

BAXTER COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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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, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 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 required supplementary information. 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, 2004, (none of which are presented herein). For 2004 we issued an unqualified opinion on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information and we did not issue an opinion on the discretely presented component unit. We expressed unqualified opinions the financial statements for 2003 and 2002. 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, 2005

Baxter Community School District

Management Discussion and Analysis

For the Year Ended June 30, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statement, which follow.

Financial Highlights

- The General Fund revenues decreased from \$2,765,595 in fiscal 2004 to \$2,732,147 in fiscal 2005, while General Fund expenditures increased from \$2,711,350 in fiscal year 2004 to \$2,864,700 in fiscal 2005.
- The June 30, 2005 fund balance of \$471,914 is a decrease from the June 30, 2005 fund balance of \$593,176. In fiscal year 2005, the district's general fund property tax, utility excise replacement tax, and mobile home tax revenue declined by \$77,486 due, in part, to state mandated property valuation rollbacks.
- Continuing low interest rates resulted in interest earnings in the General Fund alone to drop from \$17,085 in fiscal year 2004 to \$11,206 in fiscal year 2005.
- Special education posted a deficit for 2004-05 of (\$121,870). The 2003-04 special education deficit was (\$64,055) for an increase in the overall deficit of \$57,815 between the two fiscal years.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements (district-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 district-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

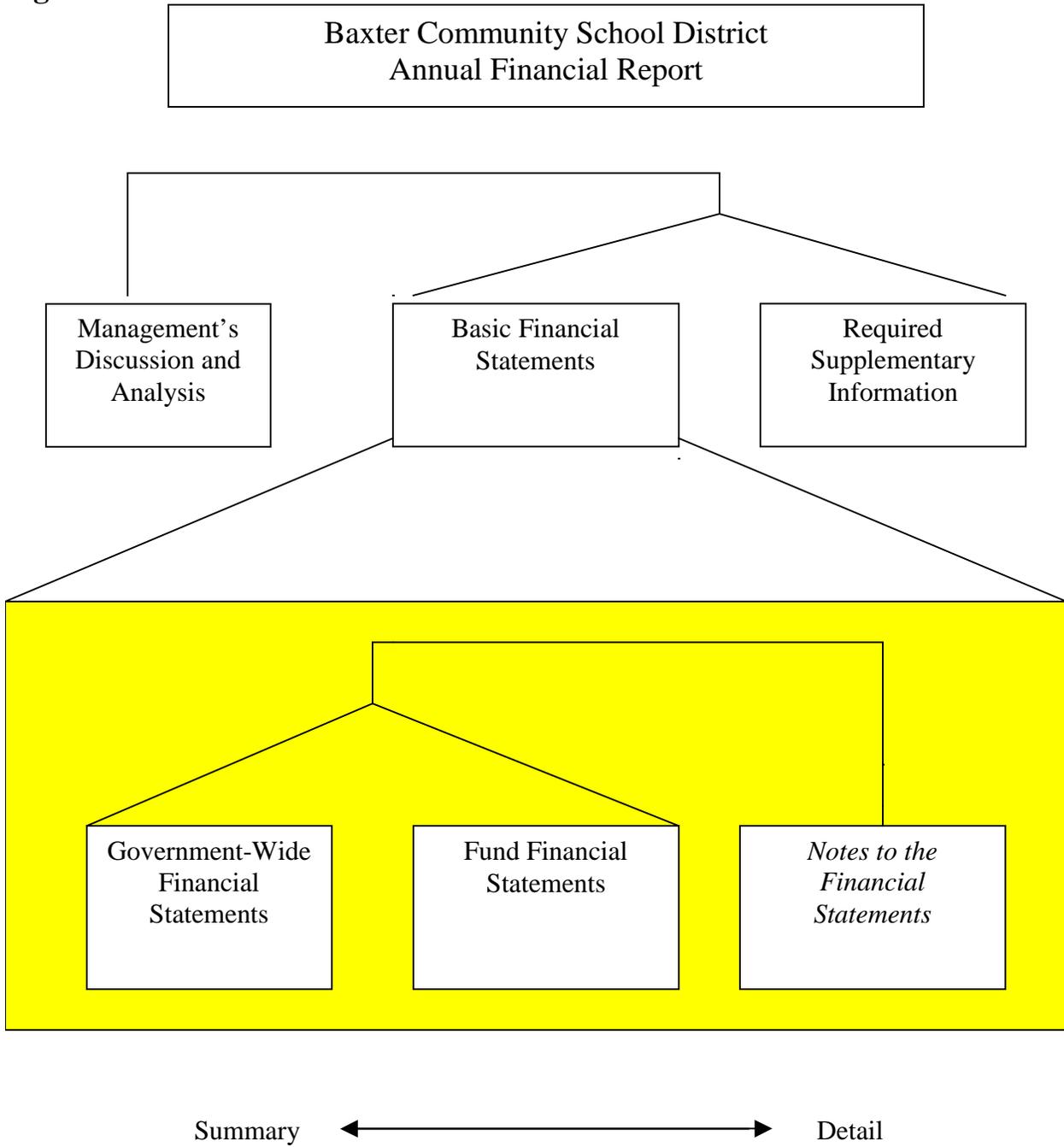


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents 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 government-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, 2005 as compared to June 30, 2004.

