

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

JUNE 30, 2005

- Prepared By -

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CITY OF FOREST CITY, IOWA

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CITY OF FOREST CITY, IOWA

OFFICIALS

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



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Forest City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated November 16, 2005 on my consideration of the City of Forest City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Forest City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 5.9%, or approximately \$249,000 from fiscal 2004 to fiscal 2005. Other general receipts decreased approximately \$273,000 and operating grants increased \$546,000.

Disbursements increased 0.7%, or approximately \$34,000, in fiscal 2005 from fiscal 2004. Public safety and public works disbursements increased approximately \$434,000 and \$438,000 respectively, while capital projects disbursements decreased approximately \$729,000.

The City's total cash basis net assets increased 33.7%, or approximately \$2,770,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$944,000 and the assets of the business type activities increased by approximately \$3,714,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,027,000 to \$1,083,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 475	\$ 450
Operating grants, contributions and restricted interest	1,133	587
Capital grants, contributions and restricted interest	238	359
General receipts:		
Property tax	1,333	1,243
Local option sales tax	262	271
Grants and contributions not restricted to specific purposes	-	43
Unrestricted investment earnings	61	26
Other general receipts	178	451
Transfers, net	306	805
Total receipts and transfers	<u>\$3,986</u>	<u>\$4,235</u>
Disbursements:		
Public safety	\$1,413	\$ 979
Public works	1,265	827
Health and social services	40	16
Culture and recreation	523	675
Community and economic development	473	558
General government	190	185
Debt service	389	290
Capital projects	637	1,366
Total disbursements	<u>\$4,930</u>	<u>\$4,896</u>
Increase (decrease) in cash basis net assets	\$ (944)	\$ (661)
Cash basis net assets beginning of year	<u>2,027</u>	<u>2,688</u>
Cash basis net assets end of year	<u>\$1,083</u>	<u>\$2,027</u>

The City's total receipts for governmental activities decreased by 5.9%, or \$249,000. The total cost of all programs and services increased by approximately \$34,000, or 0.7%, with no new programs added this year.

The cost of all governmental activities this year was \$4,930,000 compared to \$4,896,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$3,084,000 because some of the cost was paid by those directly benefited from the programs (\$475,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$1,371,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,596,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 342	\$ 358
Sewer	460	481
Electric	3,742	3,432
Other	83	82
Operating grants, contributions and restricted interest	7	-
General receipts:		
Unrestricted interest on investments	35	9
Bond proceeds	3,510	-
Other general receipts	50	82
Total receipts	<u>\$8,229</u>	<u>\$4,444</u>
Disbursements and transfers:		
Water	\$ 294	\$ 458
Sewer	557	665
Electric	3,314	2,945
Other	44	9
Transfers	306	805
Total disbursements and transfers	<u>\$4,515</u>	<u>\$4,882</u>
Increase (decrease) in cash balance	\$3,714	\$ (438)
Cash basis net assets beginning of year	<u>6,182</u>	<u>6,620</u>
Cash basis net assets end of year	<u>\$9,896</u>	<u>\$6,182</u>

Total business type activities receipts for the fiscal year were \$8,229,000 compared to \$4,444,000 last year. This significant increase was due primarily to the receipt of \$3,510,000 in electric revenue bond proceeds. The cash balance increased by approximately \$3,714,000 from the prior year due to the unspent bond proceeds, as well as increased revenue from electric charges. Total disbursements and transfers for the fiscal year decreased by 7.5% to a total of \$4,515,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$1,012,068, a decrease of more than \$947,000 from last year's total of \$1,959,120. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$29,733 from the prior year to \$1,160,684. This decrease was due to an increase in operating disbursements this fiscal year.

The Street Improvement Project Fund cash balance decreased \$527,074 from the prior year to \$282,051. This is due to current year expenditures for construction from prior year bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance increased by \$164,935 to \$705,638, due primarily to operating transfers in.

