

BAXTER COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
Baxter Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Baxter Community School District, Baxter, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements of Baxter Community Educational Foundation have not been audited, and we were not engaged to audit the Foundation financial statements as part of our audit of the Baxter Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Foundation's financial statements and because we did not apply any auditing procedures to the Foundation's financial statements, we do not express an opinion on the discretely presented component unit.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Baxter Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Baxter Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated [September 2, 2004](#), on our consideration of [Baxter](#) Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages [4 through 14](#) and [38 through 40](#) are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise [Baxter](#) Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, [2003](#), (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules [1](#) through [4](#) 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

[September 2, 2004](#)

Baxter Community School District

Management Discussion and Analysis

For the Year Ended June 30, 2004

The Baxter Community School District 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 ending June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statement, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

- The General Fund revenues increased from \$2,598,315 in fiscal 2003 to \$2,765,595 in fiscal 2004, while General Fund expenditures increased from \$2,631,457 in fiscal year 2003 to \$2,711,350 in fiscal 2004. The increase in General Fund revenues was attributable to miscellaneous revenue. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- The June 30, 2004 fund balance improved to \$593,176 from the June 30, 2003 fund balance of \$536,844. The increase is due to a deduction in discretionary expenditures, a decrease in the special education deficit, increased enrollment and constant state aid payments.
- Continuing low interest rates resulted in interest earnings in the General Fund alone to drop from \$27,108 in fiscal year 2003 to \$17,085 in fiscal year 2004.
- Special education posted a deficit for 2003-04 of (\$64,055). The 2002-03 special education deficit was (\$91,389) for a difference of \$27,334.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements (government-wide and fund statements) including notes to the financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different view of the District:

- The *statement of net assets* and *statement of activities* provide information on a government-wide basis. The statements present an aggregate view of the District's finances. Government-wide statements contain useful long-term information as well as information for the just-completed fiscal year.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the Government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. The District does not have any fiduciary funds at this time.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains the supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1

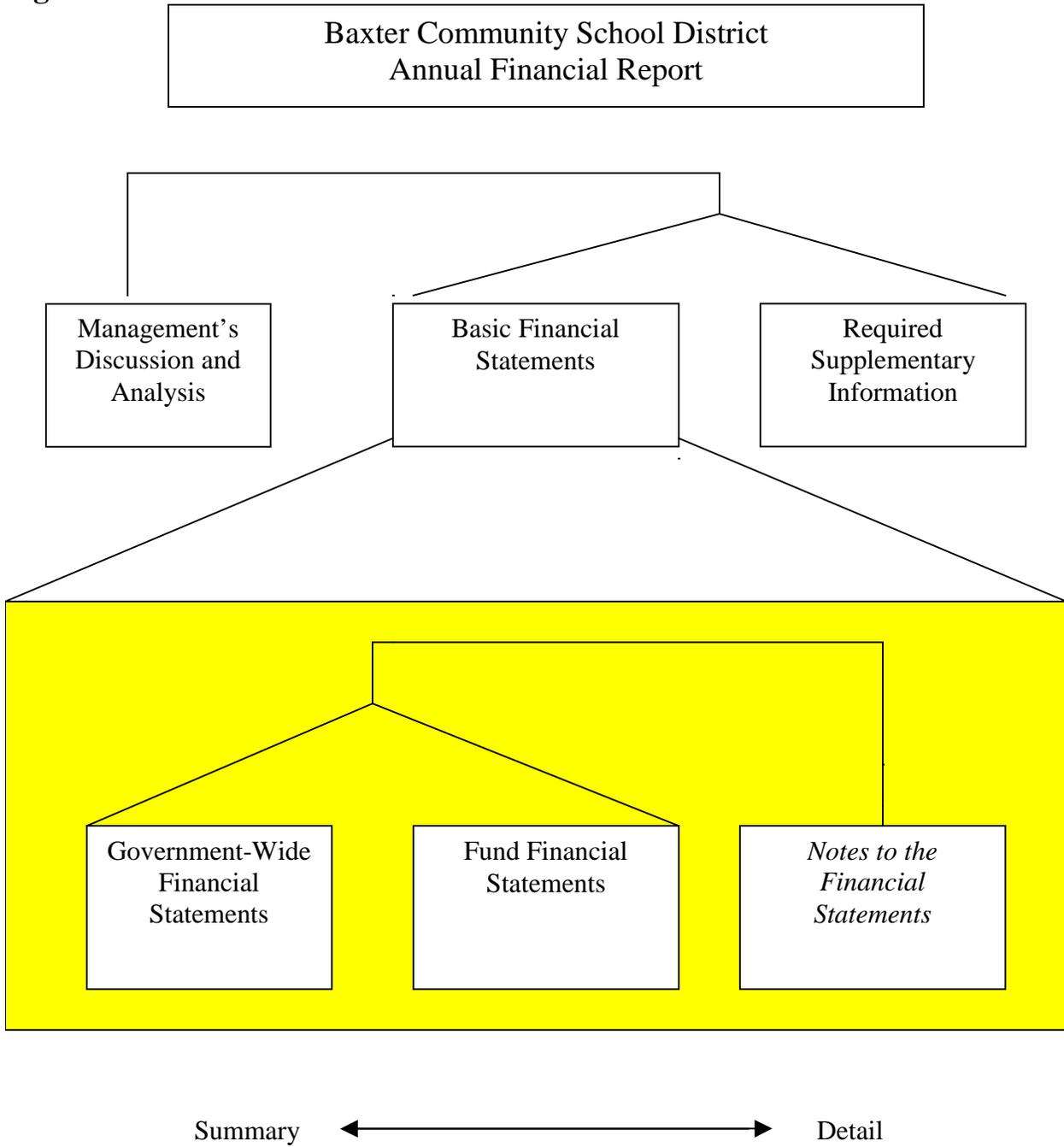


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2: Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of net assets *Statement of cash flows *Statement of revenues, expenses and changes in net assets	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net

assets includes all of the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's overall financial position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

* Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

*To assess the overall financial condition of the District additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities should be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help it cover the costs of certain services it provides. The District's food service program is reported here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences)

between them. The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and Debt Service Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. The District does not have an internal service fund.

Reconciliations between the district-wide financial statements and the fund financial statements follow the fund financial statements.

Financial Analysis of the District as a Whole

Net assets. Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2003-04
	2003	2004	2003	2004	2003	2004	
Current and other assets	\$2,500,021	\$1,924,935	\$10,227	\$15,597	\$2,510,248	\$1,940,532	(22.70%)
Capital assets	\$2,484,692	\$2,393,083	\$3,206	\$2,452	\$2,487,898	\$2,395,535	(3.71%)
Total Assets	\$4,984,713	\$4,318,018	\$13,433	\$18,049	\$4,998,146	\$4,336,067	(13.25%)
Long-term debt outstanding	\$1,730,315	\$1,621,349	\$0	\$0	\$1,730,315	\$1,621,349	(6.30%)
Other liabilities	\$1,767,292	\$1,034,829	\$0	\$2,782	\$1,767,292	\$1,037,611	(41.29%)
Total liabilities	\$3,497,607	\$2,656,178	\$0	\$2,782	\$3,497,607	\$2,658,960	(24.00%)
Net Assets							
Invested in capital assets, net of related debt	\$798,581	\$825,659	\$3,206	\$2,452	\$801,787	\$828,111	3.28%
Restricted	\$66,289	\$155,175	\$0	\$0	\$66,289	\$155,175	134.09%
Unrestricted	\$622,236	\$681,006	\$10,227	\$12,815	\$632,463	\$693,821	9.7%
TOTAL NET ASSETS	\$1,487,106	\$1,661,840	\$13,433	\$15,267	\$1,500,539	\$1,677,107	11.77%

The District's combined net assets increased by 11.77% to \$1,677,107. The majority of this improvement in the financial position came from governmental activities, the net assets of which grew \$174,734. Unrestricted net assets improved to \$681,006 up from the 2003 amount of \$622,236. The net assets of the District's business-type activities increased \$2,588. While the dollar growth is small, it nonetheless represents an increase of more than 25%.

Changes in Net Assets. Figure A-4 shows the changes in net assets for the fiscal year 2004.

Figure A-4***Changes in Net Assets from Operating Results***

	Governmental Activities 2004	Total School District 2004	2004
Revenues			
Program Revenues			
Charges for services	\$ 445,929	\$ 79,732	\$ 525,661
		\$ 44,125	
Operating Grants & Contributions	\$ 298,662		\$ 342,787
Capital Grants & Contributions			\$
General Revenues			\$
Property taxes & other taxes	\$ 1,274,387		\$ 1,274,387
Unrestricted state grants	\$ 1,215,886		\$ 1,215,886
Other	\$ 21,313	\$ 62	\$ 21,375
		\$ 123,919	
Total Revenues	\$ 3,256,177		\$ 3,380,096
Expenses			
Instruction	\$ 1,759,884		\$ 1,759,884
Student & Instructional Services	\$ 179,068		\$ 179,068
Administrative & Business	\$ 443,404		\$ 443,404
Maintenance & Operations	\$ 272,598		\$ 272,598
Transportation	\$ 152,143		\$ 152,143
Other	\$ 274,346	\$ 122,085	\$ 396,431
		\$ 122,085	
Total Expenses	\$ 3,081,443		\$ 3,203,528
Excess (deficiency) before special item	\$ 174,734	\$ 1,834	\$ 176,568
Special item description			
Increase (decrease) in net assets	\$ 174,734	\$ 1,834	\$ 176,568

Property tax and unrestricted state grants account for over 76% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 77% of the total expense. Revenues from charges for services are mainly tuition and student activity fund revenues. Operating grant revenues are state and federal grants that must be used for a specific purpose such as Phase I and II, Title I and Title V.

Governmental Activities

Revenues for governmental activities were \$3,256,177 and expenses were \$3,081,443.

Figure A-5 presents the cost of six major District activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other.

The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-5

Net Cost of Governmental Activities

	Total Cost	Net Cost
	2004	2004
Instruction	\$ 1,759,884	\$1,183,279
Student & Instructional Svcs	\$ 179,068	\$179,068
Administrative & Business	\$ 443,404	\$443,404
Maintenance & Operations	\$ 272,598	\$272,598
Transportation	\$ 152,143	\$76,854
Other	\$ 274,346	\$181,649
TOTAL	\$ 3,081,443	\$ 2,336,852

- The cost financed by users of the District's programs was \$445,929.
- The federal and state governments subsidized certain programs with grants and contributions totaling \$298,662.
- This portion of governmental activities was financed with \$1,054,041 in property tax and \$1,215,117 in unrestricted state grants.