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$4,856,780	\$1,924,935	\$15,020	\$15,597	\$4,871,800	\$1,940,532	151.05%
Capital assets	\$3,178,852	\$2,393,083	\$2,736	\$2,452	\$3,181,588	\$2,395,535	32.81%
Total assets	\$8,035,632	\$4,318,018	\$17,756	\$18,049	\$8,053,388	\$4,336,067	85.73%
Long-term liabilities	\$4,088,675	\$1,621,349	\$0	\$0	\$4,088,675	\$1,621,349	152.17%
Other liabilities	\$1,455,892	\$1,034,829	\$3,124	\$2,782	\$1,459,016	\$1,037,611	40.61%
Total liabilities	\$5,544,567	\$2,656,178	\$3,124	\$2,782	\$5,547,691	\$2,658,960	108.64%
Net Assets:							
Invested in capital assets, net of related debt	\$1,658,304	\$825,659	\$2,736	\$2,452	\$1,661,041	\$828,111	100.58%
Restricted	\$286,239	\$155,175	\$0	\$0	\$286,238	\$155,175	84.46%
Unrestricted	\$546,522	\$681,006	\$11,896	\$12,815	\$558,418	\$693,821	(19.51%)
TOTAL NET ASSETS	\$2,491,065	\$1,661,840	\$14,632	\$15,267	\$2,505,697	\$1,677,107	49.40%

The District's combined net assets increased by more than 49% to \$2,505,697. The majority of this improvement in financial position came from governmental activities, the net assets of which grew by \$828,590 over the previous year due, in part, to a \$3.7 million building project currently under construction. Unrestricted net assets decreased to \$546,522 from last year's total of \$681,006 due to lower property tax revenues and increased expenditures. The net assets of the District's business-type activities ended the year at \$14,632, down from the previous year's balance of \$15,267. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	425,543	445,929	79,197	79,732	504,740	525,661	
Operating grants & contributions	307,248	298,662	48,584	44,125	355,832	342,787	
Capital grants, contributions & restricted interest	870,104	0			870,104	0	
General Revenues:							
Property taxes	969,792	1,054,041			969,792	1,054,041	
Income Surtax	131,298	144,303			131,298	144,303	
Local option sales tax	144,666	76,043			144,666	76,043	
Unrestricted state grants	1,298,426	1,215,886			1,298,426	1,215,886	
Unrestricted investment earnings	11,206	17,750	146	62	11,352	17,812	
Other revenue	12,349	3,563			12,349	3,563	
Total Revenues	4,170,632	3,256,177	127,927	123,919	4,298,559	3,380,096	27.17%
Expenses:							
Instruction	1,861,564	1,759,884			1,861,564	1,759,884	
Support services	1,120,874	1,047,213			1,120,874	179,068	
Non-instructional programs	281	227	128,562	122,085	128,843	990,230	
Other expenditures	358,688	274,119			358,688	274,346	
Total expenses	3,341,407	3,081,443	128,562	122,085	3,469,969	3,203,528	8.32%
CHANGE IN NET ASSETS	829,225	174,734	(635)	1,834	828,590	176,568	
Net assets beginning of year	1,661,840	174,734	15,267	13,433	1,677,107	1,500,539	11.77%
Net assets end of year	2,491,065	1,487,106	14,632	15,267	2,505,697	1,677,107	49.40%

Property tax and unrestricted state grants account for over 53% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% 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. The capital grants, contributions and restricted interest category includes a \$820,000 donation from the City of Baxter that will be used for the construction of a joint school/community fitness center and includes interest income from bond proceeds that have not been spent.

Governmental Activities

Revenues for governmental activities were \$4,170,632 and expenses were \$3,341,407.

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 **Total and Net Cost of Governmental Activities**

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost Of Services 2005	Net Cost of Services 2004
	\$	\$	\$	\$
Instruction	1,861,564	1,759,884	1,229,661	1,107,990
Student & Instructional Services	191,162	179,068	191,162	179,068
Administrative and Business	475,723	443,404	475,723	443,404
Maintenance and Operations	290,970	272,598	290,865	272,598
Transportation	163,019	152,143	162,456	152,146
Non-instructional Programs	281	227	281	227
Other Expenses	358,688	274,119	(611,636)	181,422
TOTAL	<u>3,341,407</u>	<u>3,081,443</u>	<u>1,738,512</u>	<u>2,336,855</u>

- The cost financed by users of the District's programs was \$425,543.
- The federal and state governments subsidized certain programs with grants and contributions totaling \$307,248.
- This portion of governmental activities was financed with \$969,792 in property tax and \$1,298,426 in unrestricted state grants.

Business-Type Activities

Revenues of the District's business-type activities were \$127,927 and expenses were \$128,562. 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 *spend able* 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 \$3,260,482, a 321% increase over last year's ending fund balance of \$773,662. The increase takes into account an end of the year fund balance in Capital Projects of \$2,715,762, which is due bond sale and local option sales tax revenues. The district began receiving Local Option Sales Tax revenues from Jasper County in March 2004 and Marshall County in September 2004. Proceeds from a 2004 General Obligation School Bond and School Infrastructure Local Option Sales and Services Tax Revenue Bonds were deposited in July 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 \$471,914.

