

CITY OF FOREST CITY, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
COMMENTS AND RECOMMENDATIONS
SCHEDULE OF FINDINGS

JUNE 30, 2004

- Prepared By -

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CITY OF FOREST CITY, IOWA

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CITY OF FOREST CITY, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u> (Before January 2004)	<u>TERM EXPIRES</u>
George Wilson	Mayor	January 2004
Suzanne Murphy	Mayor Pro tem	January 2004
Steve Hall	Council Member	January 2004
Mark Stangl	Council Member	January 2006
Ronald Holland	Council Member	January 2006
Ron Sanderson	Council Member	January 2006
Kay Sorensen	Council Member	January 2006
Jerome Clouse	Council Member	January 2004
Paul Boock	Clerk/Treasurer	Indefinite
Steve Bakke	Attorney	Indefinite

(After January 2004)

George Wilson	Mayor	January 2008
Suzanne Murphy	Mayor Pro tem	January 2008
Dennis Zehren	Council Member	January 2008
Mark Stangl	Council Member	January 2006
Ronald Holland	Council Member	January 2006
Ron Sanderson	Council Member	January 2006
Kay Sorensen	Council Member	January 2006
Jerome Clouse	Council Member	January 2008
Paul Boock	Clerk/Treasurer	Indefinite
Steve Bakke	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

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

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

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting as described in Note 1.

As described in Note 15, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my report dated September 21, 2004 on my consideration of the City of Forest City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Forest City's basic financial statements. I 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 20, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 21, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 29.8%, or approximately \$1,797,000 from fiscal 2003 to fiscal 2004. Other general receipts decreased approximately \$572,000 and bond proceeds decreased \$1,225,000.

Disbursements decreased 5.4%, or approximately \$278,000, in fiscal 2004 from fiscal 2003. Culture and recreation and community and economic development disbursements decreased approximately \$676,000 and \$929,000 respectively.

The City's total cash basis net assets decreased 12%, or approximately \$1,099,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$661,000 and the assets of the business type activities increased by approximately \$438,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis.

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and electric funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the city's various functions.

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,688,000 to \$2,027,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 450	\$ 481
Operating grants, contributions and restricted interest	587	929
Capital grants, contributions and restricted interest	359	-
General receipts:		
Property tax	1,243	1,279
Local option sales tax	271	250
Grants and contributions not restricted to specific purposes	43	31
Unrestricted investment earnings	26	88
Bond proceeds	-	1,225
Other general receipts	451	1,511
Transfers, net	805	238
Total receipts and transfers	<u>\$4,235</u>	<u>\$6,032</u>
Disbursements:		
Public safety	\$ 979	\$ 961
Public works	827	807
Health and social services	16	16
Culture and recreation	675	1,351
Community and economic development	558	1,487
General government	185	210
Debt service	290	247
Capital projects	1,366	95
Total disbursements	<u>\$4,896</u>	<u>\$5,174</u>
Increase (decrease) in cash basis net assets	\$ (661)	\$ 858
Cash basis net assets beginning of year	<u>2,688</u>	<u>1,830</u>
Cash basis net assets end of year	<u>\$2,027</u>	<u>\$2,688</u>

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The City's total receipts for governmental activities decreased by 29.8%, or \$1,797,000. The total cost of all programs and services decreased by approximately \$278,000, or 5.4%, with no new programs added this year. The significant decrease in receipts was primarily the result of bond proceeds received in the prior year.

The cost of all governmental activities this year was \$4,896,000 compared to \$5,174,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 10-13, the amount taxpayers ultimately financed for these activities was only \$3,502,000 because some of the cost was paid by those directly benefited from the programs (\$450,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$946,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,514,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,	
	2004	2003
Receipts:		

Program receipts:		
Charges for service:		
Water	\$ 358	\$ 345
Sewer	481	481
Electric	3,432	3,085
Other	82	13
General receipts:		
Unrestricted interest on investments	9	46
Other general receipts	82	141
Total receipts	<u>\$4,444</u>	<u>\$4,111</u>
Disbursements and transfers:		
Water	\$ 458	\$ 412
Sewer	665	641
Electric	2,945	2,905
Other	9	1
Transfers	805	238
Total disbursements and transfers	<u>\$4,882</u>	<u>\$4,197</u>
Increase (decrease) in cash balance	\$ (438)	\$ (86)
Cash basis net assets beginning of year	<u>6,620</u>	<u>6,706</u>
Cash basis net assets end of year	<u>\$6,182</u>	<u>\$6,620</u>

Total business type activities receipts for the fiscal year were \$4,444,000 compared to \$4,111,000 last year. This significant increase was due primarily to the receipt of \$347,000 in electric fund receipts. The cash balance decreased by approximately \$438,000 from the prior year due to increased operating expenses in all business type activity funds. Total disbursements and transfers for the fiscal year increased by 16.3% to a total of \$4,882,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$1,959,120, a decrease of more than \$660,000 from last year's total of \$2,625,267. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$281,066 from the prior year to \$1,190,417. Approximately \$197,000 of this decrease was due to less intergovernmental revenue this fiscal year.

The Street Improvement Project Fund cash balance decreased \$558,874 from the prior year to \$809,125. This is due to current year expenditures for construction from prior year bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$398,428 to \$384,194, due primarily to an operating transfer out of \$300,000 for street capital projects.

