

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
Forest City 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 Forest City Community School District, Forest City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Forest City Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated November 9, 2004, on our consideration of Forest City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 and 39 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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 [Forest City](#) 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 two years ended June 30, [2003](#), (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2001 was audited by other auditors who expressed an unqualified opinion. 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

[November 9, 2004](#)

Management Discussion and Analysis

The Forest City 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 ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for fiscal 2004 were \$9,931,421 while General Fund expenditures were \$10,167,092. This resulted in a decrease in the District's General Fund balance from \$1,097,968 in fiscal 2003 to \$862,297 in fiscal 2004, or a \$235,671 decrease from the prior year.
- The decrease in General Fund revenues was attributable to an across the board state budget cut of 2.5% which for the Forest City District amounted to \$127,411.
- The District sold \$3.5 million in general obligation bonds, approved by voters March 25, 2003, to help finance a two-year, \$3.5 million plan for facilities improvements throughout the district. A major portion of the construction will be new HVAC in the Elementary and Middle School buildings both of which will be Geo Thermal. All construction and renovation is near completion.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Cerro Gordo County on March 4, 2003 that passed with a 69% yes vote and was effective as of July 1, 2003. This new source of funding will produce approximately \$17,152 for the 2004-2005 school year.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Hancock County on April 1, 2003 that passed with a 80% yes vote and was effective as of July 1, 2003. This new source of funding will produce approximately \$58,025 for the 2004-2005 school year.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Winnebago County on January 20, 2004 that passed with a 75% yes vote and will be effective as of July 1, 2004. This new source of funding will produce approximately \$314,195 for the 2004-2005 school year.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Worth County on April 1, 2004 that passed with a 80% yes vote and will be effective as of July 1, 2004. This new source of funding will produce approximately \$16,392 for the 2004-2005 school year.

Overview of the Financial Statements

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are government-wide financial statements that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- 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 statements for *governmental funds* explains how basic services, such as regular and special education were financed in the *short term* as well as what remains for future spending.
- The statement for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

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 and 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.

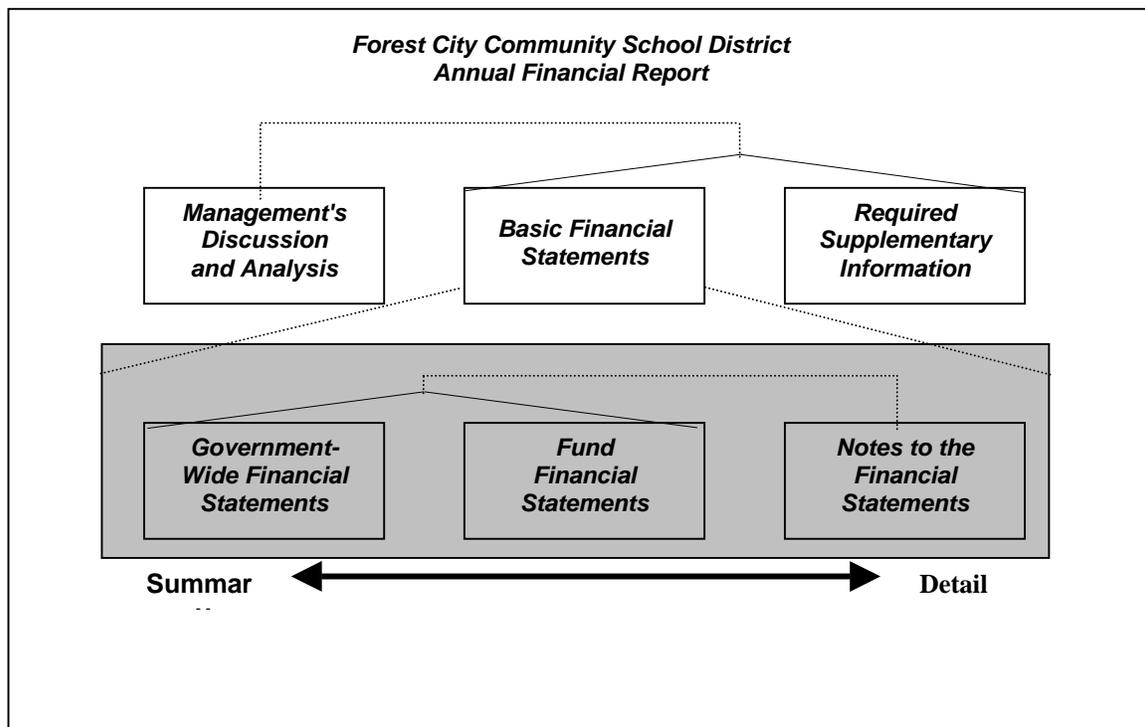


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents 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	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of cash flows • Statement of revenues, expenses and changes in net assets 	<ul style="list-style-type: none"> • 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 information	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 assets and liabilities. 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.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- 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 District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school building and other facilities.

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 would be included 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 of 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 government-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, Debt Service Fund and Capital Projects 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.

Financial Analysis of the District as a Whole

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

Figure A-3
Condensed Statement of Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2003-2004
	2003	2004	2003	2004	2003	2004	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	
Current and other assets	\$11.528	\$8.475	\$.061	\$.046	\$11.589	\$8.521	-26.47%
	5.349					7.933	
Capital assets		7.879	.023	.054	5.372		47.67%
Total assets	16.879	16.354	.083	.100	16.962	16.454	-2.99%
	4.085						
Long-term debt outstanding		3.819	-	-	4.085	3.819	-6.51%
	6.592				6.631	6.338	
Other liabilities		6.291	.039	.047			-4.42%
	10.677						
Total liabilities		10.110	.039	.047	10.716	10.157	-5.22%
Net assets							
Invested in capital assets,						4.920	
net of related debt	4.786	4.866	.023	.054	4.809		2.31%
	.173				.173	.329	
Restricted		.329	-	-			90.17%
	1.244						
Unrestricted		1.049	.021	.000	1.265	1.049	-17.08%
Total net assets	\$6.203	\$6.244	\$.044	\$.054	\$6.247	\$6.298	8.16%

Note: totals may not add due to rounding.

Most of the decrease to current and other assets was due to the expenditure of the \$3,500,000 bond issue for building remodel and HVAC in all of the buildings. The slight decrease in the District's financial position came from its governmental activities, the total assets which decreased from \$16.962 million to \$16.454 million. The capital assets of the District's business-type activities decreased from \$23 thousand to \$54 thousand due to the purchase of a new walk in cooler.