The fund balance of the Baxter Community School District's general fund declined during the current fiscal year due to a number of factors. Key factors are as follows:

- The District's local tax revenues declined by \$77,486.
- The District's 2005 special education deficit of \$121,870, an increase of \$57,815 from 2004.
- The District continues to tightly monitor General Fund expenses such as supplies and maintenance items.
- 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 2005 with an unreserved fund balance of \$2,715,762. The 2004 total unreserved fund balance for capital projects was \$76,155. General Obligation school Bonds, Series 2004A, in an amount of \$1,565,000 and School Infrastructure Local Option Sales and Services Tax Revenue Bonds, Series 2004B, in the amount of \$1,100,000 were deposited on July 21, 2004 to provide funds to build and furnish an addition to the Baxter School Building and to improve, remodel, and repair the Baxter School Building.

The Debt Service Fund had a \$58,385 decrease in fund balance for fiscal year 2005. This decrease occurred because the District issued general obligation bonds after the debt service property tax levy was set for fiscal year 2005. Therefore, not enough property tax was collected to make the required interest payment on the new bonds.

Proprietary Fund Highlights

The School Nutrition Fund balance decreased slightly due primarily to food and product expenditure costs.

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 amended the 2004-05 budget due to anticipated expenditures related to the construction project. For normal budgeting years, the district prepares 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.
- The District's receipts were \$445,598 more than budgeted, a variance of 12%. The variance was caused by a combination of two factors: 1) the District received a \$820,000 donation from the City of Baxter, that was not included in the budget for local receipts and 2) the budget for federal receipts includes a \$500,000 Iowa Demonstration Grant, but the receipt of this grant is now expected in fiscal year 2006.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the District had invested \$3,131,588, 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 increase of 33% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$92,360.

The original cost of the District's capital assets was \$5,711,766. Governmental funds account for \$5,677,442 with the remainder of \$34,324 accounted for the business type School Nutrition Fund.

During fiscal year 2005 the District began construction on a \$3,734,000 school building addition and renovation project. At June 30, 2005 the District had paid \$877,498 on the project. These costs are included in figure A-6 as construction in progress.

Figure A-6

	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2004-05
	2004	2005	2004	2005	2004	2005	
Land	75,602	75,602			75,602	75,602	0.00%
Construction in progress		877,498				877,498	100.00%
Buildings	2,099,986	2,038,589			2,099,986	2,038,589	-2.92%
Improvements other than Buildings	91,823	84,450			91,823	84,450	-8.03%
Equipment & Furniture	125,672	102,713	2,452	2,736	128,124	105,449	-17.70%
TOTAL	2,393,083	3,178,852	2,452	2,736	2,395,535	3,181,588	32.81%

Long-Term Debt

In July 2004 the District issued \$1,565,000 of general obligation bonds and \$1,100,000 of local option sales tax revenue bonds.

At year-end, the District had \$2,965,000 in general obligation bonds, \$1,015,000 in revenue bonds and \$108,675 in other long-term debt outstanding

More detailed information on the District's capital assets and long-term debt can be found in the note 6 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 78% 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 2006 was set at 4%. The allowable growth for 2007 is set at 4%.
- District enrollment increased in fiscal year 2005-06 by 7.2 students, or approximately 2% 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 2006 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, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	3,455,071	12,485	3,467,556
Receivables:			
Property tax:			
Delinquent	14,369	-	14,369
Succeeding year	1,101,377	-	1,101,377
Accounts	-	338	338
Due from other governments	230,676	-	230,676
Inventories	-	2,197	2,197
Bond discounts and bond issue costs	55,287	-	55,287
Capital assets, net of accumulated depreciation	3,178,852	2,736	3,181,588
Total assets	8,035,632	17,756	8,053,388
Liabilities			
Accounts payable	310,712	-	310,712
Salaries and benefits payable	5,179	-	5,179
Accrued interest payable	38,624	-	38,624
Deferred revenue:			
Succeeding year property tax	1,101,377	-	1,101,377
Other	-	3,124	3,124
Long-term liabilities			
Portion due within one year:			
General obligation bonds payable	150,000	-	150,000
Revenue bonds payable	95,000	-	95,000
Capital loan energy management notes	20,788	-	20,788
Early retirement	13,561	-	13,561
Portion after than one year:			
General obligation bonds payable	2,815,000	-	2,815,000
Revenue bonds payable	920,000	-	920,000
Capital loan energy management notes	21,926	-	21,926
Early retirement	52,400	-	52,400
Total liabilities	5,544,567	3,124	5,547,691
Net assets			
Invested in capital assets, net of related debt	1,658,305	2,736	1,661,041
Restricted for:			
Special projects, by donors	-		
Physical plant and equipment levy	53,128	-	53,128
Other special revenue purposes	58,139	-	58,139
Debt service	174,971	-	174,971
Unrestricted	546,522	11,896	558,418
Total net assets	2,491,065	14,632	2,505,697

See notes to financial statements.