The Sewer Fund cash balance decreased by \$476,080 to \$540,703, due primarily to operating transfers out.

The Electric Fund cash balance increased by \$383,562 to \$2,251,916 due to an increase in charges for services.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 17, 2004 and resulted in an increase in operating revenue of approximately \$1,508,000 and an increase in operating disbursements of approximately \$3,200,000. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$2,225,000 in bonds and other long-term debt, compared to approximately \$2,435,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2004	2003
General obligation bonds	<u>\$ 2,225</u>	<u>\$ 2,435</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,225,000 is significantly below its constitutional debt limit of \$6,739,700.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact, Paul Boock, City Clerk, City of Forest City.

CITY OF FOREST CITY, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public Safety	\$ 979,468	\$ 8,764	\$ 204,916	\$ 135,367
Public works	827,126	331,636	365,122	223,856
Health and Social services	15,627	-	-	-
Culture and recreation	675,261	77,914	16,877	-
Community and economic development	557,578	-	-	-
General government	186,689	-	-	-
Debt service	290,188	-	-	-
Capital projects	<u>1,365,867</u>	<u>31,339</u>	<u>-</u>	<u>-</u>
Total governmental Activities	<u>\$4,897,804</u>	<u>\$ 449,653</u>	<u>\$ 586,915</u>	<u>\$ 359,223</u>
Business type activities:				
Water	\$ 458,406	\$ 358,224	\$ -	\$ -
Sewer	664,865	480,801	-	-
Electric	2,944,907	3,432,043	-	-
Other	<u>9,034</u>	<u>82,233</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$4,077,212</u>	<u>\$4,353,301</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$8,975,016</u>	<u>\$4,802,954</u>	<u>\$ 586,915</u>	<u>\$ 359,223</u>

(Continued)

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (630,421)	\$ -	\$ (630,421)
93,488	-	93,488
(15,627)	-	(15,627)
(580,470)	-	(580,470)
(557,578)	-	(557,578)
(186,689)	-	(186,689)
(290,188)	-	(290,188)
<u>(1,334,528)</u>	<u>-</u>	<u>(1,334,528)</u>
<u>\$ (3,502,013)</u>	<u>\$ -</u>	<u>\$ (3,502,013)</u>
\$ -	\$ (100,182)	\$ (100,182)
-	(184,064)	(184,064)
-	487,136	487,136
<u>-</u>	<u>73,199</u>	<u>73,199</u>
<u>\$ -</u>	<u>\$ 276,089</u>	<u>\$ 276,089</u>
<u>\$ (3,502,013)</u>	<u>\$ 276,089</u>	<u>\$ (3,225,924)</u>

	<u>Program Receipts</u>		
	<u>Operating Grants, Capital Grants,</u>		
	<u>Charges</u>	<u>Contributions</u>	<u>Contributions</u>
	<u>for</u>	<u>and Restricted</u>	<u>and Restricted</u>
<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
General Receipts:			
Property tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year, as restated			
Cash basis net assets end of year			

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 854,455	\$ -	\$ 854,455
124,984	-	124,984
263,402	-	263,402
271,452	-	271,452
43,322	-	43,322
26,426	9,119	35,545
451,107	82,345	533,452
<u>805,500</u>	<u>(805,500)</u>	<u>-</u>
<u>\$ 2,840,648</u>	<u>\$ (714,036)</u>	<u>\$ 2,126,612</u>
\$ (661,365)	\$ (437,947)	\$ (1,099,312)
<u>2,688,092</u>	<u>6,620,076</u>	<u>9,308,168</u>
<u>\$ 2,026,727</u>	<u>\$6,182,129</u>	<u>\$ 8,208,856</u>
\$ 809,125	\$ -	\$ 809,125
130,797	-	130,797
705,955	2,920,600	3,626,555
<u>380,850</u>	<u>3,261,529</u>	<u>3,642,379</u>
<u>\$ 2,026,727</u>	<u>\$6,182,129</u>	<u>\$ 8,208,856</u>

CITY OF FOREST CITY, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Capital Project Street Improvement</u>	<u>Other Nonmajor Governmental Funds</u>
RECEIPTS:			
Property tax	\$ 751,775	\$ -	\$ 366,082
Tax increment financing collections	-	-	124,984
Other city tax	-	-	271,452
Licenses and permits	7,860	-	-
Use of money and property	29,162	-	2,064
Intergovernmental	160,261	-	507,871
Charges for service	387,136	-	-
Special assessments	-	31,339	-
Miscellaneous	707,446	228	83,279
Total receipts	<u>\$2,043,640</u>	<u>\$ 31,567</u>	<u>\$1,355,732</u>
DISBURSEMENTS:			
Public safety	\$ 940,636	\$ -	\$ 38,832
Public works	787,486	-	39,640
Health and social services	-	-	15,627
Culture and recreation	667,413	-	7,848
Community and economic development	420,218	-	137,360
General government	191,471	-	-
Debt service	-	-	290,188
Capital projects	-	1,167,441	198,426
Total disbursements	<u>\$3,007,224</u>	<u>\$ 1,167,441</u>	<u>\$ 727,921</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (963,584)</u>	<u>\$ (1,135,874)</u>	<u>\$ 627,811</u>
Other financing sources (uses):			
Operating transfers in	\$ 682,518	\$ 577,000	\$ -
Operating transfers out	-	-	(454,018)
Total other financing sources (uses)	<u>\$ 682,518</u>	<u>\$ 577,000</u>	<u>\$ (454,018)</u>
Net change in cash balances	\$ (281,066)	\$ (558,874)	\$ 173,793
Cash balances beginning of year	<u>1,471,483</u>	<u>1,367,999</u>	<u>(214,215)</u>
Cash balances end of year	<u>\$1,190,417</u>	<u>\$ 809,125</u>	<u>\$ (40,422)</u>