The decrease in unrestricted net assets was primarily due to the District using cash reserves to more closely equate to the Unspent Authorized Budget balance for the end of the year, and our five year plan to keep our Financial Solvency Ratio between 5% and 10%.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4

Changes in Net Assets from Operating Results (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2003-2004
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	
Revenues							
Program revenues							
Charges for services	\$1.275	\$1.399	\$.317	\$.342	\$1.592	\$1.741	9.36%
Operating Grants & Contributions	1.078	.962	.191	.215	1.269	1.177	-7.25%
Capital Grants & Contributions	.001	.015	0	0	.001	.015	150.00%
General revenues							
Property Taxes & Other Local Taxes	3.341	3.276	0	0	3.341	3.276	-1.95%
Unrestricted State Aid	5.471	5.304	0	0	5.471	5.304	-3.05%
Other	.117	.022	0	0	.117	.022	-81.20%
Total revenues	11.282	10.978	.508	.557	11.790	11.535	-2.16%
Expenses							
Instruction	7.033	7,278	0	0	7.033	7.278	3.48%
Pupil & Instructional Services	.600	.609	0	0	.600	.609	1.50%
Administrative & Business	.934	.925	0	0	.934	.925	-0.96%
Maintenance & operations	.810	.922	0	0	.810	.922	13.83%
Transportation	.433	.474	0	0	.433	.474	9.47%
Other	.697	.728	.509	.547	1.206	1.275	5.72%
Total expenses	10.507	10.936	.509	.547	11.016	11.483	4.24%
Excess (deficiency) before special item	.775	.042	-0.001	.010	.774	.052	-93.28%
Special item:	0	0	0	0	0	0	
Increase (decrease) in net assets	\$.775	\$.042	\$ -.001	\$.010	\$.774	\$.052	-93.28%

Note: totals may not add due to rounding.

Property tax, income surtax, sales taxes and state foundation aid account for 78 percent of the total revenue. The District's expenses primarily relate to instruction and support services that account for 93 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$10,978,512 and expenses were \$10,936,460. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

Figure A-5 The following graph presents the total Revenue for the District's major governmental activities: state aid, federal and state grants, property taxes, charges for services and other incomes.

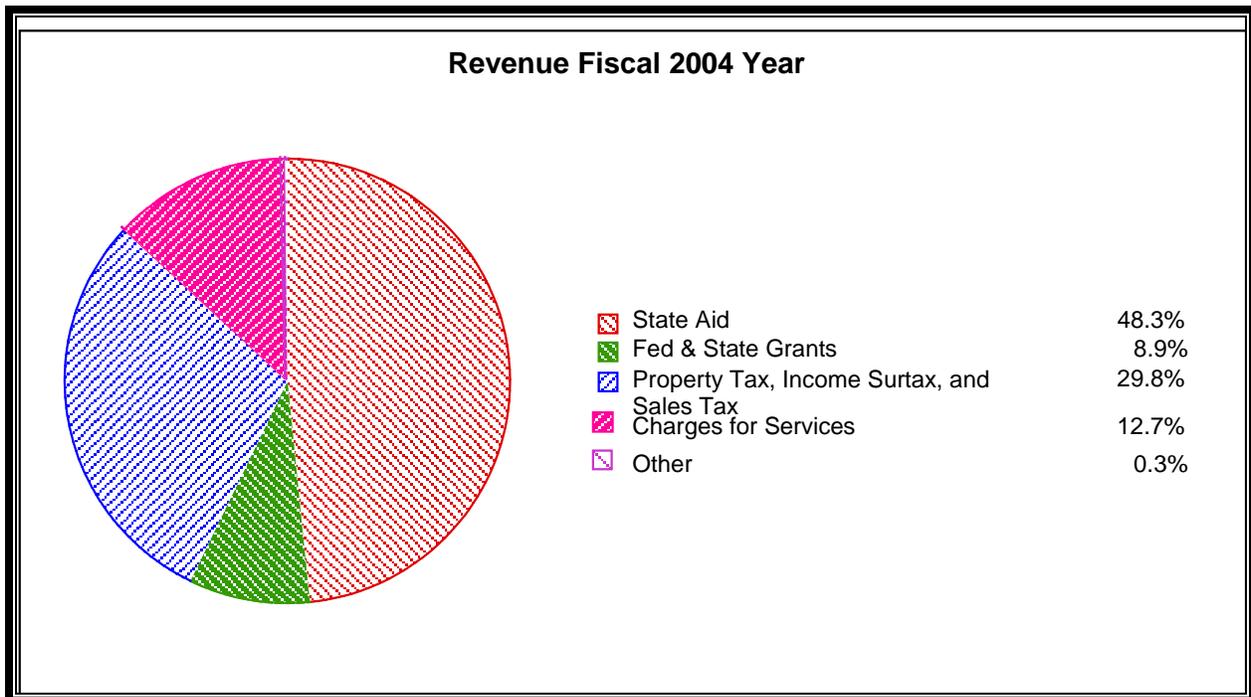


Figure A-6 The following graph presents the total Expenditures for the District's major governmental activities: instruction, student & instructional services, administration & business, operations & maintenance, transportation and AEA flow thru.

