005
Peg Kimberley	Clerk	Indefinite
<u>Subsequent to December 31, 2003</u>		
Doug Bishop	Mayor	December 31, 2005
Larry Hesson	Mayor Pro Tem	December 31, 2007
Bryan DeJong	Council Member	December 31, 2005
Paul Geilenfeldt	Council Member	December 31, 2007
Jane Hanson	Council Member	December 31, 2005
Monte Kinzel	Council Member	December 31, 2005
Peg Kimberley	Clerk	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Baxter, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Baxter, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents of this report. These financial statements are the responsibility of the City of Baxter's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

As described more fully in Note 1, the financial statements referred to above have been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As described in Note 11, during the year ended June 30, 2004, the City of Baxter 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 – Prospective Differences.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Baxter, Iowa 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.

In accordance with Government Auditing Standards, I have also issued my report dated November 22, 2004 on my consideration of the City of Baxter's internal control over financial reporting and my 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 when considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Baxter's basic financial statements. Other supplementary information included on pages 23 through 26 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

s/ Stanley E. Siebke

Urbandale, Iowa  
November 22, 2004

## **CITY OF BAXTER**

### **Management's Discussion and Analysis June 30, 2004**

The City of Baxter 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 financial statements, which follow.

#### **2004 FINANCIAL HIGHLIGHTS**

Revenues of the City's governmental activities came to \$1,082,476. General property taxes totaled \$110,651, Tax Increment Financing taxes \$406,795, and proceeds from long-term debt \$418,785.

Disbursements came to \$1,026,553. A majority attributed to Tax Increment Financing debt and development costs for WFH #2 and City debt service of \$242,868.

The City's total cash basis net assets came to \$545,811 with a cash increase of \$93,341 for the fiscal year.

#### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### **Basis of Accounting**

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

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

### *Government-wide Financial Statement*

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

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

Business Type Activities include the waterworks, sanitary sewer system, and landfill. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) Special Revenue Funds (Road Use - Urban Renewal Tax Increment), 3) Debt Service Fund, and 4) the Permanent Fund.

The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and landfill funds, considered to be major funds of the City.

The required financial statements for proprietary funds include 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 basis net assets in governmental funds increased by \$55,923 during the fiscal year ended June 30, 2004. The following is an analysis of changes in cash balances for governmental activities for the year ended June 30, 2004.

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

Receipts:	
Property Tax	\$110,651
TIF Revenues	406,795
Other City Taxes	9,697
Licenses & Permits	3,134
Use of Money & Property	8,099
Intergovernmental	92,364
Charges for Services	10,323
Miscellaneous	<u>22,628</u>
Total Receipts	<u>663,691</u>
Disbursements:	
Operating:	
Public Safety	107,866
Public Works	51,755
Health & Social Services	1,480
Culture & Recreation	25,952
Community & Economic Development	545,563
General Government	51,069
Debt Service	<u>242,868</u>
Total Disbursements	<u>1,026,553</u>
Excess (Deficit) of Receipts Over (Under) Disbursements	<u>(362,862)</u>

Other Financing Sources:	
Proceeds of Long-Term Debt	<u>418,785</u>
Total Other Financing Sources	<u>418,785</u>
Net Change in Cash Balances	<u>55,923</u>
Cash Balance at Beginning of Year	<u>286,044</u>
Cash Balance at End of Year	<u>\$341,967</u>

The City's total receipts for governmental activities were \$663,691 for the fiscal year ended June 30, 2004. Increases were largely seen in TIF revenues due to the issuance of TIF revenue bonds and loan funding received for development of WFH #2 housing development. An increase was also seen in estimated Road Use Funding along with additional funding for services in the Police Operations program.

The City's total disbursements for governmental activities were \$1,026,553 for the fiscal year ended June 30, 2004. Increases were largely due to TIF debt from the development of WFH #2, along with a slight increase in expenditures for the Public Safety program through Police Protection and Animal Control.