Business-Type Activities

Revenues of the District's business-type activities were \$123,919 and expenses were \$122,085. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment earnings.

Financial Analysis of the District's Funds

As noted earlier, the Baxter Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Baxter Community School District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable*

resources. Such information is useful in assessing the Baxter Schools financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Baxter Schools governmental funds reported combined ending fund balances of \$773,662, a 23% increase over last year's ending fund balance of \$625,235. The increase takes into account an end of the year fund balance in Capital Projects of \$76,155, which is due to local option sales tax revenues. The district began receiving Local Option Sales Tax revenues from Jasper County in March 2004.

The general fund is the chief operating fund of the Baxter Community School District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$593,176 while total fund balance increased to \$773,662.

The fund balance of the Baxter Community School District's general fund improved by \$56,332 during the current fiscal year. Key factors in this improvement are as follows:

- The District improved its General Fund balance by tightly monitoring expenses from the budget, such as supplies and maintenance items.
- The maintaining of funds was made difficult with the state completely eliminating the Phase III money and the technology money.
- The district continues to experience steady enrollment increases.
- Open enrollment into the district continues to have a positive economic impact on the general fund.

The capital projects fund concluded 2004 with an unreserved fund balance of \$76,155. The 2003 total unreserved fund balance for capital projects was \$0. District voters approved at a special election on May 11, 2004, to issue General Obligation Bonds in an amount not to exceed \$1,825,000 to provide funds to build and furnish an addition to the Baxter School Building and to improve, remodel, and repair the Baxter School Building. A good faith deposit of \$27,100 was wired to the District in June 2004, from the bond purchaser.

Proprietary Fund Highlights

The School Nutrition Fund balance increased due primarily to cost savings measurers.

Budgetary Highlights

- In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial; activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison.

- The District has not amended its budget for several years because we prepare the initial budget using the maximum expenditures that the District could have based on projected revenues and carryover balances. Actual expenditures are controlled during the year using a line item budget that bases expenditures on projected revenues for the year.
- In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$2,399,535, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3.71% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$97,863.

The original cost of the District's capital assets was \$4,060,578. Governmental funds account for \$4,027,199 with the remainder of \$33,379 accounted for the business type School Nutrition Fund.

Figure A-6

Capital Assets Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2003-04
	2003	2004	2003	2004	2003	2004	
Land	\$ 75,602	\$ 75,602			\$ 75,602	\$ 75,602	0.00%
Construction in progress						\$	
Buildings	\$ 2,161,383	\$ 2,099,986			\$ 2,161,383	\$ 2,099,986	-2.84%
Improvements other than buildings	\$ 99,604	\$ 91,823			\$ 99,604	\$ 91,823	-7.81%
Equipment & Furniture	\$ 148,103	\$ 125,672	\$ 3,206	\$ 2,452	\$ 151,309	\$ 128,124	-15.32%
TOTAL	\$ 2,484,692	\$ 2,393,083	\$ 3,206	\$ 2,452	\$ 2,487,898	\$ 2,395,535	-3.71%

Long-Term Debt

At year-end, the District had \$1,505,000 in general obligation bonds and \$116,349 in other long-term debt outstanding. The District will sell an additional \$1,565,000 in general obligation bonds, July 2004. \$1,100,000 in sales tax revenue bonds will also be sold in July 2004. These funds will be used to help finance facilities construction and improvements throughout the District.

More detailed information on the District's capital assets and long-term debt can be found in the notes to the financial statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- All bargaining unit contracts are one-year contracts and open for renegotiation for next year. Salary and benefits represent 77.5% of general fund expenditures. Salary and benefit settlements, with any employee group, exceeding the rate of growth of state funding will have an adverse impact upon the District's General Fund budget.
- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national economy. State funding growth for public schools for fiscal year 2003, previously set during the 2001 legislative session at 4% was subsequently reduced to 1% during the 2002 legislative session. The allowable growth for 2005 is set at 2%, although the certainty of this funding level is in jeopardy.
- District enrollment increased in fiscal year 2004-05 by 16.4 students, or approximately 4.7% in total budgeted enrollment. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Forecasts for higher utility costs in the fall and winter of 2005 will require constant monitoring. Two years ago the District dealt with higher utility costs, which negatively impacted the budget. Fluctuations in utility costs will negatively impact the General Fund Budget.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Susie Bormann, Business Manager, Baxter Community School District, 202 East State Street. Baxter. Iowa, 50028.