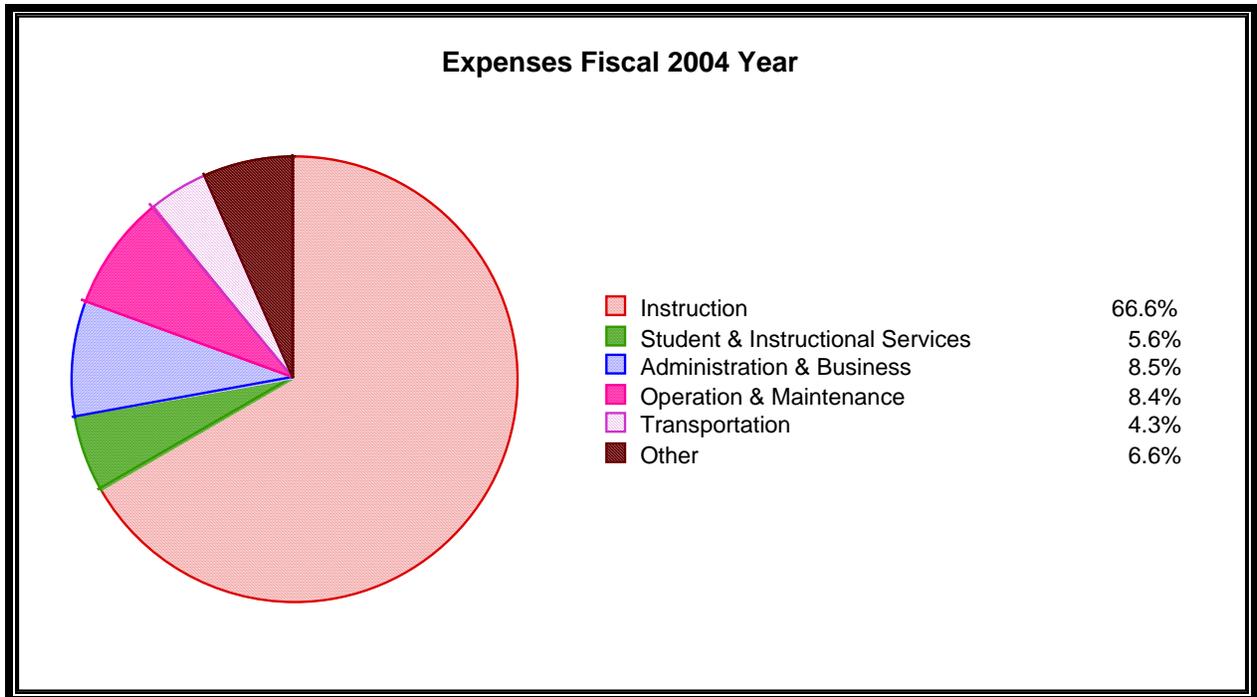


Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and

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-7
Net Cost of Governmental Activities (in millions of dollars)**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>2003</u>	<u>2004</u>	<u>2003-2004</u>	<u>2003</u>	<u>2004</u>	<u>2003-2004</u>
Instruction	\$7.033	\$7.278	3.48%	\$ 5.116	\$ 5.330	4.18%
Pupil & Instructional Services	.600	.609	1.50%	.600	.609	1.50%
Administrative & Business	.935	.925	-1.07%	.934	.925	-1.07%
Maintenance & operations	.810	.922	13.83%	.805	.916	13.79%
Transportation	.433	.474	9.47%	.426	.466	9.39%
Other	.697	.728	4.45%	.273	.314	14.60%
Total	\$10.507	\$10.936	4.08%	\$ 8.154	\$ 8.560	4.50%

Note: totals may not add due to rounding.

- The cost of all governmental activities this year was \$10,936,460.
- Some of the cost was financed by the users of the District's programs in the amount of \$1,399,123.
- The federal and state governments subsidized certain programs with grants and contributions \$962,359.
- Most of the District's costs \$8,559,934 however were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,996,520 million in property taxes, \$204,314 of income surtax, \$74,844 of sales tax, \$5,303,818 million of unrestricted state aid based on the statewide finance formula, and investment earnings.

Business Type Activities

Revenues from the District's business type activities included charges for services in the amount of \$341,968 and \$214,536 from operating grants, contributions and restricted interest.

Expenses from the District's business type activities amounted to \$547,027. The Hot Lunch program was the only business type activity for the District during the 2004 school year.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,998,030 below last year's ending fund balances of \$4,822,331. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to approximately \$2,750,000 of expended general obligation bond proceeds received in fiscal 2003.

Governmental Fund Highlights

- The District's stabilizing General Fund financial position is the product of many factors. During the year property tax proceeds, open enrollment, interest income, replacement taxes and federal programs stayed consistent with budgeted amounts and expenditures were in line with projections.
- The General Fund balance decreased from \$1,097,487 to \$862,297 due mainly to an across the board state aid budget cut. Which for the Forest City Community School District amounted to \$127,411.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$48,210 in fiscal 2003 to \$42,787 in fiscal 2004. Revenues and expenditures in the fund have remained fairly stable the past few years.
- The Capital Projects Fund balance decrease is due to the expensing of the \$2,750,000 in general obligation bonds from fiscal 2003. Fiscal 2004 ended with a balance of \$794,453 consisting of unexpended bond proceeds that will be expensed as the projects are completed.
- The Debt Service Fund balance increased from \$33,255 in fiscal 2003 to \$50,501 due to the over estimate of bond proceeds projected to be due during the 2004 school year.

Proprietary Fund Highlights

The School Nutrition Fund net cash increased from \$43,556 at June 30, 2003 to \$59,501 representing an increase of approximately 37 percent. The District raised meal prices, resulting in the increase in net assets. The primary reason for the need to increase the fund balance is the need for future updating and replacement of equipment.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is 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 the cash basis. A schedule showing the original 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.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$150,000 less than budgeted receipts, a variance of a little over 2 percent. The most significant change was from the across the board state aid cut.

Total expenditures were less than budgeted due primarily to the District's budget for General Fund and Capitol Projects. It is the District's practice to budget expenditures at the same amount as budgeted revenues in all funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Federal sources and other expenditures due to timing of disbursements paid at year-end without sufficient time to amend the certified budget.

Capital Asset and Debt Administration

Capital Assets

By the end of 2004 the District had invested \$15.78 million, in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Figure A-8) **(More detailed information about capital assets can be found in Note 5 to the financial statements.)** Total depreciation expense for the year exceeded \$300,000.

Figure A-8
Capital Assets (net of depreciation, (in millions of dollars))

	Governmental Activities		Business Type Activities		Total School District		Total Percentage Change 2003-2004
	2003	2004	2003	2004	2003	2004	
Land	\$.225	\$.225	\$ 0	\$ 0	\$.225	\$.225	0.00%
Construction in progress	0	2.618	0	0	0	2.618	2,618.00%
Buildings	4.062	3.892	0	0	4.062	3.892	-4.19%
Improvements	.108	.228			.108	.228	111.11%
Equipment & Furniture	.957	.916	.023	.054	.980	.970	-1.02%
	\$ 5.352	\$ 7.879	\$.023	\$.054	\$ 5.375	\$ 7.933	47.01%

Note: totals may not add due to rounding.