#### Changes in Cash Basis Net Assets of Business Type Activities

Operating Receipts:	
Charges for Services	
Water	\$133,848
Sewer	90,890
Landfill	74,407
Miscellaneous	<u>6,884</u>
Total Operating Receipts	<u>306,029</u>
Operating Disbursements:	
Water	88,019
Sewer	47,353
Landfill	67,013
Meter deposits	<u>5,235</u>
Total Operating Disbursements	<u>207,620</u>
Excess of Operating Receipts Over Disbursements	98,409
Non-Operating Receipts (Disbursements)	
Use of Money & Property	828
Debt Service	<u>(61,819)</u>
Total Non-Operating Receipts (Disbursements)	<u>(60,991)</u>
Net Change in Cash Balances	37,418

Cash Balance at Beginning of Year	<u>166,426</u>
Cash Balance at End of Year	<u>\$203,844</u>

The increase in total receipts verses disbursements in proprietary funds for the fiscal year ended June 30, 2004 was primarily due to an increase in the utility rate structure. Rates were increased to defray maintenance costs for water/wastewater which projects were delayed until fiscal year 2004/05.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

The City of Baxter ended fiscal year 2003/04 with a combined governmental fund balance of \$341,967, an increase of \$55,923 over the beginning of the year fund balance. To follow is a list of the major funds and how they were affected during the 2003/04 fiscal year.

**General Fund** – The General Fund cash balance decreased by \$29,173 during the fiscal year. Budgeted revenues were decreased in county library funding and state utility excise tax funding along with the elimination of the State Consolidated Payment. Increases occurred in Police Operations for equipment and a vehicle purchase, along with an increase in City Legal Fees and Other General Government for the purchase of new software in the Clerk’s office.

**Road Use Tax Fund** - The Road Use Tax Fund cash balance increased by \$41,459 during the fiscal year. Budgeted Road Use revenue was estimated on the low side, actual tax revenue received was greater. A major factor in the increase was the City’s decision to forego major street work during the 2003/04 fiscal year due to overall state cuts. Road Use expenditures were kept to a minimum.

**Urban Renewal Tax Increment Fund (TIF)** – The TIF Fund cash balance increased by \$37,692 during the fiscal year. This increase was largely due to the City consolidating its TIF debt into three TIF Revenue Bonds. The consolidation enabled the City to set up two of the bonds as tax exempt, lowering interest rates considerably. A separate bond was established for costs involved with the development of West Field Horizons, Addition #2. Debt Service disbursements and Proceeds from Long Term Debt reflect Revenue Bond’s activity. TIF revenues also reflect a Low-Moderate Reserve set aside from overall development costs of West Field Horizons housing district for future improvements to Low-Moderate TIF areas in the community.

**Other Nonmajor Governmental Funds** – The Other Nonmajor Governmental Funds cash balance increased by \$5,945 during the fiscal year. This increase is attributed to a decrease in Police Operations benefits caused by a change in personnel.

### **INDIVIDUAL MAJOR PROPRIETARY FUND ANALYSIS**

The Water Fund cash balance increased by \$6,584 during the fiscal year. The increase

was primarily due to an increase in water rates which also affected sales tax. The City also established a Water Depreciation Reserve for future distribution maintenance. Rates were increased to cover additional expenses incurred in the overall water operations budget and to establish the Water Depreciation Reserve.

The Sewer Fund cash balance increased by \$23,588 during the fiscal year. The increase was primarily due to an increase in sewer rates. The City also established a Sewer Depreciation Reserve for future maintenance and improvements. Rates were increased to cover additional expenses in plant and lagoon maintenance. A major lagoon maintenance project budgeted for 2003/04 was delayed until 2004/05. Testing fees and plant maintenance fees were also decreased due to the postponed project.

The Landfill Fund cash balance increased by \$7,394 during the fiscal year. The increase was primarily due to an increase in total number of pick-ups for the fiscal year which increased revenues. Disbursements also showed an increase for services however, revenues maintained an increase in the overall picture.

The Enterprise Fund/Meter Deposits cash balance decreased by \$148 during the fiscal year. The decrease was due to an increase in deposit refunds for the year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once in May, 2004. This amendment covered additional disbursements in the Urban Renewal TIF Fund related to newly established TIF Revenue Bonds and development costs for WFH #2 housing development, along with additional disbursements in Police Operations and the Water Fund. The City had sufficient cash balances to absorb these additional costs.

### **DEBT ADMINISTRATION**

As of June 30, 2004, the City had \$1,339,087 in bond and other long-term debt compared to \$468,191 at June 30, 2003. Debt increased as a result of issuing three TIF Revenue Bonds totaling \$1,118,954. Two of the bonds were used for development costs on WFH Phases 1 and 2, these bonds being tax exempt. A third bond was issued to consolidate previous debt incurred from construction and equipment costs for the grocery store. Issuing of these bonds consolidated the City's TIF debt and brought interest rates down considerably.