(Continued)

Total
\$ 1,117,857
124,984
271,452
7,860
31,226
668,132
387,136
31,339
790,953
\$ 3,430,939

\$ 979,468
827,126
15,627
675,261
557,578
191,471
290,188
1,365,867
\$ 4,902,586

\$(1,471,647)

\$ 1,259,518
(454,018)
\$ 805,500

\$ (666,147)

2,625,267

\$ 1,959,120

CITY OF FOREST CITY, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Capital Project Street Improvement</u>	<u>Other Nonmajor Governmental Funds</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ 130,797
Unreserved:			
General fund	1,190,417	-	-
Special revenue funds	-	-	(366,217)
Capital project funds	-	809,125	-
Permanent funds	-	-	194,998
Total cash basis fund balances	<u>\$1,190,417</u>	<u>\$ 809,125</u>	<u>\$ (40,422)</u>

See Notes to Financial Statements.

Total

\$ 130,797
1,190,417
(366,217)
809,125
194,998

\$ 1,959,120

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Total governmental funds cash balances (page 17) \$ 1,959,120

*Amounts reported for governmental activities in the Statement
 of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge costs to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

67,607

Cash basis net assets of governmental activities (page 13) \$ 2,026,727

Net change in cash balances (page 15) \$ (666,147)

*Amounts reported for governmental activities in the Statement
 of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge costs to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

4,782

Change in cash balance of governmental activities (page 13) \$ (661,365)

See Notes to Financial Statements.

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Enterprise</u>			
	<u>Water</u>	<u>Sewer Rental</u>	<u>Sewer Replacement</u>	<u>Electric</u>
Operating receipts:				
Charges for service	\$ 358,224	\$ 480,801	\$ -	\$3,432,043
Miscellaneous	-	-	-	-
Total operating receipts	<u>\$ 358,224</u>	<u>\$ 480,801</u>	<u>\$ -</u>	<u>\$3,432,043</u>
Operating disbursements:				
Business type activities	<u>458,406</u>	<u>664,865</u>	<u>-</u>	<u>2,944,907</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$(100,182)</u>	<u>\$(184,064)</u>	<u>\$ -</u>	<u>\$ 487,136</u>
Non-operating receipts:				
Interest on investments	\$ 527	\$ 5,491	-	\$ 3,101
Miscellaneous	<u>16,227</u>	<u>17,793</u>	<u>-</u>	<u>48,325</u>
Total non-operating receipts	<u>\$ 16,754</u>	<u>\$ 23,284</u>	<u>\$ -</u>	<u>\$ 51,426</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$(83,428)</u>	<u>\$(160,780)</u>	<u>\$ -</u>	<u>\$ 538,562</u>
Operating transfers in (out):				
Operating transfers in	\$ -	\$ 20,200	\$ -	\$ -
Operating transfers out	<u>(315,000)</u>	<u>(335,500)</u>	<u>(20,200)</u>	<u>(155,000)</u>
Total operating Transfers in (out)	<u>\$(315,000)</u>	<u>\$(315,300)</u>	<u>\$ (20,200)</u>	<u>\$ (155,000)</u>
Net change in cash balances	<u>\$(398,428)</u>	<u>\$(476,080)</u>	<u>\$ (20,200)</u>	<u>\$ 383,562</u>
Cash balances beginning of year	<u>782,622</u>	<u>1,016,783</u>	<u>1,463,800</u>	<u>1,868,354</u>
Cash balances end of year	<u><u>\$ 384,194</u></u>	<u><u>\$ 540,703</u></u>	<u><u>\$1,443,600</u></u>	<u><u>\$2,251,916</u></u>
Cash Basis Fund Balances:				
Reserved for other	\$ -	\$ -	\$1,443,600	\$ -
Unreserved	<u>384,194</u>	<u>540,703</u>	<u>-</u>	<u>2,251,916</u>
Total cash basis fund balances	<u><u>\$ 384,194</u></u>	<u><u>\$ 540,703</u></u>	<u><u>\$1,443,600</u></u>	<u><u>\$2,251,916</u></u>

See Notes to Financial Statements.