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

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	1,317,192	243,398	163,887	-
Special instruction	184,931	88,398	16,381	-
Other instruction	359,441	93,079	26,760	-
	<u>1,861,564</u>	<u>424,875</u>	<u>207,028</u>	<u>-</u>
Support services:				
Student services	78,838	-	-	-
Instructional staff services	112,324	-	-	-
Administration services	475,723	-	-	-
Operation and maintenance of plant services	290,970	105	-	-
Transportation services	163,019	563	-	-
	<u>1,120,874</u>	<u>668</u>	<u>-</u>	<u>-</u>
Non-instructional programs	281	-	-	-
Other expenditures:				
Facilities acquisition	625	-	-	870,104
Long-term debt interest	196,314	-	7,241	-
AEA flowthrough	92,979	-	92,979	-
Depreciation (unallocated)*	68,770	-	-	-
	<u>358,688</u>	<u>-</u>	<u>100,220</u>	<u>870,104</u>
Total governmental activities	3,341,407	425,543	307,248	870,104
Business type activities:				
Non-instructional programs:				
Food service operations	128,562	79,197	48,584	-
Total primary government	3,469,969	504,740	355,832	870,104
Component Units:				
Baxter Community Educational Foundation	36,453	21,025	57,404	252,000
Total	<u>3,506,422</u>	<u>525,765</u>	<u>413,236</u>	<u>1,122,104</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

Net assets end of year

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(909,907)	-	(909,907)	-
(80,152)	-	(80,152)	-
(239,602)	-	(239,602)	-
(1,229,661)	-	(1,229,661)	-
(78,838)	-	(78,838)	-
(112,324)	-	(112,324)	-
(475,723)	-	(475,723)	-
(290,865)	-	(290,865)	-
(162,456)	-	(162,456)	-
(1,120,206)	-	(1,120,206)	-
(281)	-	(281)	-
869,479	-	869,479	-
(189,073)	-	(189,073)	-
-	-	-	-
(68,770)	-	(68,770)	-
611,636	-	611,636	-
(1,738,512)	-	(1,738,512)	-
-	(781)	(781)	-
(1,738,512)	(781)	(1,739,293)	-
-	-	-	293,976
(1,738,512)	(781)	(1,739,293)	293,976
735,693	-	735,693	-
188,056	-	188,056	-
46,043	-	46,043	-
131,298	-	131,298	-
144,666	-	144,666	-
1,298,426	-	1,298,426	-
11,206	146	11,352	1,394
12,349	-	12,349	-
2,567,737	146	2,567,883	1,394
829,225	(635)	828,590	295,370
1,661,840	15,267	1,677,107	448,101
2,491,065	14,632	2,505,697	743,471

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets
Primary Government

BAXTER COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	413,781	2,929,206	41	112,043	3,455,071
Receivables:					
Property tax:					
Delinquent	9,319	-	3,286	1,764	14,369
Succeeding year	723,506	-	267,940	109,931	1,101,377
Interfund receivable	-	44,328	-	-	44,328
Due from other governments	175,085	36,554	-	19,037	230,676
Total assets	1,321,691	3,010,088	271,267	242,775	4,845,821
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	16,386	294,326	-	-	310,712
Salaries and benefits payable	5,179	-	-	-	5,179
Interfund payable	-	-	44,328	-	44,328
Deferred revenue:					
Succeeding year property tax	723,506	-	267,940	109,931	1,101,377
Other	104,706	-	-	19,037	123,743
Total liabilities	849,777	294,326	312,268	128,968	1,585,339
Fund balances:					
Reserved for:					
Debt service	-	213,595	-	-	213,595
Unreserved, reported in:					
General fund	471,914	-	-	-	471,914
Special revenue funds	-	-	-	113,807	113,807
Debt service fund	-	-	(41,001)	-	(41,001)
Capital project funds	-	2,502,167	-	-	2,502,167
Total fund balances	471,914	2,715,762	(41,001)	113,807	3,260,482
Total liabilities and fund balances	1,321,691	3,010,088	271,267	242,775	4,845,821