#### Outstanding Long-Term Debt at June 30, 2004

General Obligation	\$30,695
TIF	914,699
Water Revenue Bonds	<u>393,693</u>
Grand Total	<u>\$1,339,087</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$30,695 is significantly below its constitutional debt limit of \$1,609,386.

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

The City of Baxter's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for the fiscal year 2005. Budgeted receipts are estimated at \$927,141 with budgeted disbursements estimated at \$927,106. A slight decrease in receipts and disbursements will be noticed due to a limited certification of TIF debt for 2005.

If these estimates are realized, the City's budgeted cash balance is expected to remain fairly stable.

## **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 Peg Kimberley, City Clerk, 203 S. Main Street, Baxter, Iowa.

**CITY OF BAXTER**  
Statement of Activities and Net Assets - Cash Basis  
As of and For the Year Ended June 30, 2004

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions and Restricted Interest</u>
Function/Programs:			
Governmental activities:			
Public safety	\$ 107,866	0	0
Public works	51,755	0	87,618
Health and social services	1,480	0	0
Culture and recreation	25,952	10,288	871
Community and economic development	545,563	0	0
General government	51,069	0	0
Debt service	242,868	0	0
Total Governmental Activities	<u>1,026,553</u>	<u>10,288</u>	<u>88,489</u>
Business type activities:			
Water	129,838	133,848	827
Sewer	67,353	90,890	1
Meter deposits	5,235	0	0
Landfill	67,013	74,407	0
Total Business Type Activities	<u>269,439</u>	<u>299,145</u>	<u>828</u>
Total	<u>\$ 1,295,992</u>	<u>309,433</u>	<u>89,317</u>
Component Unit:			
Baxter Economic Development Corporation:			
Community and economic developmen	<u>\$ 168,325</u>	<u>54,251</u>	<u>0</u>

Change in Cash Basis Net Assets

Net (Disbursements) Receipts

General Receipts:

Property tax levied for:

General purposes

Tax increment financing

Utility excise tax

Unrestricted interest on investments

Proceeds of long-term debt

Miscellaneous

Total General Receipts

Change in Cash Basis Net Assets

Cash Basis Net Assets at Beginning of Year

Cash Basis Net Assets at End of Year

Cash Basis Net Assets:

Restricted:

Streets

Urban renewal purposes

Debt service

Other

Unrestricted

Total Cash Basis Net Assets

The accompanying notes are an integral part of these financial statements.

**CITY OF BAXTER**  
Statement of Activities and Net Assets - Cash Basis  
As of and For the Year Ended June 30, 2004

Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
0	(107,866)	0	(107,866)
0	35,863	0	35,863
0	(1,480)	0	(1,480)
10,000	(4,793)	0	(4,793)
0	(545,563)	0	(545,563)
0	(51,069)	0	(51,069)
0	(242,868)	0	(242,868)
<u>10,000</u>	<u>(917,776)</u>	<u>0</u>	<u>(917,776)</u>
0	0	4,837	4,837
0	0	23,538	23,538
0	0	(5,235)	(5,235)
0	0	7,394	7,394
<u>0</u>	<u>0</u>	<u>30,534</u>	<u>30,534</u>
<u>10,000</u>	<u>(917,776)</u>	<u>30,534</u>	<u>(887,242)</u>
<u>695</u>	<u>(113,379)</u>	<u>0</u>	<u>(113,379)</u>

Governmental Activities	Primary Government		Component Unit
	Business Type Activities	Total	
<u>\$ (917,776)</u>	<u>30,534</u>	<u>(887,242)</u>	<u>(113,379)</u>
110,651	0	110,651	0
406,795	0	406,795	0
6,924	0	6,924	0
7,227	0	7,227	0
418,785	0	418,785	0
23,317	6,884	30,201	0
<u>973,699</u>	<u>6,884</u>	<u>980,583</u>	<u>0</u>
55,923	37,418	93,341	(113,379)
286,044	166,426	452,470	167,793
<u>\$ 341,967</u>	<u>203,844</u>	<u>545,811</u>	<u>54,414</u>
\$ 132,422	0	132,422	0
126,687	0	126,687	54,414
2,406	0	2,406	0
49,496	0	49,496	0
30,956	203,844	234,800	0
<u>\$ 341,967</u>	<u>203,844</u>	<u>545,811</u>	<u>54,414</u>