The Electric Fund cash balance increased by \$758,154 to \$3,010,070 due to an increase in charges for services.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 16, 2005 and resulted in an increase in operating revenue of approximately \$3,710,000 and an increase in operating disbursements of approximately \$1,527,000. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$5,410,000 in bonds and other long-term debt, compared to approximately \$2,225,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation bonds	\$ 1,910	\$ 2,225
Revenue bonds	3,500	-
Total	<u>\$ 5,410</u>	<u>\$ 2,225</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,910,000 is significantly below its constitutional debt limit of \$7,831,175.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Forest City elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. During 2005, the City started new housing projects as well as approving plans for major projects at the power plant substation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF FOREST CITY, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public Safety	\$1,413,391	\$ 737	\$ 395,104	\$ -
Public works	1,264,610	344,716	391,159	237,508
Health and Social services	39,499	-	-	-
Culture and recreation	522,967	41,392	46,301	-
Community and economic development	472,837	-	292,517	-
General government	189,522	-	8,252	-
Debt service	389,200	-	-	-
Capital projects	<u>637,150</u>	<u>87,770</u>	<u>-</u>	<u>-</u>
Total governmental Activities	<u>\$4,929,176</u>	<u>\$ 474,615</u>	<u>\$1,133,333</u>	<u>\$ 237,508</u>
Business type activities:				
Sewer	\$ 557,064	\$ 459,564	\$ 4,610	\$ -
Electric	3,314,150	3,742,017	-	-
Other	<u>338,481</u>	<u>425,360</u>	<u>2,409</u>	<u>-</u>
Total business type activities	<u>\$4,209,695</u>	<u>\$4,626,941</u>	<u>\$ 7,019</u>	<u>\$ -</u>
Total	<u>\$9,138,871</u>	<u>\$5,101,556</u>	<u>\$1,140,352</u>	<u>\$ 237,508</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (1,017,550)	\$ -	\$ (1,017,550)
(291,227)	-	(291,227)
(39,499)	-	(39,499)
(435,274)	-	(435,274)
(180,320)	-	(180,320)
(181,270)	-	(181,270)
(389,200)	-	(389,200)
<u>(549,380)</u>	<u>-</u>	<u>(549,380)</u>
<u>\$ (3,083,720)</u>	<u>\$ -</u>	<u>\$ (3,083,720)</u>
\$ -	\$ (92,890)	\$ (92,890)
-	427,867	427,867
<u>-</u>	<u>89,288</u>	<u>89,288</u>
<u>\$ -</u>	<u>\$ 424,265</u>	<u>\$ 424,265</u>
<u>\$ (3,083,720)</u>	<u>\$ 424,265</u>	<u>\$ (2,659,455)</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments
Bond proceeds
Miscellaneous
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 863,262	\$ -	\$ 863,262
168,862	-	168,862
301,126	-	301,126
262,410	-	262,410
60,782	35,315	96,097
-	3,510,107	3,510,107
178,241	49,393	227,634
<u>305,500</u>	<u>(305,500)</u>	<u>-</u>
<u>\$ 2,140,183</u>	<u>\$3,289,315</u>	<u>\$ 5,429,498</u>
\$ (943,537)	\$3,713,580	\$ 2,770,043
<u>2,026,727</u>	<u>6,182,129</u>	<u>8,208,856</u>
<u>\$ 1,083,190</u>	<u>\$9,895,709</u>	<u>\$10,978,899</u>
\$ 282,051	\$ -	\$ 282,051
42,723	-	42,723
326,959	5,403,001	5,729,960
<u>431,457</u>	<u>4,492,708</u>	<u>4,924,165</u>
<u>\$ 1,083,190</u>	<u>\$9,895,709</u>	<u>\$10,978,899</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Capital Project Street Improvement</u>	<u>Other Nonmajor Governmental Funds</u>
RECEIPTS:			
Property tax	\$ 734,577	\$ -	\$ 429,811
Tax increment financing collections	-	-	168,682
Other city tax	-	-	300,797
Licenses and permits	8,536	-	-
Use of money and property	64,867	-	-
Intergovernmental	674,758	-	543,548
Charges for service	386,845	-	-
Special assessments	-	87,770	-
Miscellaneous	215,893	12,306	51,749
Total receipts	<u>\$ 2,085,476</u>	<u>\$ 100,076</u>	<u>\$ 1,494,587</u>
DISBURSEMENTS:			
Public safety	\$ 1,413,391	\$ -	\$ -
Public works	1,264,610	-	-
Health and social services	39,499	-	-
Culture and recreation	501,208	-	21,759
Community and economic development	120,457	-	352,380
General government	193,037	-	-
Debt service	-	-	389,200
Capital projects	-	637,150	-
Total disbursements	<u>\$ 3,532,202</u>	<u>\$ 637,150</u>	<u>\$ 763,339</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (1,446,726)</u>	<u>\$ (537,074)</u>	<u>\$ 731,248</u>
Other financing sources (uses):			
Operating transfers in	\$ 1,416,993	\$ 10,000	\$ -
Operating transfers out	-	-	(1,121,493)
Total other financing sources (uses)	<u>\$ 1,416,993</u>	<u>\$ 10,000</u>	<u>\$ (1,121,493)</u>
Net change in cash balances	\$ (29,733)	\$ (527,074)	\$ (390,245)
Cash balances beginning of year	<u>1,190,417</u>	<u>809,125</u>	<u>(40,422)</u>
Cash balances end of year	<u>\$ 1,160,684</u>	<u>\$ 282,051</u>	<u>\$ (430,667)</u>
Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ -	\$ 42,723
Unreserved:			
General fund	1,160,684	-	-
Special revenue funds	-	-	(651,116)
Capital project funds	-	282,051	-
Permanent funds	-	-	177,726
Total cash basis fund balances	<u>\$ 1,160,684</u>	<u>\$ 282,051</u>	<u>\$ (430,667)</u>