Long-Term Debt

At year-end, the District had \$3,818,946 in general obligation bonds and other long-term debt outstanding. This represents an decrease of 6.51% over the previous fiscal year as can be seen in Figure A-9 below. During fiscal year 2002-2003, the District sold \$3.5 million in general obligation bonds, approved by voters on March 25, 2003, to help finance a two-year, \$3.5 million plan of facilities improvements throughout the district

Figure A-9
Outstanding Long-Term Debt (in millions of dollars)

	Total School District		Total Percentage Change 2003-2004
	2003	2004	
General obligation bonds & notes (financed with property taxes)	\$ 3.500	\$ 3.305	-5.57%
Other general obligation debt	.585	.514	-12.14%
Total	\$ 4.085	\$ 3.819	6.51%

Factors Bearing on the District's Future

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

- For fiscal year 2004-2005 there are three new housing developments in the city of Forest City along with the completion of an eighteen hole golf course.
- The largest employer in the District, Winnebago Industries has just stated that they are in the process of hiring an additional 250 employees.
- The college in the District has just completed the process of changing from a junior college to a four year college.
- 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 2004, previously set during the 2003 legislative session at 4% was subsequently reduced to 2% during the 2004 legislative session.
- District enrollment declined in fiscal year 2002-2003 by 29.7 students, but for the 2003-2004 school year increased by 8.4 students and for the 2004-2005 decreased by only 3.3 students. Under Iowa's school funding formula, District funding is highly dependent upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

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 for the money it receives. If you have questions about this report or need additional financial information, contact, Steven Rollefson, Board Secretary/Business Manager, Forest City Community School District, 810 West K. Street Forest City, Iowa 50436

BASIC FINANCIAL STATEMENTS

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents			
ISCAP	1,899,021	-	1,899,021
Other	3,158,853	59,501	3,218,354
Receivables:			
Property tax:			
Delinquent	39,785	-	39,785
Succeeding year	2,806,579	-	2,806,579
Accounts	3,839	1,216	5,055
Accrued interest - ISCAP	3,106	-	3,106
Interfund receivable/payable	30,334	(30,334)	-
Due from other governments	494,480	830	495,310
Inventories	34,073	15,077	49,150
Prepaid expenses	5,002	-	5,002
Capital assets, net of accumulated depreciation	7,879,343	54,205	7,933,548
Total assets	16,354,415	100,495	16,454,910
Liabilities			
Accounts payable	532,471	222	532,693
Salaries and benefits payable	1,028,348	44,833	1,073,181
Accrued interest payable	9,506	-	9,506
Deferred revenue:			
Succeeding year property tax	2,806,579	-	2,806,579
Other	-	1,703	1,703
ISCAP warrants payable	1,888,000	-	1,888,000
ISCAP accrued interest payable	4,709	-	4,709
ISCAP premium	21,055	-	21,055
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	195,000	-	195,000
Notes payable	61,054	-	61,054
Early retirement	30,279	-	30,279
Portion due after one year:			
General obligation bonds payable	3,110,000	-	3,110,000
Notes payable	367,362	-	367,362
Early retirement	55,251	-	55,251
Total liabilities	10,109,614	46,758	10,156,372

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	4,865,536	54,205	4,919,741
Restricted for:			
Phase III	8,940	-	8,940
Management levy	57,699	-	57,699
Physical plant and equipment levy	42,787	-	42,787
Other special revenue purposes	104,763	-	104,763
Local option sales tax capital projects	74,844	-	74,844
Debt service	40,995	-	40,995
Unrestricted	1,049,237	(468)	1,048,769
Total net assets	<u>6,244,801</u>	<u>53,737</u>	<u>6,298,538</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	4,217,203	573,549	409,412	-
Special instruction	2,276,276	442,362	135,277	-
Other instruction	785,004	368,956	18,627	-
	<u>7,278,483</u>	<u>1,384,867</u>	<u>563,316</u>	<u>-</u>
Support services:				
Student services	217,077	-	-	-
Instructional staff services	391,963	-	-	-
Administration services	925,090	-	-	-
Operation and maintenance of plant services	921,827	5,680	-	-
Transportation services	473,910	8,576	-	-
	<u>2,929,867</u>	<u>14,256</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	27,420	-	-	15,044
Long-term debt interest	129,211	-	694	-
AEA flowthrough	398,349	-	398,349	-
Depreciation (unallocated)*	173,130	-	-	-
	<u>728,110</u>	<u>-</u>	<u>399,043</u>	<u>15,044</u>
Total governmental activities	10,936,460	1,399,123	962,359	15,044
Business type activities				
Non-instructional programs:				
Food service operations	547,027	341,968	214,536	-
Total	<u>547,027</u>	<u>341,968</u>	<u>214,536</u>	<u>-</u>
Total	<u>11,483,487</u>	<u>1,741,091</u>	<u>1,176,895</u>	<u>15,044</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

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

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Net (Expense) Revenue and Changes in Net

Governmental Activities	Business Type Activities	Total
(3,234,242)	-	(3,234,242)
(1,698,637)	-	(1,698,637)
(397,421)	-	(397,421)
<u>(5,330,300)</u>	<u>-</u>	<u>(5,330,300)</u>
(217,077)	-	(217,077)
(391,963)	-	(391,963)
(925,090)	-	(925,090)
(916,147)	-	(916,147)
(465,334)	-	(465,334)
<u>(2,915,611)</u>	<u>-</u>	<u>(2,915,611)</u>
(12,376)	-	(12,376)
(128,517)	-	(128,517)
-	-	-
(173,130)	-	(173,130)
<u>(314,023)</u>	<u>-</u>	<u>(314,023)</u>
(8,559,934)	-	(8,559,934)
<u>-</u>	<u>9,477</u>	<u>9,477</u>
<u>(8,559,934)</u>	<u>9,477</u>	<u>(8,550,457)</u>
2,611,426	-	2,611,426
312,104	-	312,104
72,990	-	72,990
204,314	-	204,314
74,844	-	74,844
5,303,818	-	5,303,818
14,722	173	14,895
7,768	-	7,768
<u>8,601,986</u>	<u>173</u>	<u>8,602,159</u>
42,052	9,650	51,702
<u>6,202,749</u>	<u>44,087</u>	<u>6,246,836</u>
<u>6,244,801</u>	<u>53,737</u>	<u>6,298,538</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:				
ISCAP	1,899,021	-	-	1,899,021
Other	1,652,777	1,201,745	304,331	3,158,853
Receivables:				
Property tax:				
Delinquent	32,982	-	6,803	39,785
Succeeding year	2,343,257	-	463,322	2,806,579
Accounts	3,839	-	-	3,839
Accrued interest - ISCAP	3,106	-	-	3,106
Interfund receivable	-	-	30,334	30,334
Due from other governments	482,783	11,697	-	494,480
Inventories	34,073	-	-	34,073
Prepaid expenses	5,002	-	-	5,002
Total assets	6,456,840	1,213,442	804,790	8,475,072
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	113,294	418,989	188	532,471
Salaries and benefits payable	1,028,348	-	-	1,028,348
ISCAP warrants payable	1,888,000	-	-	1,888,000
ISCAP accrued interest payable	4,709	-	-	4,709
ISCAP premium	21,055	-	-	21,055
Deferred revenue:				
Succeeding year property tax	2,343,257	-	463,322	2,806,579
Other	195,880	-	-	195,880
Total liabilities	5,594,543	418,989	463,510	6,477,042
Fund balances:				
Reserved for:				
Inventories	34,073	-	-	34,073
Prepaid expenses	5,002	-	-	5,002
Phase III	8,940	-	-	8,940
Debt service	-	-	50,501	50,501
Unreserved	814,282	794,453	290,779	1,899,514
	862,297	794,453	341,280	1,998,030
Total liabilities and fund balances	6,456,840	1,213,442	804,790	8,475,072