**CITY OF BAXTER**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and For the Year Ended June 30, 2004

	<u>General</u>	<u>Special Revenue</u>		<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
		<u>Road Use Tax</u>	<u>TIF</u>		
<b>Receipts:</b>					
Property tax	\$ 85,597	0	0	25,054	110,651
TIF revenues	0	0	406,795	0	406,795
Other city taxes	7,600	0	0	2,097	9,697
Licenses and permits	3,134	0	0	0	3,134
Use of money and property	8,099	0	0	0	8,099
Intergovernmental	4,746	87,618	0	0	92,364
Charges for services	9,878	0	0	445	10,323
Miscellaneous	22,628	0	0	0	22,628
<b>Total Receipts</b>	<u>141,682</u>	<u>87,618</u>	<u>406,795</u>	<u>27,596</u>	<u>663,691</u>
<b>Disbursements:</b>					
Operating:					
Public safety	100,711	0	0	7,155	107,866
Public works	0	46,159	0	5,596	51,755
Health and social services	1,480	0	0	0	1,480
Community and economic development	24,615	0	545,020	1,337	570,972
General government	543	0	0	0	543
Debt service	45,588	0	242,868	5,481	293,937
<b>Total Disbursements</b>	<u>172,937</u>	<u>46,159</u>	<u>787,888</u>	<u>19,569</u>	<u>1,026,553</u>
<b>Excess (Deficit) of Receipts over (under) Disbursements</b>	<u>(31,255)</u>	<u>41,459</u>	<u>(381,093)</u>	<u>8,027</u>	<u>(362,862)</u>
<b>Other Financing Sources:</b>					
Proceeds of long-term debt	0	0	418,785	0	418,785
Operating transfers in (out)	2,082	0	0	(2,082)	0
<b>Total Other Financing Sources</b>	<u>2,082</u>	<u>0</u>	<u>418,785</u>	<u>(2,082)</u>	<u>418,785</u>
<b>Net Change in Cash Balances</b>	<u>(29,173)</u>	<u>41,459</u>	<u>37,692</u>	<u>5,945</u>	<u>55,923</u>
<b>Cash Balances at Beginning of Year</b>	<u>60,126</u>	<u>90,963</u>	<u>88,995</u>	<u>45,960</u>	<u>286,044</u>
<b>Cash Balances at End of Year</b>	<u>\$ 30,953</u>	<u>132,422</u>	<u>126,687</u>	<u>51,905</u>	<u>341,967</u>
<b>Cash Basis Fund Balances:</b>					
Reserved:					
Debt service	\$ 0	0	0	2,406	2,406
Unreserved:					
General fund	30,953	0	0	0	30,953
Special revenue funds	0	132,422	126,687	1,424	260,533
Permanent fund	0	0	0	48,075	48,075
<b>Total Cash Basis Fund Balances</b>	<u>\$ 30,953</u>	<u>132,422</u>	<u>126,687</u>	<u>51,905</u>	<u>341,967</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF BAXTER**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Proprietary Funds  
As of and For the Year Ended June 30, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Enterprise Funds</u> <u>Meter</u> <u>Deposits</u>
Operating Receipts:			
Charges for services	\$ 133,848	90,890	0
Miscellaneous	1,747	50	5,087
Total Operating Receipts	<u>135,595</u>	<u>90,940</u>	<u>5,087</u>
Operating Disbursements:			
Business type activities	88,019	47,353	5,235
Total Operating Disbursements	<u>88,019</u>	<u>47,353</u>	<u>5,235</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>47,576</u>	<u>43,587</u>	<u>(148)</u>
Non-Operating Receipts (Disbursements)			
Use of money and property	827	1	0
Debt service	(41,819)	(20,000)	0
Total Non-Operating Receipts (Disbursements)	<u>(40,992)</u>	<u>(19,999)</u>	<u>0</u>
Net Change in Cash Balances	6,584	23,588	(148)
Cash Balances at Beginning of Year	59,128	40,868	21,534
Cash Balances at End of Year	<u>\$ 65,712</u>	<u>64,456</u>	<u>21,386</u>
Cash Basis Fund Balances			
Unrestricted:			
Unreserved	<u>\$ 65,712</u>	<u>64,456</u>	<u>21,386</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF BAXTER**  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Proprietary Funds  
As of and For the Year Ended June 30, 2004