BAXTER COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	3,260,482
<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.	3,178,852
Bond issue costs and bond discounts are an expense when incurred in the governmental funds, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.	55,287
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	123,743
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	(38,624)
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>(4,088,675)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,491,065</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Capital Projects	Debt Service	Nonmajor Governmental Funds
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	786,927	144,666	188,232	134,683
Tuition	301,927	-	-	-
Other	45,057	870,104	872	89,765
State sources	1,495,125	-	123	74
Federal sources	103,111	-	-	-
Total revenues	<u>2,732,147</u>	<u>1,014,770</u>	<u>189,227</u>	<u>224,522</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,271,975	-	-	29,085
Special instruction	184,931	-	-	-
Other instruction	268,766	-	-	90,675
	<u>1,725,672</u>	<u>-</u>	<u>-</u>	<u>119,760</u>
Support services:				
Student services	78,838	-	-	-
Instructional staff services	112,324	-	-	-
Administration services	461,456	-	-	11,953
Operation and maintenance of plant services	256,810	-	-	32,885
Transportation services	136,621	-	-	9,335
	<u>1,046,049</u>	<u>-</u>	<u>-</u>	<u>54,173</u>
Non-instructional programs	-	-	-	281
Other expenditures:				
Facilities acquisition	-	901,425	-	630
Long-term debt:				
Principal	-	-	209,710	-
Interest and fiscal charges	-	-	170,417	-
AEA flowthrough	92,979	-	-	-
	<u>92,979</u>	<u>901,425</u>	<u>380,127</u>	<u>630</u>
Total expenditures	<u>2,864,700</u>	<u>901,425</u>	<u>380,127</u>	<u>174,844</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(132,553)</u>	<u>113,345</u>	<u>(190,900)</u>	<u>49,678</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	11,291	-	-	-
Bonds issued	-	2,665,000	-	-
Accrued interest on bonds issued	-	6,369	-	-
Bond discount	-	(35,410)	-	-
Operating transfers in	-	-	132,515	-
Operating transfers out	-	(109,697)	-	(22,818)
Total other financing sources (uses)	<u>11,291</u>	<u>2,526,262</u>	<u>132,515</u>	<u>(22,818)</u>
Net change in fund balances	<u>(121,262)</u>	<u>2,639,607</u>	<u>(58,385)</u>	<u>26,860</u>
Fund balances beginning of year	<u>593,176</u>	<u>76,155</u>	<u>17,384</u>	<u>86,947</u>
Fund balances end of year	<u><u>471,914</u></u>	<u><u>2,715,762</u></u>	<u><u>(41,001)</u></u>	<u><u>113,807</u></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, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		2,486,820
<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. Capital Outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	877,498	
Depreciation expense	<u>(91,729)</u>	785,769
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.		(7,694)
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.		209,710
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.		(23,631)
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		(12,036)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(2,665,000)
Bond issue costs and bond discounts are reported as expenses in the fund financial statements, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.		<u>55,287</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>829,225</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	12,485
Accounts receivable	338
Inventories	2,197
Capital assets, net of accumulated depreciation	<u>2,736</u>
Total assets	17,756
Liabilities	
Deferred revenue	<u>3,124</u>
Net assets	
Invested in capital assets, net of related debt	2,736
Unrestricted	<u>11,896</u>
Total net assets	<u><u>14,632</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Nonmajor School Nutrition \$
Operating revenue:	
Local sources:	
Charges for service	<u>79,197</u>
Operating expenses:	
Non-instructional programs:	
Salaries	47,135
Benefits	11,488
Purchased services	1,048
Supplies	68,230
Depreciation	661
	<u>128,562</u>
Operating gain (loss)	<u>(49,365)</u>
Non-operating revenue:	
State sources	2,203
Federal sources	46,381
Interest income	146
Total non-operating revenue	<u>48,730</u>
Change in net assets	(635)
Net assets beginning of year	<u>15,267</u>
Net assets end of year	<u><u>14,632</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund
	Nonmajor School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	79,752
Cash payments to employees for services	(58,623)
Cash payments to suppliers for goods or services	(63,948)
Net cash used by operating activities	<u>(42,819)</u>
Cash flows from non-capital financing activities:	
State grants received	2,203
Federal grants received	41,215
Net cash provided by non-capital financing activities	<u>43,418</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(945)</u>
Cash flows from investing activities:	
Interest on investments	<u>146</u>
Net increase (decrease) in cash and cash equivalents	(200)
Cash and cash equivalents at beginning of year	<u>12,685</u>
Cash and cash equivalents at end of year	<u><u>12,485</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain (loss)	(49,365)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	5,166
Depreciation	661
Decrease (increase) in inventories	602
Decrease (increase) in accounts receivable	(225)
(Decrease) increase in accounts payable	(438)
(Decrease) increase in deferred revenue	780
Net cash used in operating activities	<u><u>(42,819)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$5,166 of federal commodities.

BAXTER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Year ended June 30, 2005

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

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 judgments, 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 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.

At June 30, 2005, the District had the following investments:

	<u>Fair Value</u>
	\$
Goldman Sachs Financial Square Treasury Obligations Fund	177,940

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk: The investment in the Goldman Sachs Financial Square Treasury Obligations Fund was rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Capital Projects Fund	Debt Service Fund	44,328

General obligation bonds were issued after the debt service property tax levy was set for fiscal year 2005. Therefore, the District's interest payments for fiscal year 2005 were more than anticipated when the property tax levy was set. The Capital Projects Fund will be repaid with additional debt service property tax levies in future years.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service Fund	Capital Projects Fund	109,697
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	22,818

These transfers moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year, \$	Increases \$	Decreases \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	877,498	-	877,498
Land	75,602	-	-	75,602
	<u>75,602</u>	<u>877,498</u>	<u>-</u>	<u>953,100</u>
Capital assets being depreciated:				
Buildings	3,012,423	-	-	3,012,423
Improvements other than buildings	294,445	-	-	294,445
Furniture and equipment	644,729	-	-	644,729
Total capital assets being deprec.	<u>3,951,597</u>	<u>-</u>	<u>-</u>	<u>3,951,597</u>

Less accumulated depreciation for:				
Buildings	912,437	61,397	-	973,834
Improvements other than buildings	202,622	7,373	-	209,995
Furniture and equipment	519,057	22,959	-	542,016
Total accumulated depreciation	<u>1,634,116</u>	<u>91,729</u>	-	<u>1,725,845</u>
Total capital assets being depreciated, net	<u>2,317,481</u>	<u>(91,729)</u>	-	<u>2,225,752</u>
Governmental activities capital assets, net	<u>2,393,083</u>	<u>785,769</u>	-	<u>3,178,852</u>
	Balance			Balance
	Beginning of			End
	Year	Increases	Decreases	of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	33,379	945	-	34,324
Less accumulated depreciation	<u>30,927</u>	<u>661</u>	-	<u>31,588</u>
Business type activities capital assets, net	<u>2,452</u>	<u>284</u>	-	<u>2,736</u>