BASIC FINANCIAL STATEMENTS

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities \$	Business Type Activities \$	Total \$	Baxter Community Educational Foundation \$
Assets				
Cash and cash equivalents	596,275	12,685	608,960	59,542
Receivables:				
Property tax:				
Delinquent	12,500	-	12,500	-
Succeeding year	970,595	-	970,595	-
Accounts	11,463	113	11,576	-
Due from other governments	334,102	-	334,102	-
Inventories	-	2,799	2,799	-
Capital assets, net of accumulated depreciation	2,393,083	2,452	2,395,535	399,602
Total assets	4,318,018	18,049	4,336,067	459,144
Liabilities				
Accounts payable	17,088	438	17,526	15,781
Salaries and benefits payable	5,053	-	5,053	-
Accrued interest payable	14,993	-	14,993	-
Deferred revenue:				
Succeeding year property tax	970,595	-	970,595	-
Other	-	2,344	2,344	-
Other current liabilities	27,100	-	27,100	-
Long-term liabilities				
Portion due within one year:				
General obligation bonds payable	105,000	-	105,000	-
Capital loan energy management notes	19,710	-	19,710	-
Early retirement	12,925	-	12,925	-
Portion after than one year:				
General obligation bonds payable	1,400,000	-	1,400,000	-
Capital loan energy management notes	42,714	-	42,714	-
Early retirement	41,000	-	41,000	-
Total liabilities	2,656,178	2,782	2,658,960	15,781
Net assets				
Invested in capital assets, net of related debt	825,659	2,452	828,111	399,602
Restricted for:				
Special projects, by donors	-	-	-	42,212
Physical plant and equipment levy	17,264	-	17,264	-
Other special revenue purposes	59,365	-	59,365	-
Local option sales tax capital projects	76,155	-	76,155	-
Debt service	2,391	-	2,391	-
Unrestricted	681,006	12,815	693,821	1,549
Total net assets	1,661,840	15,267	1,677,107	443,363

See notes to financial statements.

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,232,260	315,619	150,010	-
Special instruction	224,890	55,021	46,655	-
Other instruction	302,734	-	9,300	-
	<u>1,759,884</u>	<u>370,640</u>	<u>205,965</u>	<u>-</u>
Support services:				
Student services	74,863	-	-	-
Instructional staff services	104,205	-	-	-
Administration services	443,404	-	-	-
Operation and maintenance of plant services	272,598	-	-	-
Transportation services	152,143	75,289	-	-
	<u>1,047,213</u>	<u>75,289</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>227</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	18,494	-	-	-
Long-term debt interest	94,501	-	751	-
AEA flowthrough	91,946	-	91,946	-
Depreciation (unallocated)*	69,178	-	-	-
	<u>274,119</u>	<u>-</u>	<u>92,697</u>	<u>-</u>
Total governmental activities	<u>3,081,443</u>	<u>445,929</u>	<u>298,662</u>	<u>-</u>
Business type activities				
Non-instructional programs:				
Food service operations	122,085	79,732	44,125	-
Total primary government	<u>3,203,528</u>	<u>525,661</u>	<u>342,787</u>	<u>-</u>
Component Units				
Baxter Community Educational Foundation	42,830	16,750	16,462	6,700
Total	<u>3,246,358</u>	<u>542,411</u>	<u>359,249</u>	<u>6,700</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

*This amount excludes the depreciation that is included in the direct expenses of the various programs.

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>			
<u>Primary Government</u>			
<u>Governmental</u>	<u>Business</u>		<u>Component</u>
<u>Activities</u>	<u>Type</u>	<u>Total</u>	<u>Units</u>
	<u>Activities</u>		
(766,631)	-	(766,631)	-
(123,214)	-	(123,214)	-
(293,434)	-	(293,434)	-
<u>(1,183,279)</u>	<u>-</u>	<u>(1,183,279)</u>	<u>-</u>
(74,863)	-	(74,863)	-
(104,205)	-	(104,205)	-
(443,404)	-	(443,404)	-
(272,598)	-	(272,598)	-
(76,854)	-	(76,854)	-
<u>(971,924)</u>	<u>-</u>	<u>(971,924)</u>	<u>-</u>
(227)	-	(227)	-
(18,494)	-	(18,494)	-
(93,750)	-	(93,750)	-
-	-	-	-
(69,178)	-	(69,178)	-
<u>(181,422)</u>	<u>-</u>	<u>(181,422)</u>	<u>-</u>
(2,336,852)	-	(2,336,852)	-
-	1,772	1,772	-
(2,336,852)	1,772	(2,335,080)	-
-	-	-	(2,918)
<u>(2,336,852)</u>	<u>1,772</u>	<u>(2,335,080)</u>	<u>(2,918)</u>
813,040	-	813,040	-
188,083	-	188,083	-
52,918	-	52,918	-
144,303	-	144,303	-
76,043	-	76,043	-
1,215,886	-	1,215,886	-
17,750	62	17,812	94
3,563	-	3,563	-
<u>2,511,586</u>	<u>62</u>	<u>2,511,648</u>	<u>94</u>
174,734	1,834	176,568	(2,824)
<u>1,487,106</u>	<u>13,433</u>	<u>1,500,539</u>	<u>403,974</u>
<u>1,661,840</u>	<u>15,267</u>	<u>1,677,107</u>	<u>401,150</u>

BAXTER COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	419,052	15,356	161,867	596,275
Receivables:				
Property tax:				
Delinquent	9,130	2,028	1,342	12,500
Succeeding year	665,663	188,555	116,377	970,595
Accounts	11,463	-	-	11,463
Due from other governments	288,332	-	45,770	334,102
Total assets	1,393,640	205,939	325,356	1,924,935
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	17,088	-	-	17,088
Salaries and benefits payable	5,053	-	-	5,053
Deferred revenue:				
Succeeding year property tax	665,663	188,555	116,377	970,595
Other	112,660	-	18,777	131,437
Other current liabilities	-	-	27,100	27,100
Total liabilities	800,464	188,555	162,254	1,151,273
Fund balances:				
Reserved for:				
Debt service	-	17,384	-	17,384
Unreserved	593,176	-	163,102	756,278
Total fund balances	593,176	17,384	163,102	773,662
Total liabilities and fund balances	1,393,640	205,939	325,356	1,924,935