<u>Landfill</u>	<u>Total</u>
74,407	299,145
0	6,884
<hr/> <u>74,407</u>	<hr/> <u>306,029</u>
67,013	207,620
<hr/> <u>67,013</u>	<hr/> <u>207,620</u>
<hr/> <u>7,394</u>	<hr/> <u>98,409</u>
0	828
0	(61,819)
<hr/> <u>0</u>	<hr/> <u>(60,991)</u>
7,394	37,418
44,896	166,426
<hr/> <u>52,290</u>	<hr/> <u>203,844</u>
<hr/> <u>52,290</u>	<hr/> <u>203,844</u>

**CITY OF BAXTER**  
Notes to the Financial Statements  
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Baxter is a political subdivision of the State of Iowa located in Jasper County. The City operates under the Mayor-Council form of government with the mayor and council members elected on a non-partisan basis.

Reporting Entity

For financial reporting purposes, the City of Baxter has included all funds, organizations, account groups, 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.

The Baxter Economic Development Corporation is a not – for – profit corporation organized for the purpose of performing specific economic development activities within the City of Baxter.

The City also participates in jointly governed organizations that provide goods or services to the citizens 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: Jasper County Animal Rescue League and Jasper County Landfill.

Basis of Presentation

Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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 on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet 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.

**CITY OF BAXTER**  
Notes to the Financial Statements – Continued

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue Funds:

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

The Urban Renewal Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the operation and maintenance of the City's water system.

Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the City's waste water and sanitary sewer system.

Meter Deposit Fund – The meter deposit fund accounts for funds held by the City for water and sewer customers to guarantee payment of fees.

Landfill Fund – The landfill fund accounts for the City's collection and disposal of solid waste.

Measurement Focus and Basis of Accounting

The City of Baxter 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

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

**CITY OF BAXTER**  
Notes to the Financial Statements - Continued

Formal and legal budgetary control is based on nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

During the year ended June 30, 2004, the budget was amended under the statutorily prescribed procedures.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded amounts budgeted in the debt service function.

(2) Pooled Deposits and Investments

The City's deposits 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 and the Treasurer of the State of Iowa; 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.

(3) Long-Term Debt

A summary of the City's June 30, 2004 long-term debt is as follows:

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>General Obligation</u>		<u>TIF</u>		<u>Water Revenue</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2005	3.75 - 6.25%	\$ 18,206	1,407	167,839	45,112	10,000	1,875	244,439
2006	3.75 - 6.25	4,008	400	176,201	36,748	22,460	18,685	258,502
2007	3.75 - 6.25	4,161	247	185,057	27,892	23,083	17,687	258,127
2008	3.75 - 6.25	4,320	88	144,366	18,808	23,738	16,657	207,977
2009	3.75 - 5.00	0	0	113,703	13,247	24,424	15,596	166,970
		30,695	2,142	787,166	141,807	103,705	70,500	1,136,015
2010-2014	4.00 - 5.00	0	0	238,748	15,142	83,689	64,536	402,115
2015-2019	5.00	0	0	0	0	106,811	41,414	148,225
2020-2023	5.00	0	0	0	0	99,488	12,246	111,734
		\$ 30,695	2,142	1,025,914	156,949	393,693	188,696	1,798,089
Less amounts not yet received				(111,215)				
				914,699				

Interest paid on general obligation debt amounted to \$2,698, interest paid on TIF debt amounted to \$38,613 and interest paid on water revenue bonds amounted to \$19,726 during the year ended June 30, 2004. This entire amount of \$61,037 was charged to expense.

Cash restricted for payment of bonds and notes at June 30, 2004 is as follows:

General obligation debt	\$ 2,406
-------------------------	----------

**CITY OF BAXTER**  
Notes to the Financial Statements – Continued

(4) Retirement System – IPERS

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$7,338, equal to the required contribution for the year.