<u>Electric Capital</u>	<u>Funds</u>		<u>Internal Service Fund Clearing</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
\$ -	\$ 82,233	\$4,353,301	\$ -
-	-	-	4,782
\$ -	\$ 82,233	\$4,353,301	\$ 4,782
-	9,034	4,077,212	-
\$ -	\$ 73,199	\$ 276,089	\$ 4,782
\$ -	\$ -	\$ 9,119	\$ -
-	-	82,345	-
\$ -	\$ -	\$ 91,464	\$ -
\$ -	\$ -	\$ 367,553	\$ 4,782
\$ -	\$ -	\$ 20,200	\$ -
-	-	(825,700)	-
\$ -	\$ -	\$ (805,500)	\$ -
\$ -	\$ 73,199	\$ (437,947)	\$ 4,782
<u>1,000,000</u>	<u>488,517</u>	<u>6,620,076</u>	<u>62,825</u>
<u>\$1,000,000</u>	<u>\$ 561,716</u>	<u>\$6,182,129</u>	<u>\$ 67,607</u>
\$1,000,000	\$ 477,000	\$2,920,600	\$ -
-	84,716	3,261,529	67,607
<u>\$1,000,000</u>	<u>\$ 561,716</u>	<u>\$6,182,129</u>	<u>\$ 67,607</u>

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The City of Forest City is a political subdivision of the State of Iowa located in Winnebago and Hancock County. It was first incorporated August 20, 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Forest City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The city has no component unit which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Winnebago County Assessor's Conference Board, Hancock County Assessor's Conference Board, and Winnebago County E-911 Board.

B. Basis of Presentation

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

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

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

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

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

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

The City reports the following major governmental funds:

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

Capital Project:

The Street Improvement Project Fund is used to account for street construction and improvements.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary funds:

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

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

The Electric Fund Accounts for the operation and maintenance of the City's electric plant.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information

(2) Cash and Investments

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

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

**CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 315,000	\$ 72,203
2006	325,000	63,515
2007	270,000	53,090
2008	285,000	43,770
2009	290,000	33,185
2010-2014	<u>740,000</u>	<u>69,695</u>
Total	<u>\$2,225,000</u>	<u>\$335,458</u>

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The city's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$107,925, \$103,677 and \$104,748, respectively, equal to the required contributions for each year.

(5) Industrial Development Revenue Bonds

The city has issued a total of \$851,865 of Health Care Facility Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds outstanding at June 30, 2004 were \$662,374.

CITY OF FOREST CITY, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

(6) Compensated Absences

City employees earn vacation and sick leave at rates dependent on years of service. Sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 80,726
Compensatory time	23,928
Total	<u>\$104,654</u>

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

(7) Risk Management

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

(8) Economic Development

On February 20, 1998, the City loaned \$15,000 to Petals 'n More. The loan proceeds were to be used to start up and operate a gift and flower shop in Forest City. The loan is a non-interest bearing loan. Petals 'n More is obligated to repay the City in installments of \$3,000 beginning March 1, 1999. The loan balance was paid off during the year ended June 30, 2004.

On July 30, 1998, the City loaned \$10,000 to Hanson Furniture. The loan proceeds were to be used to start up and operate a retail business in Forest City. The loan is a non-interest bearing loan. Hanson Furniture is obligated to repay the City in annual installments of \$2,000 beginning August 1, 1999. The loan balance was paid off during the year ended June 30, 2004.

On August 12, 1998, the City loaned \$15,000 to D.K. Arndt, P.C. The loan proceeds were to be used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. D.K. Arndt, P.C. is obligated to repay the City in annual installments of \$3,000 beginning August 12, 1999. The loan balance was paid off during the year ended June 30, 2004.

On November 4, 1998, the City loaned \$10,000 to Carol F. Tweeten, CPA P.C. The loan proceeds were to be used to start up and operate a business in Forest city. The loan is a non-interest bearing loan.

Carol F. Tweeten, CPA, P.C. is obligated to repay the City in annual installments of \$2,000 beginning November 1, 1999. The loan balance was paid off during the year ended June 30, 2004.

On December 19, 2002, the City loaned \$15,000 to MJ Hooligans. The loan proceeds were to be used to start up and operate a restaurant in Forest City. The loan is a non-interest bearing loan. MJ Hooligans is obligated to repay the City in monthly installments of \$250 beginning March 1, 2004. The loan balance at June 30, 2004 was \$11,000.

On June 23, 1999, the City loaned \$10,000 to The Dolls Nest. The loan proceeds were to be used to start up and operate a retail business in Forest City. The loan is a non-interest bearing loan. The Dolls Nest is obligated to repay the City in annual installments of \$2,000 beginning July 1, 2000. The loan balance was paid off during the year ended June 30, 2004.

On October 19, 1999, the City loaned \$10,000 to Carolyn Frakes. The loan proceeds were to be used to start up and operate a bookstore in Forest City. The loan is a non-interest bearing loan. Carolyn Frakes is obligated to repay the City in annual installments of \$2,000 beginning November 1, 2000. The loan balance at June 30, 2004 was \$2,000.

On April 12, 1999, the City loaned \$10,000 to Primerica Financial. The loan proceeds were to be used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. Primerica Financial is obligated to repay the City in annual installments of \$2,000 beginning November 1, 2000. The loan balance at June 30, 2004 was \$2,000.

On June 23, 1999, the city loaned \$15,000 to Quilted Forest. The loan proceeds were to be used to start up and operate a retail business in Forest City. The loan is a non-interest bearing loan. Quilted Forest is obligated to repay the City in monthly installments of \$250 beginning July 1, 2000. The loan balance at June 30, 2004 was \$3,750.