BAXTER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	773,662
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,393,083
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	131,437
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(14,993)
Long-term liabilities, including bonds payable, notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,621,349)</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,661,840</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	864,413	188,309	211,424	1,264,146
Tuition	322,783	-	-	322,783
Other	64,943	750	75,954	141,647
State sources	1,414,236	208	133	1,414,577
Federal sources	99,220	-	-	99,220
Total revenues	<u>2,765,595</u>	<u>189,267</u>	<u>287,511</u>	<u>3,242,373</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,181,322	-	37,121	1,218,443
Special instruction	224,890	-	-	224,890
Other instruction	227,015	-	75,719	302,734
	<u>1,633,227</u>	<u>-</u>	<u>112,840</u>	<u>1,746,067</u>
Support services:				
Student services	74,863	-	-	74,863
Instructional staff services	102,358	-	-	102,358
Administration services	440,155	-	2,724	442,879
Operation and maintenance of plant services	242,779	-	28,544	271,323
Transportation services	126,022	-	11,433	137,455
	<u>986,177</u>	<u>-</u>	<u>42,701</u>	<u>1,028,878</u>
Non-instructional programs	-	-	227	227
Other expenditures:				
Facilities acquisition	-	-	18,494	18,494
Long-term debt:				
Principal	-	118,687	-	118,687
Interest and fiscal charges	-	94,936	-	94,936
AEA flowthrough	91,946	-	-	91,946
	<u>91,946</u>	<u>213,623</u>	<u>18,494</u>	<u>324,063</u>
Total expenditures	<u>2,711,350</u>	<u>213,623</u>	<u>174,262</u>	<u>3,099,235</u>
Excess (deficiency) of revenues over (under) expenditures	<u>54,245</u>	<u>(24,356)</u>	<u>113,249</u>	<u>143,138</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	1,561	-	-	1,561
Sales of materials and equipment	526	-	-	526
Operating transfers in	-	22,818	-	22,818
Operating transfers out	-	-	(22,818)	(22,818)
Total other financing sources (uses)	<u>2,087</u>	<u>22,818</u>	<u>(22,818)</u>	<u>2,087</u>
Net change in fund balances	56,332	(1,538)	90,431	145,225
Fund balances beginning of year, as restated	536,844	18,922	72,671	628,437
Fund balances end of year	<u>593,176</u>	<u>17,384</u>	<u>163,102</u>	<u>773,662</u>

See notes to financial statements.

BAXTER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		145,225
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	5,500	
Depreciation expense	<u>(97,109)</u>	(91,609)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		11,717
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		118,687
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		
		435
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		<u>(9,721)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>174,734</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	12,685
Accounts receivable	113
Inventories	2,799
Capital assets, net of accumulated depreciation	<u>2,452</u>
Total assets	<u>18,049</u>
Liabilities	
Accounts payable	438
Deferred revenue	<u>2,344</u>
Total liabilities	<u>2,782</u>
Net assets	
Invested in capital assets, net of related debt	2,452
Unrestricted	<u>12,815</u>
Total net assets	<u><u>15,267</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>79,732</u>
Operating expenses:	
Non-instructional programs:	
Salaries	48,541
Benefits	10,378
Purchased services	782
Supplies	61,583
Depreciation	754
Other	47
	<u>122,085</u>
Operating gain (loss)	<u>(42,353)</u>
Non-operating revenue:	
State sources	2,163
Federal sources	41,962
Interest income	62
Total non-operating revenue	<u>44,187</u>
Change in net assets	1,834
Net assets beginning of year	<u>13,433</u>
Net assets end of year	<u><u>15,267</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows form operating activities:	
Cash received from sale of lunches and breakfasts	81,963
Cash payments to employees for services	(58,919)
Cash payments to suppliers for goods or services	(54,251)
Net cash used by operating activities	<u>(31,207)</u>
Cash flows from non-capital financing activities:	
State grants received	2,163
Federal grants received	35,518
Net cash provided by non-capital financing activities	<u>37,681</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>62</u>
Net increase (decrease) in cash and cash equivalents	6,536
Cash and cash equivalents at beginning of year	<u>6,149</u>
Cash and cash equivalents at end of year	<u><u>12,685</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain (loss)	(42,353)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	6,444
Depreciation	754
Decrease (increase) in inventories	1,279
Decrease (increase) in accounts receivable	(113)
(Decrease) increase in accounts payable	438
(Decrease) increase in deferred revenue	2,344
Net cash used in operating activities	<u><u>(31,207)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$6,444 of federal commodities.

BAXTER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Year ended June 30, 2004

1. Summary of Significant Accounting Policies

Baxter Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Baxter, Iowa and the predominately agricultural territory in a portion of Jasper and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Baxter Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District 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 District are such that exclusion would cause the District'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 District 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 District. The Baxter Community Educational Foundation is included in the financial statements as a discretely presented component unit.