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	1,998,030
<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.	7,879,343
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	195,880
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	(9,506)
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>(3,818,946)</u>
Net assets of governmental activities (Exhibit A)	<u><u>6,244,801</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,629,106	74,844	517,177	3,221,127
Tuition	878,311	-	-	878,311
Other	165,646	15,044	370,582	551,272
State sources	6,047,652	-	7,125	6,054,777
Federal sources	210,706	-	-	210,706
Total revenues	<u>9,931,421</u>	<u>89,888</u>	<u>894,884</u>	<u>10,916,193</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	4,166,255	-	-	4,166,255
Special instruction	2,276,276	-	-	2,276,276
Other instruction	455,432	-	321,623	777,055
	<u>6,897,963</u>	<u>-</u>	<u>321,623</u>	<u>7,219,586</u>
Support services:				
Student services	216,622	-	-	216,622
Instructional staff services	384,480	-	-	384,480
Administration services	916,879	-	-	916,879
Operation and maintenance of plant services	805,760	-	99,813	905,573
Transportation services	464,650	-	-	464,650
	<u>2,788,391</u>	<u>-</u>	<u>99,813</u>	<u>2,888,204</u>
Other expenditures:				
Facilities acquisition	-	2,770,284	27,420	2,797,704
Long-term debt:				
Principal	-	-	306,316	306,316
Interest and fiscal charges	-	-	130,335	130,335
AEA flowthrough	398,349	-	-	398,349
	<u>398,349</u>	<u>2,770,284</u>	<u>464,071</u>	<u>3,632,704</u>
Total expenditures	<u>10,084,703</u>	<u>2,770,284</u>	<u>885,507</u>	<u>13,740,494</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(153,282)</u>	<u>(2,680,396)</u>	<u>9,377</u>	<u>(2,824,301)</u>
Other financing sources (uses):				
Operating transfers in	-	-	134,984	134,984
Operating transfers out	(82,389)	-	(52,595)	(134,984)
Total other financing sources (uses)	<u>(82,389)</u>	<u>-</u>	<u>82,389</u>	<u>-</u>
Net change in fund balances	(235,671)	(2,680,396)	91,766	(2,824,301)
Fund balances beginning of year	<u>1,097,968</u>	<u>3,474,849</u>	<u>249,514</u>	<u>4,822,331</u>
Fund balances end of year	<u>862,297</u>	<u>794,453</u>	<u>341,280</u>	<u>1,998,030</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(2,824,301)

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

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	2,833,398	
Depreciation expense	<u>(296,614)</u>	2,536,784

Losses on the disposal of equipment are not recognized in the governmental funds, but they are recognized in the Statement of Activities.	(9,099)
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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.	71,418
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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.	306,317
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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.	1,123
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>(40,190)</u>
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Changes in net assets of governmental activities (Exhibit B)	<u><u>42,052</u></u>
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FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2004

	Nonmajor School Nutrition <u> </u> \$
Assets	
Cash and cash equivalents	59,501
Accounts receivable	1,216
Due from other governments	830
Inventories	15,077
Capital assets, net of accumulated depreciation	<u>54,205</u>
Total assets	<u>130,829</u>
Liabilities	
Accounts payable	222
Salaries and benefits payable	44,833
Interfund payable	30,334
Deferred revenue	<u>1,703</u>
Total liabilities	<u>77,092</u>
Net assets	
Invested in capital assets, net of related debt	54,205
Unrestricted	<u>(468)</u>
Total net assets	<u><u>53,737</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>341,968</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	192,715
Benefits	85,352
Purchased services	4,984
Supplies	256,757
Depreciation	<u>7,219</u>
	<u>547,027</u>
Operating loss	<u>(205,059)</u>
Non-operating revenue:	
State sources	7,741
Federal sources	206,795
Interest income	173
Total non-operating revenue	<u>214,709</u>
Change in net assets	9,650
Net assets beginning of year	<u>44,087</u>
Net assets end of year	<u><u>53,737</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Cash flows form operating activities:	
Cash received from sale of lunches and breakfasts	340,500
Cash payments to employees for services	(270,005)
Cash payments to suppliers for goods or services	<u>(216,077)</u>
Net cash used by operating activities	<u>(145,582)</u>
Cash flows from non-capital financing activities:	
State grants received	7,741
Federal grants received	<u>161,803</u>
Net cash provided by non-capital financing activities	<u>169,544</u>
Cash flows from capital and related financing activities:	
Loan from Management Fund	30,334
Acquisition of capital assets	<u>(38,524)</u>
Net cash used by capital and related financing activities	<u>(8,190)</u>
Cash flows from investing activities:	
Interest on investments	<u>173</u>
Net increase in cash and cash equivalents	15,945
Cash and cash equivalents at beginning of year	<u>43,556</u>
Cash and cash equivalents at end of year	<u><u>59,501</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain (loss)	(205,059)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	44,162
Depreciation	7,219
Decrease (increase) in inventories	1,926
Decrease (increase) in accounts receivable	(1,216)
(Decrease) increase in accounts payable	(424)
(Decrease) increase in salaries and benefits payable	8,062
(Decrease) increase in deferred revenue	<u>(252)</u>
Net cash used in operating activities	<u><u>(145,582)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$44,162 of federal commodities.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Year ended June 30, 2004

1. Summary of Significant Accounting Policies

Forest City 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 Forest City, Iowa and the predominately agricultural territory in portions of Winnebago, Hancock, Worth and Cerro Gordo 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, Forest City 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 Forest City Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities, and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide

and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary and governmental 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	25,000
Improvements other than buildings	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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

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

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

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 obligations - In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the [non-instructional programs](#) function exceeded the amount budgeted.