On October 6, 2000, the City loaned \$5,000 to Dale White. The loan proceeds were to be used to start up and operate a retail business in Forest City. The loan bears interest at 5%. Dale White is obligated to repay the City in monthly installments of \$94 beginning November 15, 2000. The loan balance at June 30, 2004 was \$1,022.

On November 20, 2002, The city loaned \$200,000 to CDI, Inc. The loan proceeds were to be used to start up and operate a painting facility in Forest City. The loan bears interest at 5%. CDI, Inc. is obligated to repay the City in monthly installments of \$2,121 beginning January 1, 2004. The loan balance at June 30, 2004 was \$177,359.

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**CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

(9) Forgivable Loan

The City entered into a offer to buy real estate and contract for development with Forest Plaza, LLC. The sale price was \$250,000 of which \$1 has been paid. The City has agreed to forgive the remaining balance due in \$50,000 increments over the next five years provided that Forest Plaza, LLC is in compliance with the offer. The remaining balance at June 30, 2004 is \$149,999.

The city entered into an economic development agreement with CDI, Inc. on November 20, 2002. The city loaned the corporation \$100,000 to start up and operate a painting facility in Forest City. CDI, Inc. is obligated to pay interest only on the loan at 5%. The City has agreed to forgive the loan in \$50,000 increments in January 2008 and 2013 provided that CDI, Inc. is in compliance with the agreement. The remaining balance at June 30, 2004 is \$100,000.

(10) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 325,000
	Local Option Sales Tax	20,000
	Employee Benefits	99,018
		<u>\$ 444,018</u>
	Enterprise:	
	Water	\$ 15,000
	Sewer Rental	68,500
	Electric	155,000
		<u>\$ 238,500</u>
Enterprise: Sewer Rental	Enterprise: Sewer Replacement	<u>\$ 20,200</u>
Capital Project: Street Improvement	Special Revenue: Road Use Tax	<u>\$ 10,000</u>
	Enterprise:	
	Water	\$ 300,000
	Sewer Rental	267,000
		<u>\$ 567,000</u>
Total		<u>\$1,279,718</u>

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(11) Related Party Transactions

The city had business transactions between the City and the City officials, totaling \$12,179 during the year ended June 30, 2004.

(12) Deficit Fund Balances

The Special Revenue Fund Tax Increment Financing account had a deficit balance of \$809,567, at June 30, 2004. The deficit will be eliminated upon receipt of property taxes.

(13) Commitments

On April 5, 2004 the City approved the purchase of a new garbage truck for \$70,218. As of June 30, 2004 no payment had been made.

On April 19, 2004 the City approved two new equipment leases for a total of \$121,716. As of June 30, 2004 no payment had been made.

At June 30, 2004, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Clark Street Improvement	\$ 678,168	\$172,912
RBC Sewer Repair	202,780	192,641
11 th Street Paving	<u>79,571</u>	<u>-</u>
Total	<u>\$ 960,519</u>	<u>\$365,553</u>

(14) **Subsequent Events**

On July 6, 2004 the City approved a contract with Heartland Asphalt for road construction.

(15) **Accounting Change and Restatements**

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

CITY OF FOREST CITY, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

(15) Accounting Change and Restatements - continued

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Cash basis net assets June 30, 2003 as previously reported	\$2,625,267	\$ 6,620,076
Internal service fund	<u>62,825</u>	<u>-</u>
Cash basis net assets July 1, 2003, as Restated	<u>\$2,688,092</u>	<u>\$ 6,620,076</u>

Required Supplementary Information

CITY OF FOREST CITY, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 1,117,857	\$ -	\$ -
Tax increment financing collections	124,984	-	-
Other city tax	271,452	-	-
Licenses and permits	7,860	-	-
Use of money and property	31,226	9,119	-
Intergovernmental	668,132	-	-
Charges for service	387,136	4,353,301	-
Special assessments	31,339	-	-
Miscellaneous	790,953	87,127	4,782
Total receipts	<u>\$ 3,430,939</u>	<u>\$4,449,547</u>	<u>\$ 4,782</u>
DISBURSEMENTS:			
Public safety	\$ 979,468	\$ -	\$ -
Public works	827,126	-	-
Health and social services	15,627	-	-
Culture and recreation	675,261	-	-
Community and economic development	557,578	-	-
General government	191,471	-	-
Debt service	290,188	-	-
Capital projects	1,365,867	-	-
Business type activities	-	4,077,212	-
Total disbursements	<u>\$ 4,902,586</u>	<u>\$4,077,212</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (1,471,647)	\$ 372,335	\$ 4,782
Other financing sources, net	<u>805,500</u>	<u>(805,500)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	\$ (666,147)	\$ (433,165)	\$ 4,782
Balance beginning of year	<u>2,625,267</u>	<u>6,682,901</u>	<u>62,825</u>
Balance end of year	<u>\$ 1,959,120</u>	<u>\$6,249,736</u>	<u>\$ 67,607</u>