Depreciation expense was charged by the District as follows:

	\$
Governmental activities:	
Instruction:	
Regular	4,096
Support Services:	
Instructional staff services	
Administration services	525
Operation and maintenance of plant services	1,275
Transportation	<u>17,063</u>
	22,959
Unallocated depreciation	<u>68,770</u>
Total governmental activities depreciation expense	<u>91,729</u>
Business type activities:	
Food service operations	<u>661</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,505,000	1,565,000	105,000	2,965,000	150,000
Revenue bonds	-	1,100,000	85,000	1,015,000	95,000
Capital loan energy management notes	62,424	-	19,710	42,714	20,788
Early retirement	53,925	24,361	12,325	65,961	13,561
Total	1,621,349	2,689,361	222,035	4,088,675	279,349

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, 2005 totaled \$12,325.

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issues of May, 1998 and July, 2005			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2006	2.00	150,000	117,940	267,940
2007	2.40	150,000	114,940	264,940
2008	2.70	150,000	111,340	261,340
2009	3.00	160,000	107,290	267,290
2010	3.20	165,000	102,490	267,490
2011-2014	3.40-4.25	690,000	352,060	1,042,060
2015-2019	4.40-4.80	685,000	302,878	987,878
2020-2024	4.90-5.05	815,000	123,578	938,578
		<u>2,965,000</u>	<u>1,332,516</u>	<u>4,297,516</u>

Revenue Bonds Payable

Details of the District's June 30, 2005 local option sales and services tax revenue bonded indebtedness are as follows:

Bond Issue of May, 2001				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2006	2.60	95,000	37,595	132,595
2007	3.00	100,000	35,125	135,125
2008	3.30	105,000	32,125	137,125
2009	3.60	110,000	28,660	138,660
2010	3.75	110,000	24,700	134,700
2011-2014	4.00-4.30	495,000	53,410	548,410
		1,015,000	211,615	1,226,615

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bondholders hold a lien on the future revenues received.
- Bonds maturing after January 1, 2011, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.
- \$110,000 of the proceeds from the bond issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the District's Capital Projects Fund.
- Proceeds from the local option sales and services tax shall be placed in a revenue account with a trustee. The trustee will make monthly transfers from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining in the revenue fund may be used for any lawful purpose for which the local option sales tax may be used or may be used to redeem the bonds in accordance with their terms. The sinking fund is part of the Capital Projects Fund.

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
	%	\$	\$	\$
2006	5.40	20,788	2,030	22,818
2007	5.40	21,926	892	22,818
		42,714	2,922	45,636

During the year ended June 30, 2005 the District made principal and interest payments totaling \$22,818 under the note agreement.

7. 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, 2005, 2004, and 2003 were \$106,383, \$101,291, and \$95,241 respectively, equal to the required contributions for each year.

8. Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$5,261 which is recorded as a liability as of June 30, 2005.

The 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.

9. 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 \$92,979 for the year ended June 30, 2005, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Construction Commitment

The District has entered into contract totaling \$3,733,824 for an addition to the school building in Baxter. As of June 30, 2005 costs of \$615,079 had been incurred against the contract. The balance remaining at June 30, 2005 will be paid as work on the project progresses.

11. Deficit Fund Balances

At June 30, 2005 the District had a \$41,001 deficit unreserved fund balance in the Debt Service Fund.

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, 2005

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,659,738	79,898	2,739,636	1,660,538	1,660,538	1,079,098
State sources	1,496,247	2,203	1,498,450	1,505,338	1,505,338	(6,888)
Federal sources	110,007	46,381	156,388	783,000	783,000	(626,612)
Total receipts	<u>4,265,992</u>	<u>128,482</u>	<u>4,394,474</u>	<u>3,948,876</u>	<u>3,948,876</u>	<u>445,598</u>
Disbursements:						
Instruction	1,849,359	-	1,849,359	2,231,554	2,231,554	382,195
Support services	1,096,871	-	1,096,871	1,111,000	1,111,000	14,129
Non-instructional programs	281	128,682	128,963	139,600	139,600	10,637
Other expenditures	1,080,835	-	1,080,835	1,055,838	3,575,201	2,494,366
Total disbursements	<u>4,027,346</u>	<u>128,682</u>	<u>4,156,028</u>	<u>4,537,992</u>	<u>7,057,355</u>	<u>2,901,327</u>
Excess (deficiency) of receipts over (under) disbursements	238,646	(200)	238,446	(589,116)	(3,108,479)	3,346,925
Other financing sources (uses) net	<u>2,620,150</u>	<u>-</u>	<u>2,620,150</u>	<u>19,600</u>	<u>2,538,963</u>	<u>81,187</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	2,858,796	(200)	2,858,596	(569,516)	(569,516)	3,428,112
Balance beginning of year	<u>596,275</u>	<u>12,685</u>	<u>608,960</u>	<u>570,610</u>	<u>570,610</u>	<u>38,350</u>
Balance end of year	<u><u>3,455,071</u></u>	<u><u>12,485</u></u>	<u><u>3,467,556</u></u>	<u><u>1,094</u></u>	<u><u>1,094</u></u>	<u><u>3,466,462</u></u>