2. Cash and Pooled Investments

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

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standard Board Statement Number 3.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Special Revenue: Management Fund	Enterprise: School Nutrition Fund	30,334

[The Management Fund loaned the School Nutrition Fund money to purchase equipment during the year ended June 30, 2004. The loan will be repaid during the upcoming year.](#)

4. Interfund Transfers

The detail of interfund transfers for the year ended [June 30, 2004](#) is as follows:

Transfer to	Transfer From	Amount
		\$
Debt Service	General	82,389
	Special Revenue:	
	Physical Plant and Equipment Levy	52,595
Total		134,984

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

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of [June 30, 2004](#), is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2003-04B	1/30/04	1/28/05	570,861	3,106	567,000	4,709
2004-05A	6/30/04	6/30/05	1,328,160	-	1,321,000	-
Total			1,899,021	3,106	1,888,000	4,709

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended [June 30, 2004](#), is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2003-04A	2.000	1.050
2003-04B	2.000	1.131
2004-05A	3.000	2.463

6. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	2,617,704	-	2,617,704
Land	225,000	-	-	225,000
Total capital assets not being depreciated	<u>225,000</u>	<u>2,617,704</u>	<u>-</u>	<u>2,842,704</u>
Capital assets being depreciated:				
Buildings	10,067,148	-	-	10,067,148
Improvements other than buildings	130,000	123,688	-	253,688
Furniture and equipment	2,573,744	92,006	48,980	2,616,770
Total capital assets being depreciated	<u>12,770,892</u>	<u>215,694</u>	<u>48,980</u>	<u>12,937,606</u>
Less accumulated depreciation for:				
Buildings	6,005,439	169,293	-	6,174,732
Improvements other than buildings	22,100	3,837	-	25,937
Furniture and equipment	1,616,695	123,484	39,881	1,700,298
Total accumulated depreciation	<u>7,644,234</u>	<u>296,614</u>	<u>39,881</u>	<u>7,900,967</u>
Total capital assets being depreciated, net	<u>5,126,658</u>	<u>(80,920)</u>	<u>9,099</u>	<u>5,036,639</u>
Governmental activities capital assets, net	<u>5,351,658</u>	<u>2,536,784</u>	<u>9,099</u>	<u>7,879,343</u>
Business type activities:				
Furniture and equipment	133,112	38,524	4,117	167,519
Less accumulated depreciation	<u>110,212</u>	<u>7,219</u>	<u>4,117</u>	<u>113,314</u>
Business type activities capital assets, net	<u>22,900</u>	<u>31,305</u>	<u>-</u>	<u>54,205</u>

Depreciation expense was charged to the following programs:

	\$
Governmental activities:	
Instruction:	
Regular	10,758
Other	7,949
Support Services:	
Student support	455
Instructional staff support	20,583
Administration	8,211
Operation and maintenance of plant	27,768
Transportation	47,760
	<u>123,484</u>
Unallocated depreciation	173,130
Total governmental activities depreciation expense	<u>296,614</u>
Business type activities:	
Food service operations	<u>7,219</u>

7. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	3,500,000	-	195,000	3,305,000	195,000
Energy management notes	519,999	-	100,630	419,369	52,007
Equipment notes	19,734	-	10,687	9,047	9,047
Early retirement	45,340	69,520	29,330	85,530	30,279
	<u>4,085,073</u>	<u>69,520</u>	<u>335,647</u>	<u>3,818,946</u>	<u>286,333</u>
Total	<u>4,085,073</u>	<u>69,520</u>	<u>335,647</u>	<u>3,818,946</u>	<u>286,333</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages fifty-five and sixty and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement expenditures for the year ended June 30, 2004 totaled \$29,330.

General Obligation Bonds Payable

Details of the District's [June 30, 2004](#), general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>June 1, 2003 Issue</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		<u>\$</u>	<u>\$</u>	<u>\$</u>
2005	2.00	195,000	103,442	298,442
2006	2.00	200,000	99,543	299,543
2007	2.25	205,000	95,542	300,542
2008	2.75	210,000	90,930	300,930
2009	3.00	215,000	85,155	300,155
2010-2014	3.20-3.40	1,175,000	320,405	1,495,405
2015-2018	3.50-3.75	1,105,000	103,871	1,208,871
Total		<u>3,305,000</u>	<u>898,888</u>	<u>4,203,888</u>

Energy Management Notes

The District has two energy management notes at June 30, [2004](#).

The District obtained financing for construction of a 600 kw wind turbine. The financing was comprised of two notes from Commercial Federal Bank. One note was issued through the Iowa Department of Natural Resources. The proceeds from this note totaled \$237,667. The terms of this note include monthly payments of \$1,701. No interest is due on the loan which matures June 17, 2008. The balance due at June 30, [2004](#) is \$116,920.

The District obtained additional financing on the wind turbine project from Commercial Federal Bank in the amount of \$424,261. The terms of the loan include monthly payments of \$4,194 including interest at 6.5%. The final payment is due [November 15, 2009](#). The balance due at June 30, [2004](#) is \$302,449.

Equipment Loans

The District has one equipment loans at June 30, [2004](#). One loan was obtained to financed the purchase of an automobile in April 2001. The terms of the note require semi-annual payments of \$2,428 including interest of 6.0%. The balance due at June 30, [2004](#) is \$9,047.