The Baxter Community Educational Foundation was established exclusively for educational purposes. The Foundation shall receive and disburse funds, property and gifts of any kind exclusively for the benefit of the Baxter Community School District. The Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's Opinion, the Foundation financial statements have not been audited.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally 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 service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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 that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures including instructional, support and other costs.

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

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50 years
Improvements other than buildings	20-30 years
Furniture and equipment	5-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

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

2. **Cash and Pooled Investments**

The District'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 District 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 Board of Education; 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 District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

3. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Debt Service Fund	Special Revenue:	
	Physical Plant and Equipment Levy Fund	22,818

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	75,602	-	-	75,602
Capital assets being depreciated:				
Buildings	3,012,423	-	-	3,012,423
Improvements other than buildings	294,445	-	-	294,445
Furniture and equipment	662,729	5,500	23,500	644,729
Total capital assets being deprec.	3,969,597	5,500	23,500	3,951,597
Less accumulated depreciation for:				
Buildings	851,040	61,397	-	912,437
Improvements other than buildings	194,841	7,781	-	202,622
Furniture and equipment	514,626	27,931	23,500	519,057
Total accumulated depreciation	1,560,507	97,109	23,500	1,634,116
Total capital assets being Depreciated, net	2,409,090	(91,609)	-	2,317,481
Governmental activities capital Assets, net	2,484,692	(91,609)	-	2,393,083
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	33,379	-	-	33,379
Less accumulated depreciation	30,173	754	-	30,927
Business type activities capital Assets, net	3,206	(754)	-	2,452

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Component Unit – Baxter				
Community Educ. Foundation:				
Capital assets not being depreciated:				
Land	25,442	-	-	25,442
Capital assets being depreciated:				
Buildings	297,082	-	-	297,082
Furniture and equipment	116,920	2,561	-	119,481
Total capital assets being deprec.	414,002	2,561	-	416,563
Less accumulated depreciation for:				
Buildings	13,331	7,417	-	20,748
Furniture and equipment	13,594	8,061	-	21,655
Total accumulated depreciation	26,925	15,478	-	42,403
Total capital assets being Depreciated, net	387,077	(12,917)	-	374,160
Component unit capital Assets, net	412,519	(12,917)	-	399,602

Depreciation expense was charged by the District as follows:

	\$
Governmental activities:	
Instruction:	
Regular	4,096
Support Services:	
Instructional staff services	1,847
Administration services	525
Operation and maintenance of plant services	1,275
Transportation	20,188
	27,931
Unallocated depreciation	69,178
Total governmental activities depreciation expense	97,109
Business type activities:	
Food service operations	754
Component unit activities:	
Baxter Community Educational Foundation	15,478

5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,605,000	-	100,000	1,505,000	105,000
Capital loan energy management Notes	81,111	-	18,687	62,424	19,710
Early retirement	44,204	20,525	10,804	53,925	12,925
Total	1,730,315	20,525	129,491	1,621,349	137,635

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age [fifty-five](#) and must have completed [fifteen](#) years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives include a cash payment based on a percentage of current salary and the payment by the District of up to \$200 per month for health insurance premiums. Early retirement expenditures for the year ended June 30, [2004](#) totaled [\\$10,804](#).

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	5.60	105,000	88,405	193,405
2006	2.00	150,000	42,845	192,845
2007	2.40	150,000	39,845	189,845
2008	2.70	150,000	36,245	186,245
2009	3.00	160,000	32,195	192,195
2010-2014	3.20-3.75	790,000	79,255	869,255
		<u>1,505,000</u>	<u>318,790</u>	<u>1,823,790</u>

Capital Loan Energy Management Notes

The District issued [\\$140,000](#) of capital loan energy management notes in [January, 2000](#). These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ended June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	5.40	19,710	3,108	22,818
2006	5.40	20,788	2,030	22,818
2007	5.40	21,926	892	22,818
		<u>62,424</u>	<u>6,030</u>	<u>68,454</u>

During the year ended June 30, 2004 the District made principal and interest payments totaling \$22,818 under the note agreement.

Prior Year Debt Defeasance

In prior years, the District has defeased various bond issues by creating separate Irrevocable Trust Funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes the debt has been considered defeased and therefore removed as a liability from the District's General Long-Term Debt Account Group. As of June 30, 2004, the amount of defeased debt outstanding but removed from long-term liabilities amounted to \$1,325,000.

6. Pension and Retirement Benefits

The District 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 District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$101,291, \$95,241, and \$94,373 respectively, equal to the required contributions for each year.

7. Risk Management

Baxter Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA'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.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$137,694.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Baxter Community School District 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 District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$91,946 for the year ended June 30, 2004, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

9. Subsequent Events

On July 21, 2004 the District issued \$1,565,000 of general obligation bonds and \$1,100,000 of School Infrastructure Local Option sales and Services Tax Revenue Bonds. The proceeds from the bonds will be used to build and furnish an addition to the Baxter school building and to improve, remodel and repair the Baxter school building.