BAXTER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	4,265,992	(105,326)	4,160,666
Expenditures	4,027,346	293,750	4,321,096
Net	238,646	(399,076)	(160,430)
Other financing sources (uses) net	2,620,150	27,100	2,647,250
Beginning fund balances	596,275	177,387	773,662
Ending fund balances	<u>3,455,071</u>	<u>(194,589)</u>	<u>3,260,482</u>
	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
Revenues	128,482	(555)	127,927
Expenditures	128,682	(120)	128,562
Net	(200)	(435)	(635)
Beginning fund balances	12,685	2,582	15,267
Ending fund balances	<u>12,485</u>	<u>2,147</u>	<u>14,632</u>

BAXTER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 Internal Service, 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 the 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. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$2,519,363

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	Levy	\$
Cash and pooled investments	1,581	58,139	52,323	112,043
Receivables:				
Property tax:				
Delinquent	959	-	805	1,764
Succeeding year	62,000	-	47,931	109,931
Due from other governments	-	-	19,037	19,037
Total assets	64,540	58,139	120,096	242,775
Liabilities & Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	62,000	-	47,931	109,931
Other	-	-	19,037	19,037
Total liabilities	62,000	-	66,968	128,968
Fund balances:				
Unreserved fund balance reported in:				
Special revenue funds	2,540	58,139	53,128	113,807
Total liabilities and fund balances	64,540	58,139	120,096	242,775

BAXTER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Equipment		
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	68,741	-	65,942	134,683
Other	10	89,449	306	89,765
State sources	44	-	30	74
Total revenues	<u>68,795</u>	<u>89,449</u>	<u>66,278</u>	<u>224,522</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	23,941	-	5,144	29,085
Other instruction	-	90,675	-	90,675
Support services:				
Administration services	11,953	-	-	11,953
Operation and maintenance of plant services	31,093	-	1,792	32,885
Transportation services	9,335	-	-	9,335
Non-instructional programs	281	-	-	281
Other expenditures:				
Facilities acquisition	-	-	630	630
Total expenditures	<u>76,603</u>	<u>90,675</u>	<u>7,566</u>	<u>174,844</u>
Excess (deficiency) of revenues over (under) expenditures	(7,808)	(1,226)	58,712	49,678
Other financing sources (uses):				
Operating transfers out	-	-	(22,818)	(22,818)
Net change in fund balances	(7,808)	(1,226)	35,894	26,860
Fund balance beginnings of year	<u>10,348</u>	<u>59,365</u>	<u>17,234</u>	<u>86,947</u>
Fund balances end of year	<u>2,540</u>	<u>58,139</u>	<u>53,128</u>	<u>113,807</u>

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	Balance	Revenues	Expenditures	Balance End
	Beginning of			of Year
	Year			
	\$	\$	\$	\$
Drama	605	458	379	684
Vocal music	9,911	2,313	1,413	10,811
Instr. music	6,652	377	640	6,389
Swalwell athletic donation	2,233	1,260	-	3,493
Playground	-	10,812	3,685	7,127
Cheerleading	1,875	99	-	1,974
Pacesetters	484	-	294	190
Student council	1,371	3,522	4,029	864
Class of 2010	867	-	-	867
Class of 2005	256	2,567	2,823	-
Class of 2006	2,174	5,101	6,983	292
Class of 2007	2,309	-	-	2,309
Class of 2008	1,261	-	35	1,226
Class of 2009	71	-	-	71
Athletics	-	15,739	13,515	2,224
Science club	1,496	-	200	1,296
Historian society	1	-	-	1
Honor society	231	-	-	231
SAAD	197	-	-	197
Weight club	30	-	-	30
Sixth grade	-	1,071	996	75
Grade four	(7)	1,629	1,594	28
Art club	604	1,220	1,156	668
Luther football	-	1,838	1,818	20
Interest	21,651	344	11,103	10,892
Annual	(2,392)	15,366	8,841	4,133
Special activities	1,585	795	525	1,855
CMB shared athletics	1,580	2,805	6,705	(2,320)
CMB boys basketball	978	926	575	1,329
CMB football	-	8,819	10,862	(2,043)
CMB baseball	-	521	1,997	(1,476)
CMB boys track	-	6,276	6,727	(451)
CMB wrestling	285	265	33	517
CMB girls basketball	522	1,207	180	1,549
CMB volleyball	1,374	1,471	467	2,378
CMB softball	481	415	-	896
CMB girls track	680	1,416	2,388	(292)
Cross country	-	105	712	(607)
CMB soccer	-	712	-	712
Total	59,365	89,449	90,675	58,139