See Accompanying Independent Auditor's Report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 1,117,857	\$1,049,651	\$ 1,049,651	\$ 68,206
124,984	100,000	100,000	24,984
271,452	287,479	287,479	(16,027)
7,860	7,150	7,150	710
40,345	106,310	106,310	(65,965)
668,132	975,850	1,411,250	(743,118)
4,740,437	4,866,017	4,953,517	(213,080)
31,339	37,700	37,700	(6,361)
873,298	150,725	544,425	328,873
<u>\$ 7,875,704</u>	<u>\$7,580,882</u>	<u>\$ 8,497,482</u>	<u>\$ (621,778)</u>
\$ 979,468	\$ 968,533	\$ 1,015,533	\$ 36,065
827,126	1,056,125	1,156,125	328,999
15,627	19,650	19,650	4,023
675,261	519,535	769,535	94,274
557,578	145,200	565,200	7,622
191,471	194,595	204,595	13,124
290,188	253,788	290,788	600
1,365,867	885,000	1,985,000	619,133
4,077,212	3,993,168	4,643,168	565,956
<u>\$ 8,979,798</u>	<u>\$8,035,594</u>	<u>\$10,649,594</u>	<u>\$ 1,669,796</u>
\$(1,104,094)	\$ (454,712)	\$(2,152,112)	\$ 1,048,018
<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
\$(1,104,094)	\$ (454,712)	\$(2,152,112)	\$ 1,048,018
<u>9,245,343</u>	<u>7,923,378</u>	<u>7,923,378</u>	<u>1,321,965</u>
<u>\$ 8,141,249</u>	<u>\$7,468,666</u>	<u>\$ 5,771,266</u>	<u>\$ 2,369,983</u>

CITY OF FOREST CITY, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$2,614,800. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the capital projects function prior to amendment.

Other Supplementary Information

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	<u>Special</u>		
	<u>Road Use Tax</u>	<u>Employee Benefit</u>	<u>Local Option Sales Tax</u>
RECEIPTS:			
Property tax	\$ -	\$ 102,680	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	271,452
Use of money and property	-	-	-
Intergovernmental	365,122	-	-
Miscellaneous	-	-	38,937
Total receipts	<u>\$ 365,122</u>	<u>\$ 102,680</u>	<u>\$ 310,389</u>
DISBURSEMENTS:			
Public safety	\$ -	\$ -	\$ 38,832
Public works	-	-	20,000
Health and social services	-	-	15,627
Culture and recreation	-	-	835
Community and economic development	-	-	49,624
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,918</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 365,122	\$ 102,680	\$ 185,471
Other financing sources (uses):			
Operating transfers out	<u>(335,000)</u>	<u>(99,018)</u>	<u>(20,000)</u>
Net change in cash balances	\$ 30,122	\$ 3,662	\$ 165,471
Cash balances beginning of year	<u>30,288</u>	<u>5,719</u>	<u>201,612</u>
Cash balances end of year	<u>\$ 60,410</u>	<u>\$ 9,381</u>	<u>\$ 367,083</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
Special revenue funds	60,410	9,381	367,083
Permanent funds	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 60,410</u>	<u>\$ 9,381</u>	<u>\$ 367,083</u>

See Accompanying Independent Auditor's Report.

Revenue		Permanent					Total
Hotel Motel Tax	Tax Increment Financing	Debt Service	Cemetery Perpetual Care	Library Trust	Capital Improvement Reserve		
\$ -	\$ -	\$ 263,402	\$ -	\$ -	\$ -	\$ 366,082	
-	124,984	-	-	-	-	124,984	
-	-	-	-	-	-	271,452	
-	-	-	-	2,064	-	2,064	
43,322	99,427	-	-	-	-	507,871	
-	33,655	-	510	10,177	-	83,279	
<u>\$ 43,322</u>	<u>\$ 258,066</u>	<u>\$ 263,402</u>	<u>\$ 510</u>	<u>\$ 12,241</u>	<u>\$ -</u>	<u>\$1,355,732</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,832	
-	-	-	-	-	19,640	39,640	
-	-	-	-	-	-	15,627	
-	-	-	-	7,013	-	7,848	
46,632	41,104	-	-	-	-	137,360	
-	-	290,188	-	-	-	290,188	
-	198,426	-	-	-	-	198,426	
<u>\$ 46,632</u>	<u>\$ 239,530</u>	<u>\$ 290,188</u>	<u>\$ -</u>	<u>\$ 7,013</u>	<u>\$ 19,640</u>	<u>\$ 727,921</u>	
\$ (3,310)	\$ 18,536	\$ (26,786)	\$ 510	\$ 5,228	\$ (19,640)	\$ 627,811	
-	-	-	-	-	-	(454,018)	
\$ (3,310)	\$ 18,536	\$ (26,786)	\$ 510	\$ 5,228	\$ (19,640)	\$ 173,793	
9,786	(828,103)	157,583	42,584	137,480	28,836	(214,215)	
<u>\$ 6,476</u>	<u>\$ (809,567)</u>	<u>\$ 130,797</u>	<u>\$ 43,094</u>	<u>\$ 142,708</u>	<u>\$ 9,196</u>	<u>\$ (40,422)</u>	
\$ -	\$ -	\$ 130,797	\$ -	\$ -	\$ -	\$ 130,797	
6,476	(809,567)	-	-	-	-	(366,217)	
-	-	-	43,094	142,708	9,196	194,998	
<u>\$ 6,476</u>	<u>\$ (809,567)</u>	<u>\$ 130,797</u>	<u>\$ 43,094</u>	<u>\$ 142,708</u>	<u>\$ 9,196</u>	<u>\$ (40,422)</u>	