Equipment loan and energy management note payments are due as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
2005	61,054	18,729	79,783
2006	54,123	16,213	70,336
2007	56,381	14,355	70,736
2008	94,079	11,945	106,024
2009	40,953	9,375	50,328
2010	121,826	3,107	124,933
	<u>428,416</u>	<u>73,724</u>	<u>502,140</u>

During the year ended June 30, 2004 the District made principal and interest payments totaling \$134,985 under the note agreements.

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$376,082, \$371,487 and \$354,294 respectively, equal to the required contributions for each year.

9. Risk Management

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

10. 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 \$173,130 for the year ended June 30, 2004, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Construction Commitment

The District has entered into contracts totaling approximately \$3,250,000 for masonry, roof, heating, cooling, flooring, fire alarm and security improvements. As of June 30, 2004 costs of approximately \$2,510,000 had been incurred against the contracts. The balances remaining at June 30, 2004 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	4,521,672	340,673	4,862,345	4,840,420	4,840,420	21,925
Intermediate sources	-	-	-	300	300	(300)
State sources	6,048,136	7,741	6,055,877	6,234,841	6,234,841	(178,964)
Federal sources	149,264	205,965	355,229	348,400	348,400	6,829
Total receipts	<u>10,719,072</u>	<u>554,379</u>	<u>11,273,451</u>	<u>11,423,961</u>	<u>11,423,961</u>	<u>(150,510)</u>
Disbursements:						
Instruction	7,343,335	-	7,343,335	7,346,109	7,546,109	202,774
Support services	2,677,518	-	2,677,518	2,736,229	2,836,229	158,711
Non-instructional programs	-	568,768	568,768	525,000	525,000	(43,768)
Other expenditures	3,213,715	-	3,213,715	1,016,623	3,491,472	277,757
Total disbursements	<u>13,234,568</u>	<u>568,768</u>	<u>13,803,336</u>	<u>11,623,961</u>	<u>14,398,810</u>	<u>595,474</u>
Excess (deficiency) of receipts over (under) disbursements	(2,515,496)	(14,389)	(2,529,885)	(200,000)	(2,974,849)	444,964
Other financing sources, net	<u>(30,334)</u>	<u>30,334</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>(200,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(2,545,830)	15,945	(2,529,885)	-	(2,774,849)	244,964
Balance beginning of year	<u>5,704,683</u>	<u>-</u>	<u>5,704,683</u>	<u>1,798,250</u>	<u>5,298,250</u>	<u>406,433</u>
Balance end of year	<u><u>3,158,853</u></u>	<u><u>15,945</u></u>	<u><u>3,174,798</u></u>	<u><u>1,798,250</u></u>	<u><u>2,523,401</u></u>	<u><u>651,397</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	10,719,072	197,121	10,916,193
Expenditures	13,234,568	505,926	13,740,494
Net	(2,515,496)	(308,805)	(2,824,301)
Other financing sources (uses)	(30,334)	30,334	-
Beginning fund balances	5,704,683	(882,352)	4,822,331
Ending fund balances	<u>3,158,853</u>	<u>(1,160,823)</u>	<u>1,998,030</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	554,379	2,298	556,677
Expenditures	568,768	(21,741)	547,027
Net	(14,389)	24,039	9,650
Other financing sources (uses)	30,334	(30,334)	-
Beginning fund balances	43,556	531	44,087
Ending fund balances	<u>59,501</u>	<u>(5,764)</u>	<u>53,737</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$2,774,849

During the year ended June 30, [2004](#), disbursements in the non-[instructional](#) programs function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds				
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Debt Service	Total
	\$	\$	\$	\$	\$
Cash and pooled investments	111,158	104,951	41,890	46,332	304,331
Receivables:					
Property tax:					
Delinquent	1,737	-	897	4,169	6,803
Succeeding year	100,000	-	64,879	298,443	463,322
Interfund receivable	30,334	-	-	-	30,334
Total assets	243,229	104,951	107,666	348,944	804,790
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	188	-	-	188
Deferred revenue:					
Succeeding year property tax	100,000	-	64,879	298,443	463,322
Total liabilities	100,000	188	64,879	298,443	463,510
Fund balances:					
Reserved for debt service	-	-	-	50,501	50,501
Unreserved fund balance	143,229	104,763	42,787	-	290,779
Total fund equity	143,229	104,763	42,787	50,501	341,280
Total liabilities and fund balances	243,229	104,951	107,666	348,944	804,790

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	129,956	-	73,366	313,855	517,177
Other	649	368,956	283	694	370,582
State sources	1,818	-	943	4,364	7,125
Total revenues	<u>132,423</u>	<u>368,956</u>	<u>74,592</u>	<u>318,913</u>	<u>894,884</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	321,623	-	-	321,623
Support services:					
Plant operation and maintenance	99,813	-	-	-	99,813
Other expenditures:					
Facilities acquisition	-	-	27,420	-	27,420
Long-term debt:					
Principal	-	-	-	306,316	306,316
Interest and fiscal charges	-	-	-	130,335	130,335
Total expenditures	<u>99,813</u>	<u>321,623</u>	<u>27,420</u>	<u>436,651</u>	<u>885,507</u>
Excess (deficiency) of revenues over (under) expenditures	<u>32,610</u>	<u>47,333</u>	<u>47,172</u>	<u>(117,738)</u>	<u>9,377</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	134,984	134,984
Operating transfers out	-	-	(52,595)	-	(52,595)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(52,595)</u>	<u>134,984</u>	<u>82,389</u>
Net change in fund balances	32,610	47,333	(5,423)	17,246	91,766
Fund balances beginning of year	<u>110,619</u>	<u>57,430</u>	<u>48,210</u>	<u>33,255</u>	<u>249,514</u>
Fund balances end of year	<u><u>143,229</u></u>	<u><u>104,763</u></u>	<u><u>42,787</u></u>	<u><u>50,501</u></u>	<u><u>341,280</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Interest	565	237	-	802
Athletics and cheerleading	2,370	132,960	126,093	9,237
Sp. Ed. wind suit	359	171	-	530
Bay team	517	10,500	8,293	2,724
Elementary activities	13,276	24,322	21,435	16,163
Elementary juice	7,332	3,953	24	11,261
Elementary student council	2,014	-	300	1,714
Elementary book fair	1,306	-	-	1,306
FFA	1,954	17,660	17,544	2,070
HS activities	(728)	7,027	6,248	51
HS band	(4,620)	7,747	3,733	(606)
HS home ec. awards	127	-	126	1
HS TSA club	134	108	242	-
HS small business class	6	69	75	-
HS music	(4,352)	14,747	9,210	1,185
HS marketing	314	9,844	10,153	5
HS student council	591	4,621	4,096	1,116
Student insurance	(4)	537	533	-
Junior class	440	5,247	4,124	1,563
MS activities	3,904	36,587	33,109	7,382
MS band and chorus	2,998	3,590	3,976	2,612
MS fund raiser	5	-	1,852	(1,847)
MS history club	46	23,121	23,179	(12)
MS industrial arts	3,482	1,585	1,817	3,250
MS memory book	1,820	2,470	2,602	1,688
MS scholarship	1,954	24	200	1,778
MS student council	2,324	4,047	3,674	2,697
Masonic scholarship	11,441	122	250	11,313
Health - CPR	110	-	-	110
Student services	4,978	-	-	4,978
Pep club	(289)	556	267	-
Science club	273	349	455	167
Senior class	264	-	-	264
Spanish club	97	37	-	134
Special needs	938	463	89	1,312
Speech and drama	(936)	7,613	6,753	(76)