BAXTER COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,254,508	1,264,146	1,119,958	1,042,424
Tuition	301,927	322,783	256,185	258,569
Other	1,005,798	141,647	190,428	169,203
State sources	1,495,322	1,414,577	1,323,778	1,319,336
Federal sources	103,111	99,220	109,738	61,807
Total revenues	<u>4,160,666</u>	<u>3,242,373</u>	<u>3,000,087</u>	<u>2,851,339</u>
Expenditures:				
Instruction:				
Regular instruction	1,301,060	1,218,443	1,205,398	1,126,117
Special instruction	184,931	224,890	210,302	203,374
Other instruction	359,441	302,734	279,354	289,535
Support services:				
Student services	78,838	74,863	57,568	62,560
Instructional staff services	112,324	102,358	116,775	112,254
Administration services	473,409	442,879	438,322	396,867
Operation and maintenance of plant services	289,695	271,323	263,680	244,574
Transportation services	145,956	137,455	168,145	129,941
Non-instructional programs	281	227	187	181
Other expenditures:				
Facilities acquisition	902,055	18,494	10,730	41,596
Long-term debt:				
Principal	209,710	118,687	102,351	101,798
Interest and other charges	170,417	94,936	112,717	109,605
AEA flowthrough	92,979	91,946	93,886	93,776
Total expenditures	<u>4,321,096</u>	<u>3,099,235</u>	<u>3,059,415</u>	<u>2,912,178</u>

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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 as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 2, 2005. 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 of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Baxter Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 05-I-A, 05-I-B, 05-I-C, 05-I-D and 05-I-E are material weaknesses.

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Baxter Community School District and other parties to whom Baxter Community School 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, 2005

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-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.

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

Conclusion: Response accepted.

05-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.

05-I-C Reimbursement for Supplies Purchased: The District currently allows employees to purchase supplies and later receive reimbursement for the purchases. The District does not have a formal written policy governing this practice.

Recommendation: Chapter 279.3 of the Code of Iowa states in part "Each warrant must be made payable only to the person performing the service or presenting the verified bill, and must state the purpose for which the warrant is issued." To improve controls over supplies purchased on behalf of the District, all payments should be made directly to the vendor by the District.

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements (continued):

There are instances when an employee may have a specific need for his/her area of responsibility. If the District continues to allow employees to purchase supplies and receive reimbursement, a formal, written policy related to supplies reimbursement should be developed and approved the Board. The District's purchase-order system should be reviewed and revised, as necessary for consistency and to ensure adequate internal control over the District's budget and related expenditures.

District Response: We are requiring purchase orders for all purchases and have reduced the need for reimbursements to employees. We will adopt a written policy to cover situations when an employee reimbursement is necessary.

Conclusion: Response accepted.

05-I-D Student Activity Fund Receipts: We noted that the District was using a pre-numbered receipt system as the initial control over Student Activity Fund cash and checks received. However, it is difficult to reconcile the receipts to specific bank deposits and to the receipts journal.

Recommendation: The District's internal control could be improved by using three part pre-numbered receipts. Receipts should be issued for all monies coming into the Student Activity Fund. One copy should be given to the person bringing in the money, the person issuing the receipt should keep one copy and the third copy should be given to the board secretary. The board secretary should account for the numerical sequence of the receipts, reconcile the receipts issued to the actual bank deposits and to the receipts journal.

District Response: We will review our current procedures and investigate methods to improve the system.

Conclusion: Response accepted.

05-I-E School Expenditure Supporting Documentation and Board Approval: We noted the following items during our testing of District expenditures:

General Fund – We tested twenty-two expenditures. We noted that payments to the administrator of the employee benefit cafeteria plan were not on the lists of bills approved by the Board.

Management Fund – The annual premium payment for the District's property and liability insurance was not on the lists of bills approved by the Board.

Student Activity Fund – We tested twelve expenditures. One \$22 payment for postage was missing a receipt from the post office..

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

The District should also review its procedures for preparing the lists of bills for board approval. Chapter 179.29 of the Code of Iowa provides that "the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed." Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements (continued):

may be paid prior to a Board Meeting with the approval of the Board President. The Board's written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed. Any payments made prior to board approval, as allowed by board policy, should be approved by the board at the next meeting.

District Response: We will begin getting receipts from the post office and we will review our procedures for obtaining board approval for disbursements.

Conclusion: Response accepted.

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-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, 2005.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.

05-II-C Questionable Expenditures: The District occasionally provides refreshments at board meetings. These expenditures may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

Recommendation: According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The Board should determine and document the public purpose served by these and similar expenditures. The Board should establish written policies and procedures, including the requirement for documentation of the public purpose served.

District Response: We will adopt a policy covering these expenditures.

Conclusion: Response accepted.

05-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.

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

05-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.

05-II-G Board Minutes: Except as discussed in comment 05-I-E; we noted no transactions requiring Board approval that had not been approved by the Board.

05-II-H Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 7 of the Certified Enrollment Certification Form for September 2004, was understated by two 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.

BAXTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

05-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.

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

05-II-K Financial Condition: The Debt Service Fund has a deficit unreserved fund balance of \$41,001 and Student Activity Fund has several accounts with deficit balances at June 30, 2005.

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

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

Conclusion: Response accepted.

05-II-L Student Activity Fund: The Student Activity Fund is to be used to account for the District's extra-curricular and co-curricular student activities. We noted that the Student Activity Fund contains an account that is being used to account for fund raising and donations for a new playground.

Recommendation: The playground account should not be included in the Student Activity Fund. The accounting for this activity would be more appropriate in the Physical Plant and Equipment Levy Fund or in a District Support Trust Fund.

District Response: We will reclassify the playground activities in another fund.

Conclusion: Response accepted.

05-II-M Old Outstanding Checks: We noted that the District's bank reconciliations included \$800 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

District Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.