(5) General Long-Term Debt

Changes in general long-term debt during the year ended June 30, 2004 are summarized as follows:

	<u>General Obligation</u>	<u>TIF</u>	<u>Total</u>
Balance at beginning of year	\$ 52,405	0	52,405
New debt issued during the year	0	1,118,954	1,118,954
Payments during the year	(21,710)	(204,255)	(225,965)
Balance at end of year	<u>\$ 30,695</u>	<u>914,699</u>	<u>945,394</u>

(6) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or sick leave may be paid upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2004 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,142
Sick leave	5,721
Comp time	1,599
	<u>\$ 10,462</u>

The liability has been computed based on rates of pay as of June 30, 2004.

(7) Risk Management

The City of Baxter is exposed to various risks of loss related to torts: theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes the liability for insurance deductibles and claims in excess of insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF BAXTER**  
Notes to the Financial Statements – Continued

- (8) Property Tax Calendar  
Property taxes are collected and remitted to the City by the county government. Taxes are levied annually on July 1 based on an assessment as of January 1. Taxes are due one-half on September 30 in the year following the levy and one-half on the subsequent March 31. The lien date is July 1. Current and delinquent tax payments are recognized as receipts by the City when received.
- (9) Related Party Transactions  
During the year ended June 30, 2004, the City purchased goods and services from a business owned by a city official totaling \$4,783.
- (10) Commitments  
At June 30, 2004, the City had an open contract on a construction project with a balance of \$30,287.
- (11) 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 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 fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities.

**CITY OF BAXTER**  
 Budgetary Comparison Schedule of Receipts, Disbursements  
 and Changes in Cash Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds and Proprietary Funds  
 Year Ended June 30, 2004

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 110,651	0	110,651
TIF revenues	406,795	0	406,795
Other city taxes	9,697	0	9,697
Licenses and permits	3,134	0	3,134
Use of money and property	8,099	828	8,927
Intergovernmental	92,364	0	92,364
Charges for services	10,323	299,145	309,468
Miscellaneous	22,628	6,884	29,512
Other financing sources	418,785	0	418,785
<b>Total Receipts</b>	<u>1,082,476</u>	<u>306,857</u>	<u>1,389,333</u>
Disbursements:			
Public safety	107,866	0	107,866
Public works	51,755	0	51,755
Health and social services	1,480	0	1,480
Culture and recreation	25,952	0	25,952
Community and economic development	545,563	0	545,563
General government	51,069	0	51,069
Debt service	242,868	61,819	304,687
Business type activities	0	207,620	207,620
Transfers out	0	0	0
<b>Total Disbursements</b>	<u>1,026,553</u>	<u>269,439</u>	<u>1,295,992</u>
Excess (Deficit) of Receipts over (under) Disbursements	55,923	37,418	93,341
Balances at Beginning of Year	286,044	166,426	452,470
<b>Balances at End of Year</b>	<u>\$ 341,967</u>	<u>203,844</u>	<u>545,811</u>

**CITY OF BAXTER**

Budgetary Comparison Schedule of Receipts, Disbursements  
and Changes in Cash Balances - Budget and Actual (Cash Basis)  
All Governmental Funds and Proprietary Funds  
Year Ended June 30, 2004

<u>Budgeted Amounts</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
106,803	106,803	3,848
365,223	814,517	(407,722)
11,572	11,572	(1,875)
2,530	2,530	604
14,450	14,450	(5,523)
115,343	121,785	(29,421)
256,854	302,431	7,037
4,500	4,500	25,012
3,082	3,082	415,703
<u>880,357</u>	<u>1,381,670</u>	<u>7,663</u>
111,517	114,527	6,661
89,294	89,294	37,539
1,980	1,980	500
34,346	34,346	8,394
365,603	815,087	269,524
53,685	53,685	2,616
0	0	(304,687)
245,721	293,331	85,711
2,082	2,082	2,082
<u>904,228</u>	<u>1,404,332</u>	<u>108,340</u>
(23,871)	(22,662)	116,003
269,573	269,573	182,897
<u>245,702</u>	<u>246,911</u>	<u>298,900</u>

**CITY OF BAXTER**  
Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances -  
Nonmajor Governmental Funds  
As of and For the Year Ended June 30, 2004