10. Accounting Change and Restatement

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) 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 District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting 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 statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities, and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			Total
	General	Debt Service	Nonmajor	
	\$	\$	\$	\$
Net assets, June 30, 2003, as previously reported	536,844	18,922	69,469	625,235
GASB Interpretation 6 adjustments	-	-	3,202	3,202
Net assets, July 1, 2003, as restated for Governmental funds	<u>536,844</u>	<u>18,922</u>	<u>72,671</u>	628,437
GASB 34 adjustments:				
Capital assets net of accumulated depreciation of \$1,560,507				2,484,692
Long-term liabilities:				
Bonds			1,605,000	
Notes payable			81,111	
Early retirement			44,204	(1,730,315)
Accrued interest payable				(15,428)
Deferred revenue				<u>119,720</u>
Net assets, July 1, 2003, as restated				<u>1,487,106</u>

REQUIRED SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,586,402	82,025	1,668,427	1,716,136	1,716,136	(47,709)
State sources	1,414,752	2,163	1,416,915	1,462,868	1,462,868	(45,953)
Federal sources	104,877	41,962	146,839	170,000	170,000	(23,161)
Total receipts	<u>3,106,031</u>	<u>126,150</u>	<u>3,232,181</u>	<u>3,349,004</u>	<u>3,349,004</u>	<u>(116,823)</u>
Disbursements:						
Instruction	1,728,994	-	1,728,994	2,348,285	2,348,285	619,291
Support services	1,013,653	-	1,013,653	1,134,000	1,134,000	120,347
Non-instructional programs	227	119,614	119,841	123,000	123,000	3,159
Other expenditures	324,063	-	324,063	312,025	312,025	(12,038)
Total disbursements	<u>3,066,937</u>	<u>119,614</u>	<u>3,186,551</u>	<u>3,917,310</u>	<u>3,917,310</u>	<u>730,759</u>
Excess (deficiency) of receipts over (under) disbursements	39,094	6,536	45,630	(568,306)	(568,306)	613,936
Other financing sources (uses) net	<u>29,187</u>	<u>-</u>	<u>29,187</u>	<u>-</u>	<u>-</u>	<u>29,187</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	68,281	6,536	74,817	(568,306)	(568,306)	643,123
Balance beginning of year	<u>527,994</u>	<u>6,149</u>	<u>534,143</u>	<u>641,454</u>	<u>641,454</u>	<u>(107,311)</u>
Balance end of year	<u><u>596,275</u></u>	<u><u>12,685</u></u>	<u><u>608,960</u></u>	<u><u>73,148</u></u>	<u><u>73,148</u></u>	<u><u>535,812</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	3,106,031	136,342	3,242,373
Expenditures	3,066,937	32,298	3,099,235
Net	39,094	104,044	143,138
Other financing sources (uses) net	29,187	(27,100)	2,087
Beginning fund balances	527,994	100,443	628,437
Ending fund balances	<u>596,275</u>	<u>177,387</u>	<u>773,662</u>
	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
Revenues	126,150	(2,231)	123,919
Expenditures	119,614	2,471	122,085
Net	6,536	(4,702)	1,834
Beginning fund balances	6,149	7,284	13,433
Ending fund balances	<u>12,685</u>	<u>2,582</u>	<u>15,267</u>

BAXTER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the [cash basis](#). Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year.

During the year ended June 30, [2004](#), disbursements in the [instruction](#) function exceeded the amount budgeted [and the District exceeded its General Fund unspent authorized budget](#).

OTHER SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	
Cash and pooled investments	9,576	59,365	16,664	76,262	161,867
Receivables:					
Delinquent	772	-	570	-	1,342
Succeeding year	68,900	-	47,477	-	116,377
Due from other governments	-	-	18,777	26,993	45,770
Total assets	79,248	59,365	83,488	103,255	325,356
Liabilities & Fund Balances					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	68,900	-	47,477	-	116,377
Other	-	-	18,777	-	18,777
Other current liabilities	-	-	-	27,100	27,100
Total liabilities	68,900	-	66,254	27,100	162,254
Fund balances:					
Unreserved fund balance	10,348	59,365	17,234	76,155	163,102
Total liabilities and fund balances	79,248	59,365	83,488	103,255	325,356