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Water Reserve</u>	<u>Water Improvement</u>	<u>Sewer Reserve</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating receipts:					
Charges for service	\$ -	\$ -	\$ -	\$ 82,233	\$ 82,233
Operating disbursements:					
Business type activities	-	-	-	9,034	\$ 9,034
Net change in cash balances	\$ -	\$ -	\$ -	\$ 73,199	\$ 73,199
Cash balances beginning of year	<u>120,000</u>	<u>50,000</u>	<u>307,000</u>	<u>11,517</u>	<u>488,517</u>
Cash balances end of year	<u>\$120,000</u>	<u>\$ 50,000</u>	<u>\$ 307,000</u>	<u>\$ 84,716</u>	<u>\$ 561,716</u>
Cash Basis Fund balances:					
Unreserved	\$ -	\$ -	\$ -	\$ 84,716	\$ 84,716
Reserved:					
Other	<u>120,000</u>	<u>50,000</u>	<u>307,000</u>	<u>-</u>	<u>477,000</u>
Total	<u>\$120,000</u>	<u>\$ 50,000</u>	<u>\$ 307,000</u>	<u>\$ 84,716</u>	<u>\$ 561,716</u>

See Accompanying Independent Auditor's Report.

CITY OF FOREST CITY, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Essential Corporate Purpose	6-01-03	1.40 - 3.75%	\$1,255,000
Essential Corporate Purpose	1-30-02	2.25 - 4.35	1,370,000
Capital Leases:			
Police cars	1-29-03	6.85%	\$ 69,006
Case end loader	11-1-99	5.75	68,445

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$1,255,000	\$ -	\$ -	\$1,255,000	\$ 36,100	\$ -
<u>1,180,000</u>	<u>-</u>	<u>210,000</u>	<u>970,000</u>	<u>43,488</u>	<u>-</u>
<u>\$2,435,000</u>	<u>\$ -</u>	<u>\$ 210,000</u>	<u>\$2,225,000</u>	<u>\$ 79,588</u>	<u>\$ -</u>
\$ 45,070	\$ -	\$ 22,668	\$ 22,402	\$ 1,269	\$ -
<u>18,572</u>	<u>-</u>	<u>18,572</u>	<u>-</u>	<u>1,068</u>	<u>-</u>
<u>\$ 63,642</u>	<u>\$ -</u>	<u>\$ 41,240</u>	<u>\$ 22,402</u>	<u>\$ 2,337</u>	<u>\$ -</u>

CITY OF FOREST CITY, IOWA
BOND MATURITIES
JUNE 30, 2004

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>				
	<u>Essential</u>		<u>Essential</u>		<u>Total</u>
	<u>Corporate Purpose</u>		<u>Corporate Purpose</u>		
	<u>Issued January 30, 2002</u>		<u>Issued June 1, 2003</u>		
<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>		
2005	3.25%	\$ 215,000	1.40%	\$ 100,000	\$ 315,000
2006	3.70	225,000	1.70	100,000	325,000
2007	4.00	170,000	2.10	100,000	270,000
2008	4.20	180,000	2.40	105,000	285,000
2009	4.35	180,000	2.75	110,000	290,000
2010		-	3.10	110,000	110,000
2011		-	3.20	115,000	115,000
2012		-	3.30	120,000	120,000
2013		-	3.50	125,000	125,000
2014		-	3.60	130,000	130,000
2015		-	3.75	140,000	140,000
Total		<u>\$ 970,000</u>		<u>\$ 1,255,000</u>	<u>\$2,225,000</u>

See Accompanying Independent Auditor's Report.

CITY OF FOREST CITY, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST TWO YEARS

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$1,117,857	\$1,180,239
Tax increment financing collections	124,984	99,092
Other city tax	271,452	292,560
Licenses and permits	7,860	7,295
Use of money and property	31,226	102,423
Intergovernmental	668,132	929,947
Charges for service	387,136	409,874
Special assessments	31,339	47,231
Miscellaneous	790,953	1,463,921
Total	<u>\$3,430,939</u>	<u>\$4,532,582</u>
Disbursements:		
Operating:		
Public safety	\$ 979,468	\$ 961,680
Public works	827,126	807,330
Health and social services	15,627	15,787
Culture and recreation	675,261	1,351,958
Community and economic development	557,578	1,487,329
General government	191,471	209,626
Debt service	290,188	247,307
Capital projects	1,365,867	94,961
Total	<u>\$4,902,586</u>	<u>\$5,175,978</u>

See Accompanying Independent Auditor's Report.

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

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Forest City, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated September 21, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior statutory comments have all been resolved except for items IV-B-04, IV-E-04 and IV-I-04.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Forest City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Forest City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have all been resolved.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I noted no matters involving the internal control structure and its operation that I consider to be a reportable condition or material weakness as defined above.

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

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

September 21, 2004

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) The audit did not disclose any reportable conditions in the internal control over financial reporting.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

None

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

- IV-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amount budgeted in the Culture and Recreation Function and Community and Economic Development Function before the amendment was adopted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

 Recommendation - The budget should have been amended in accordance with Chapter 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.