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Permanent</u>	<u>Total</u>
	<u>Employee Benefits</u>	<u>Emergency</u>		<u>Cemetery Perpetual Care</u>	
Receipts:					
Property tax	\$ 23,130	1,924	0	0	25,054
Other city taxes - utility excise	1,936	161	0	0	2,097
Charges for services	0	0	0	445	445
Total Receipts	<u>25,066</u>	<u>2,085</u>	<u>0</u>	<u>445</u>	<u>27,596</u>
Disbursements:					
Operating:					
Public safety	7,155	0	0	0	7,155
Public works	5,596	0	0	0	5,596
Culture and recreation	1,337	0	0	0	1,337
General government	5,481	0	0	0	5,481
Total Disbursements	<u>19,569</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,569</u>
Excess of Receipts over Disbursements	5,497	2,085	0	445	8,027
Operating transfers out	<u>0</u>	<u>(2,082)</u>	<u>0</u>	<u>0</u>	<u>(2,082)</u>
Net Change in Cash Balances	5,497	3	0	445	5,945
Cash Balances at Beginning of Year	(4,076)	0	2,406	47,630	45,960
Cash Balances at End of Year	<u>\$ 1,421</u>	<u>3</u>	<u>2,406</u>	<u>48,075</u>	<u>51,905</u>
Cash Basis Fund Balances:					
Reserved:					
Debt service	\$ 0	0	2,406	0	2,406
Unreserved:					
Special revenue funds	1,421	3	0	0	1,424
Permanent fund	0	0	0	48,075	48,075
	<u>\$ 1,421</u>	<u>3</u>	<u>2,406</u>	<u>48,075</u>	<u>51,905</u>

**CITY OF BAXTER**  
 Schedule of Long-Term Debt and Interest  
 Year Ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation:			
Sewer improvement	March 31, 1995	6.00%	\$ 162,000
Police car loan	May 14, 2003	3.75	20,005
Total General Obligation			
TIF			
Series 2003A	August 1, 2003	4.00	530,000
Series 2003B	August 1, 2003	4.00	341,000
Series 2003C	August 1, 2003	6.25	365,000
Total TIF			
Water Revenue Bonds:			
Water project	November 23, 1982	5.00	500,000
Water plant	November 14, 2002	3.75	60,000
Total Water Revenue Bonds			
Grand Total			

**CITY OF BAXTER**  
Schedule of Long-Term Debt and Interest  
Year Ended June 30, 2004

<u>Balance</u> <u>June 30, 2003</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Interest</u> <u>Paid</u>
\$ 32,400	0	18,056	14,344	1,944
20,005	0	3,654	16,351	754
<u>52,405</u>	<u>0</u>	<u>21,710</u>	<u>30,695</u>	<u>2,698</u>
0	418,785	60,877	357,908	9,773
0	341,000	45,390	295,610	10,910
0	359,169	97,988	261,181	17,930
<u>0</u>	<u>1,118,954</u>	<u>204,255</u>	<u>914,699</u>	<u>38,613</u>
355,786	0	12,093	343,693	17,552
60,000	0	10,000	50,000	2,174
<u>415,786</u>	<u>0</u>	<u>22,093</u>	<u>393,693</u>	<u>19,726</u>
<u>\$ 468,191</u>	<u>1,118,954</u>	<u>248,058</u>	<u>1,339,087</u>	<u>61,037</u>

**CITY OF BAXTER**  
Bond and Note Maturities  
June 30, 2004

General Obligation

Year Ending June 30,	<u>Sewer Improvement</u> <u>Issued 3/31/95</u>		<u>Police Car</u> <u>Issued 5/14/03</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2005	6.00%	\$ 14,344	3.75	3,862	18,206
2006	--	0	3.75	4,008	4,008
2007	--	0	3.75	4,161	4,161
2008	--	0	3.75	4,320	4,320
		<u>\$ 14,344</u>		<u>16,351</u>	<u>30,695</u>

TIF

Year Ending June 30,	<u>Series 2003A</u> <u>Issued 8/1/03</u>		<u>Series 2003B</u> <u>Issued 8/1/03</u>		<u>Series 2003C</u> <u>Issued 8/1/03</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2005	4.00%	\$ 52,136	4.00	44,938	6.25	70,765	167,839
2006	4.00	54,211	4.00	46,734	6.25	75,256	176,201
2007	4.00	56,401	4.00	48,622	6.25	80,034	185,057
2008	4.00	58,662	4.00	50,578	6.25	35,126	144,366
2009	4.00	61,066	4.00	52,637	--	0	113,703
2010	4.00	63,517	4.00	52,101	--	0	115,618
2011	4.00	66,083	--	0	--	0	66,083
2012	4.00	57,047	--	0	--	0	57,047
Amount not yet received		(111,215)		0		0	(111,215)
		<u>\$ 357,908</u>		<u>295,610</u>		<u>261,181</u>	<u>914,699</u>