BAXTER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental
Funds

Year ended June 30, 2004

	Special Revenue Funds			Capital Projects Fund	Total
	Management	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	63,458	-	71,923	76,043	211,424
Other	10	75,642	190	112	75,954
State sources	75	-	58	-	133
Total revenues	<u>63,543</u>	<u>75,642</u>	<u>72,171</u>	<u>76,155</u>	<u>287,511</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	23,387	-	13,734	-	37,121
Other instruction	-	75,719	-	-	75,719
Support services:					
Administration services	2,724	-	-	-	2,724
Operation and maintenance of plant services	28,544	-	-	-	28,544
Transportation services	10,333	-	1,100	-	11,433
Non-instructional programs	227	-	-	-	227
Other expenditures:					
Facilities acquisition	-	-	18,494	-	18,494
Total expenditures	<u>65,215</u>	<u>75,719</u>	<u>33,328</u>	<u>-</u>	<u>174,262</u>
Excess (deficiency) of revenues over (under) expenditures	(1,672)	(77)	38,843	76,155	113,249
Other financing sources (uses):					
Operating transfers out	-	-	(22,818)	-	(22,818)
Net change in fund balances	(1,672)	(77)	16,025	76,155	90,431
Fund balance beginnings of year, as restated	<u>12,020</u>	<u>59,442</u>	<u>1,209</u>	<u>-</u>	<u>72,671</u>
Fund balances end of year	<u><u>10,348</u></u>	<u><u>59,365</u></u>	<u><u>17,234</u></u>	<u><u>76,155</u></u>	<u><u>163,102</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra- Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Drama	642	456	493	-	605
Vocal music	11,021	3,620	4,730	-	9,911
Instr. music	3,092	3,792	232	-	6,652
Swalwell athletic donation	974	1,259	-	-	2,233
FSA	7,746	(3,498)	4,248	-	-
Cheerleading	1,564	311	-	-	1,875
Pacesetters	1,243	326	1,085	-	484
Student council	3,585	4,131	6,345	-	1,371
Class of 2004	(435)	3,989	2,687	-	867
Class of 2005	634	4,507	4,885	-	256
Class of 2006	2,162	12	-	-	2,174
Class of 2007	2,309	-	-	-	2,309
Class of 2008	1,261	-	-	-	1,261
Class of 2009	679	411	339	(680)	71
Athletics	(2,958)	20,213	17,255	-	-
Science club	1,496	-	-	-	1,496
Historian society	1	-	-	-	1
Honor society	231	-	-	-	231
SAAD	197	-	-	-	197
Weight club	30	-	-	-	30
Sixth grade	-	1,945	1,945	-	-
Grade four	-	1,952	1,959	-	(7)
Art club	-	1,546	942	-	604
Luther FB	20	440	460	-	-
Interest	22,689	353	1,391	-	21,651
Annual	(2,597)	8,982	8,777	-	(2,392)
Concessions	3,049	(3,049)	-	-	-
Special activities	4,766	(3,711)	150	680	1,585
CMB shared athletics	6,617	2,469	890	(6,616)	1,580
CMB boys basketball	8,882	1,187	209	(8,882)	978
CMB football	(7,635)	7,361	7,361	7,635	-
CMB baseball	(7,249)	3,519	3,519	7,249	-
CMB boys track	(6,390)	2,342	2,342	6,390	-
CMB wrestling	1,259	299	14	(1,259)	285
CMB girls basketball	7,409	785	263	(7,409)	522
CMB volleyball	5,235	1,658	284	(5,235)	1,374
CMB softball	(2,164)	634	153	2,164	481
CMB girls track	(5,940)	1,710	1,030	5,940	680
Cross country	(5,245)	1,460	1,460	5,245	-
CMB soccer	1,262	4,231	271	(5,222)	-
Total	59,442	75,642	75,719	-	59,365

See accompanying independent auditor's report.

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,264,146	1,119,958	1,042,424	978,805
Tuition	322,783	256,185	258,569	206,354
Other	141,647	190,428	169,203	178,960
State sources	1,414,577	1,323,778	1,319,336	1,274,907
Federal sources	99,220	109,738	61,807	65,246
Total revenues	<u>3,242,373</u>	<u>3,000,087</u>	<u>2,851,339</u>	<u>2,704,272</u>
Expenditures:				
Instruction:				
Regular instruction	1,218,443	1,205,398	1,126,117	1,031,951
Special instruction	224,890	210,302	203,374	209,648
Other instruction	302,734	279,354	289,535	267,140
Support services:				
Student services	74,863	57,568	62,560	63,453
Instructional staff services	102,358	116,775	112,254	139,940
Administration services	442,879	438,322	396,867	360,850
Operation and maintenances of plant services	271,323	263,680	244,574	267,753
Transportation services	137,455	168,145	129,941	83,447
Non-instructional programs	227	187	181	633
Other expenditures:				
Facilities acquisition	18,494	10,730	41,596	13,324
Long-term debt:				
Principal	118,687	102,351	101,798	104,374
Interest and other charges	94,936	112,717	109,605	116,082
AEA flowthrough	91,946	93,886	93,776	93,201
Total expenditures	<u>3,099,235</u>	<u>3,059,415</u>	<u>2,912,178</u>	<u>2,751,796</u>

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

To the Board of Education of the
Baxter Community School District:

We have audited the financial statements of the Baxter Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 2, 2004. We did not issue an opinion on the Baxter Community Educational Foundation, which is included as a discretely presented component unit, because we were not engaged to, and did not audit the Foundation. 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 Baxter Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District'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 District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items 04-II-B and 04-II-K.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Baxter Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District'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 I 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 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 [04-I-A](#) and [04-I-B](#) are material weaknesses. Prior year reportable conditions have all been resolved except for items [04-I-A](#) and [04-I-B](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [Baxter](#) Community School District and other parties to whom the District 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 [Baxter](#) Community School District 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

[September 2, 2004](#)

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

04-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring procedures to obtain the maximum internal control possible under the circumstances.

Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

04-I-B Signature Stamp: We noted a stamp bearing the signature of the Board President is used to cosign checks. Persons with access to checks also have access to the stamp. This practice weakens the internal control established by requiring two signatures on a check.

Recommendation: District procedures should be revised so no one person has access to the signature stamps.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the other expenditures functional area.

Recommendation: The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

District Response: We will amend future budgets before disbursements exceed the budget.

Conclusion: Response accepted.

04-II-C Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

04-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

04-II-E Business Transactions: No business transactions between the District and District officials were noted.

04-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

04-II-H Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for September 2003, was understated by three students.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

04-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR, and noted no significant deficiencies in the amounts reported.

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

04-II-K Financial Condition: The Student Activity Fund has two accounts with deficit balances at June 30, 2004.

Recommendation: The District should monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.