See Notes to Financial Statements.

Total

\$ 1,164,388
 168,682
 300,797
 8,536
 64,867
 1,218,306
 386,845
 87,770
 279,948
\$ 3,680,139

\$ 1,413,391
 1,264,610
 39,499
 522,967
 472,837
 193,037
 389,200
 637,150
\$ 4,932,691

\$(1,252,552)

\$ 1,426,993
(1,121,493)
\$ 305,500

\$ (947,052)

1,959,120

\$ 1,012,068

\$ 42,723
 1,160,684
 (651,116)
 282,051
177,726

\$ 1,012,068

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Total governmental funds cash balances (page 14) \$ 1,012,068

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

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

71,122

Cash basis net assets of governmental activities (page 12) \$ 1,083,190

Net change in cash balances (page 14) \$ (947,052)

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

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

3,515

Change in cash balance of governmental activities (page 12) \$ (943,537)

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise</u>		
	<u>Sewer Rental</u>	<u>Sewer Replacement</u>	<u>Electric</u>
Operating receipts:			
Charges for service	\$ 459,564	\$ -	\$ 3,742,017
Miscellaneous	-	-	-
Total operating receipts	<u>\$ 459,564</u>	<u>\$ -</u>	<u>\$ 3,742,017</u>
Operating disbursements:			
Business type activities	<u>557,064</u>	<u>-</u>	<u>3,314,150</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (97,500)</u>	<u>\$ -</u>	<u>\$ 427,867</u>
Non-operating receipts:			
Intergovernmental	\$ 4,610	\$ -	\$ -
Interest on investments	21,124	-	12,136
Miscellaneous	16,101	-	30,044
Revenue bond proceeds	-	-	3,510,107
Total non-operating receipts	<u>\$ 41,835</u>	<u>\$ -</u>	<u>\$ 3,552,287</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (55,665)</u>	<u>\$ -</u>	<u>\$ 3,980,154</u>
Operating transfers in (out):			
Operating transfers in	\$ 289,100	\$ -	\$ -
Operating transfers out	<u>(68,500)</u>	<u>(289,100)</u>	<u>(3,222,000)</u>
Total operating Transfers in (out)	<u>\$ 220,600</u>	<u>\$ (289,100)</u>	<u>\$ (3,222,000)</u>
Net change in cash balances	\$ 164,935	\$ (289,100)	\$ 758,154
Cash balances beginning of year	<u>540,703</u>	<u>1,443,600</u>	<u>2,251,916</u>
Cash balances end of year	<u>\$ 705,638</u>	<u>\$1,154,500</u>	<u>\$ 3,010,070</u>
Cash Basis Fund Balances:			
Reserved for other	\$ -	\$1,154,500	\$ -
Unreserved	<u>705,638</u>	<u>-</u>	<u>3,010,070</u>
Total cash basis fund balances	<u>\$ 705,638</u>	<u>\$1,154,500</u>	<u>\$ 3,010,070</u>