Water Revenue

Year Ending June 30,	<u>Water Project</u> <u>Issued 11/23/82</u>		<u>Water Plant</u> <u>Issued 11/14/02</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2005	5.00%	\$ 0	3.75	10,000	10,000
2006	5.00	12,460	3.75	10,000	22,460
2007	5.00	13,083	3.75	10,000	23,083
2008	5.00	13,737	3.75	10,000	23,737
2009	5.00	14,424	3.75	10,000	24,424
2010	5.00	15,146	--	0	15,146
2011	5.00	15,903	--	0	15,903
2012	5.00	16,698	--	0	16,698
2013	5.00	17,533	--	0	17,533
2014	5.00	18,410	--	0	18,410
2015	5.00	19,330	--	0	19,330
2016	5.00	20,297	--	0	20,297
2017	5.00	21,311	--	0	21,311
2018	5.00	22,377	--	0	22,377
2019	5.00	23,496	--	0	23,496
2020	5.00	24,671	--	0	24,671
2021	5.00	25,904	--	0	25,904
2022	5.00	27,199	--	0	27,199
2023	5.00	21,714	--	0	21,714
		<u>\$ 343,693</u>		<u>50,000</u>	<u>393,693</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and  
Members of the City Council  
City of Baxter, Iowa

I have audited the financial statements of the City of Baxter, Iowa, as of and for the year ended June 30, 2004 and have issued my report thereon dated November 22, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my 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 Baxter's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part III of 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 my audit of the financial statements of the City. Since my 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 my audit, I considered the City of Baxter's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely

affect the City of Baxter'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 Part II of 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 of 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. My 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, I believe none of the items 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 Baxter and other parties to whom the City of Baxter may report. This report is not intended to be and should not be used by anyone other than those specified parties.

s/ Stanley E. Siebke

Urbandale, Iowa  
November 22, 2004

**CITY OF BAXTER**  
Schedule of Findings  
Year Ended June 30, 2004

Part I: Summary of Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which 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.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CITY OF BAXTER**  
Schedule of Findings  
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Reportable Conditions

04-II-A Segregation of Duties

One important aspect of the internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one employee is involved in utility billings, cash receipts, bank deposits, bank reconciliations, cash disbursements and general ledger accounting.

I realize that with the limited number of employees, improvement of these controls is not economically feasible. However, I believe management of the City should be aware of the situation.

Response: The Council is aware of the situation.

Conclusion: Response accepted.

**CITY OF BAXTER**  
Schedule of Findings  
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting

04-III-A Official Depositories

A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution have not been exceeded during the year ended June 30, 2004.

04-III-B Certified Budget

City expenditures during the year ended June 30, 2004 exceeded amounts budgeted therefore in the debt service program. Chapter 384 of the Code of Iowa prohibits such budget overruns. City officials should be certain that sufficient funds are budgeted in the appropriate programs.

Response: We will budget sufficient funds in the appropriate programs.

Conclusion: Response accepted.

04-III-C Questionable Disbursements

I noted no expenditures for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

04-III-D Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

04-III-E Business Transactions

During the year ended June 30, 2004, the City purchased goods and services from the following city official:

Baxter Oil	Bryan DeJong	\$4,783
------------	--------------	---------

Since these payments are in excess of \$2,500, they are in violation of Chapter 362.5(11) of the Code of Iowa.

Response: The City's policy is to purchase goods and services from local businesses when possible.

Conclusion: Response accepted.

04-III-F Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory requirements.

04-III-G Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not. I did note occasions when the minutes were not published within fifteen days of the council meeting in accordance with Chapter 372.13(6) of the Code of Iowa. The City should have the minutes published within fifteen days of the Council meeting.

Response: We will attempt to have the minutes published within fifteen days of the meeting.

Conclusion: Response accepted.

**CITY OF BAXTER**  
Schedule of Findings  
Year Ended June 30, 2004

04-III-H Deposits and Investments

I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.