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Pep-C team	720		-	720
Yearbook	(3,288)	15,184	12,254	(358)
Benson-Torkelson scholarship	2,944	124	300	2,768
Horticulture	99	-	-	99
Student activity tickets	8,179	9,333	17,512	-
Frank Sinnard scholarship	2,711	101	175	2,637
HS fund raising	(311)	311	-	-
HS Pepsi	196	17,000	-	17,196
Electric car	188	-	-	188
Colorado music trip	(9,393)	6,964	930	(3,359)
June 30, 2003 accrual entries	375	(375)	-	-
	<u>57,430</u>	<u>368,956</u>	<u>321,623</u>	<u>104,763</u>
Total	<u>57,430</u>	<u>368,956</u>	<u>321,623</u>	<u>104,763</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,221,127	3,355,181	3,418,753	3,395,809
Tuition	878,311	796,864	771,092	732,984
Other	551,272	586,160	630,617	533,395
State sources	6,054,777	6,353,442	5,946,491	5,981,186
Federal sources	210,706	190,668	146,782	199,001
Total revenues	<u>10,916,193</u>	<u>11,282,315</u>	<u>10,913,735</u>	<u>10,842,375</u>
Expenditures:				
Instruction:				
Regular instruction	4,166,255	4,000,199	4,066,803	4,058,340
Special instruction	2,276,276	2,265,211	2,143,011	2,128,949
Other instruction	777,055	807,713	729,213	722,696
Support services:				
Student services	216,622	218,566	203,471	202,812
Instructional staff services	384,480	364,394	362,212	357,562
Administration services	916,879	905,419	932,287	750,488
Operation and maintenance of plant services	905,573	783,034	728,921	858,105
Transportation services	464,650	415,040	399,962	388,906
Other expenditures:				
Facilities acquisition	2,797,704	15,191	10,297	-
Long-term debt:				
Principal	306,316	544,687	497,205	543,650
Interest and other charges	130,335	44,668	76,526	93,855
AEA flowthrough	398,349	418,813	417,218	425,059
Total expenditures	<u>13,740,494</u>	<u>10,782,935</u>	<u>10,567,126</u>	<u>10,530,422</u>

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

To the Board of Education of the
Forest City Community School District:

We have audited the financial statements of the Forest City Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 9, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered Forest City Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items [04-I-A](#), [04-I-B](#), [04-I-C](#) and [04-I-D](#) are material weaknesses. Prior year reportable conditions have all been resolved except for items [04-I-A](#), [04-I-B](#) and [04-I-C](#).

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [Forest City](#) 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

[November 9, 2004](#)

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

04-I-B Signature Stamp: A stamp bearing the signatures of the Board President is used to sign checks. Persons writing the checks also have access to the stamp used to sign the checks. This practice negates the internal control procedure established by requiring two signatures on a check.

Recommendation: Employees writing checks should not have access to the stamp used to sign checks. The Board could eliminate the use of the stamp by designating a person other than the Board President to cosign checks.

District Response: The Board has reviewed the use of the signature stamp and believes its use allows the office to operate more efficiently.

Conclusion: Response accepted.

04-I-C Receipts: We noted that the District was not using a receipt system to control the cash and checks received in the Student Activity Fund

Recommendation: The District's internal control could be improved by using three part pre-numbered receipts. 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 main business office. Employees at the main business office should account for the numerical sequence of the receipts and compare the receipts to the bank deposits. Any missing or voided receipts should be investigated. Receipts should also be posted to the accounting records by receipt number.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

District Response: We will review our current receipts system.

Conclusion: Response accepted.

04-1-D Supporting Documentation: We noted certain credit card payments for gas purchases and hotels that were not supported by detailed invoices or receipts.

Recommendation: The District should receive detailed documentation for all credit card charges. The detailed receipts should be reconciled to the monthly credit card statement.

District Response: We will review our policies and make any necessary adjustments.

Conclusion: Response accepted

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Each school is required by the Code of Iowa to have a resolution that names the banks that may be used for the deposit of school monies and that sets a maximum dollar amount that may be deposited at each bank. The District's resolution did not set a maximum dollar amount for the deposits at each bank

Recommendation: The District should adopt a new depository resolution.

District Response: We will adopt a new resolution.

Conclusion: Response accepted.

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, exceeded the amounts budgeted in the non-instructional programs functional area.

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

District Response: We amended our budget in every area except non-instructional programs. We will review this area in future years to determine the need for amendment.

Conclusion: Response accepted.

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

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

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

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

04-II-G Board Minutes: No transactions requiring board approval that had not been approved by the board were noted. We did note that the minutes for the April meeting and several special meetings during the year were not published as required by the Code of Iowa.

Recommendation: Minutes should be published within two weeks of all board meetings as required by the Code of Iowa.

District Response: The lack of publication for these meetings was an oversight. All minutes will be published in the future.

Conclusion: Response accepted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

04-II-H Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education for September 2003, was overstated by three students.

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

District Response: We will contact these departments.

Conclusion: Response accepted.

04-II-I Deposits and Investments: 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 were noted.

04-II-J Certified Annual Report (CAR): The CAR was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

04-II-K Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activities such as student clubs and athletics. There are some accounts and transactions in the Student Activity Fund that may belong more appropriately in the General Fund or in Fiduciary Funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper funds.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.