 Response - We will do this in the future.

 Conclusion - Response accepted.

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

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting: - continued

IV-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tony Coloff, Cable TV Committee, Owner KIOW Radio Station	Advertising/legal publications	\$ 2,855
Ron Holland, Council Member, Owner Ron Holland House Moving	Services	9,324

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were over \$1,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

Conclusion - Response accepted.

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

IV-G-04 Council Minutes - No transactions were found that we believe should have been approved in the minutes but were not.

IV-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-04 Financial Condition - The Special Revenue Fund-Tax Increment Financing account had a deficit balance of \$809,567 at June 30, 2004.

Recommendation - The City should monitor this account and investigate alternatives to eliminate the deficit in order to return it to sound financial condition.

Response - This account will be monitored in the future.

Conclusion - Response accepted.

CITY OF FOREST CITY, IOWA
FOUR-YEAR COMPARISON OF SELECTED FINANCIAL INFORMATION
JUNE 30, 2004

	YEAR ENDED JUNE 30,			
	2001	2002	2003	2004
BEGINNING BALANCE	<u>\$ 7,782,063</u>	<u>\$ 8,317,166</u>	<u>\$ 8,535,798</u>	<u>\$ 9,308,168</u>
RECEIPTS:				
Property taxes collected from County Treasurer	\$ 1,109,529	\$ 1,113,800	\$ 1,180,239	\$ 1,117,857
TIF revenue	30,982	52,085	99,092	124,984
Local option sales tax	184,402	290,171	250,061	271,452
Intergovernmental	986,317	674,150	929,947	668,132
Sale of electricity	2,851,766	2,929,100	3,035,383	3,432,043
Sale of water	338,150	337,949	338,639	358,224
Sewer rental fees	455,429	466,622	471,306	480,801
Garbage fees collected	204,533	199,592	213,935	326,046
Interest income	600,262	273,506	137,239	33,481
Loan proceeds	-	1,370,000	1,255,000	-
Other (1)	2,858,702	3,313,523	4,201,235	1,067,466
Total receipts	<u>\$ 9,620,072</u>	<u>\$11,020,498</u>	<u>\$12,112,076</u>	<u>\$ 7,880,486</u>
DISBURSEMENTS:				
Community Protection Program	\$ 952,102	\$ 959,148	\$ -	\$ -
Human Development Program	875,908	621,814	-	-
Home and Community Environment Program	4,795,634	6,419,520	-	-
Policy and Administration Program	207,197	491,525	-	-
Nonprogram	2,150,774	2,217,792	-	-
Interest expense	103,354	92,067	-	-
Public safety	-	-	961,680	979,468
Public works	-	-	807,330	827,126
Health and social services	-	-	15,787	15,627
Culture and recreation	-	-	1,351,958	675,261
Community and economic development	-	-	1,487,329	557,578
General government	-	-	209,626	191,471
Debt service	-	-	247,307	290,188
Capital projects	-	-	94,961	1,365,867
Business type activities	-	-	3,958,724	4,077,212
Non program	-	-	2,205,004	-
Total disbursements	<u>\$ 9,084,969</u>	<u>\$10,801,866</u>	<u>\$11,339,706</u>	<u>\$ 8,979,798</u>
ENDING BALANCE	<u>\$ 8,317,166</u>	<u>\$ 8,535,798</u>	<u>\$ 9,308,168</u>	<u>\$ 8,208,856</u>

(1) Includes Payroll Revolving, licenses and permits, pool fees, cemetery charges, court fines, rent, contributions, refunds, etc.

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KIOW
Forest City, IA 50436

N E W S R E L E A S E

FOR RELEASE December 7, 2004

Larry Pump, CPA, Charles City, Iowa, today released an audit report on the City of Forest City for the year ended June 30, 2004.

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

Larry Pump, CPA reported that the City's receipts totaled \$7,789,022 for the year ended June 30, 2004. The receipts included \$1,117,857 in property taxes, \$124,984 from tax increment financing, \$4,740,437 from charges for service, \$586,915 from operating grants, contributions and restricted interest, \$271,452 from local option sales tax, \$35,545 from unrestricted investment earnings and \$911,832 from other general receipts.

Disbursements for the year totaled \$8,979,798. The disbursements included \$979,468 for public safety, \$827,126 for public works, \$1,365,867 for capital projects and \$4,077,212 for business type activities.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

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The Summit
Forest City, IA 50436

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#

November 30, 2004

Mr. Paul Boock
City of Forest City
P.O. Box 346
Forest City, IA 50436

Dear Paul:

Enclosed you will find the City's 13 copies of the audit report. I will see you at the Council meeting Monday, December 6.

Please call if you have any questions.

Sincerely,

Larry Pump, CPA

jlp
Enclosures

December 7, 2004

Office of Auditor of State
State of Iowa
State Capitol Building
Des Moines, IA 50319

RE: Audit of the City of Forest City for the fiscal year ended June 30, 2004

Dear Sir or Madam:

I have enclosed a copy of the news release, a copy of my bill to the City, and two copies of the Audit Report. I will appreciate your comments and suggestions.

Sincerely yours,

Larry Pump, CPA

jlp
Enclosures

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