See Notes to Financial Statements.

<u>Electric Capital</u>	<u>Funds</u>		<u>Internal Service Fund Clearing</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
\$ -	\$ 425,360	\$ 4,626,941	\$ -
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,850</u>
\$ -	\$ 425,360	\$ 4,626,941	\$ 3,850
<u>-</u>	<u>338,481</u>	<u>4,209,695</u>	<u>335</u>
<u>\$ -</u>	<u>\$ 86,879</u>	<u>\$ 417,246</u>	<u>\$ 3,515</u>
\$ -	\$ 2,409	\$ 7,019	\$ -
-	2,055	35,315	-
-	3,247	49,392	-
-	-	3,510,107	-
<u>\$ -</u>	<u>\$ 7,711</u>	<u>\$ 3,601,833</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 94,590</u>	<u>\$ 4,019,079</u>	<u>\$ 3,515</u>
\$2,700,000	\$ 300,000	\$ 3,289,100	\$ -
<u>-</u>	<u>(15,000)</u>	<u>(3,594,600)</u>	<u>-</u>
<u>\$2,700,000</u>	<u>\$ 285,000</u>	<u>\$ (305,500)</u>	<u>\$ -</u>
\$2,700,000	\$ 379,590	\$ 3,713,579	\$ 3,515
<u>1,000,000</u>	<u>945,911</u>	<u>6,182,130</u>	<u>67,607</u>
<u>\$3,700,000</u>	<u>\$1,325,501</u>	<u>\$ 9,895,709</u>	<u>\$ 71,122</u>
\$3,700,000	\$ 548,501	\$ 5,403,001	\$ -
<u>-</u>	<u>777,000</u>	<u>4,492,708</u>	<u>71,122</u>
<u>\$3,700,000</u>	<u>\$1,325,501</u>	<u>\$ 9,895,709</u>	<u>\$ 71,122</u>

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

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

Capital Project:

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

The City reports the following major proprietary funds:

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

The Sewer Replacement Fund accounts for the reserve funds for future sewer system repairs and maintenance.

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

The Electric Capital Fund accounts for moneys reserved for future electric plant capital outlays.

C. Measurement Focus and Basis of Accounting

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies - continued

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

D. Budgets and Budgetary Accounting

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

(2) Cash and Investments

The City's deposits in banks at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments are categorized to give an indication of level risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or securities are held by the City or its agent in the City's name.

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

(3) Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 325,000	\$ 65,215	\$ 125,000	\$ 171,383	\$ 450,000	\$ 236,598
2007	270,000	55,190	125,000	152,550	395,000	207,740
2008	285,000	46,290	130,000	146,900	415,000	193,190
2009	290,000	36,210	135,000	141,024	425,000	177,234
2010	110,000	25,355	135,000	134,922	245,000	160,277
2011-2015	630,000	69,695	760,000	578,334	1,390,000	648,029
2016-2020	-	-	935,000	391,658	935,000	391,658
2021-2025	-	-	1,155,000	161,590	1,155,000	161,590
Total	<u>\$1,910,000</u>	<u>\$297,955</u>	<u>\$3,500,000</u>	<u>\$1,878,361</u>	<u>\$ 5,410,000</u>	<u>\$ 2,176,316</u>

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(3) **Bonds Payable** - continued

The resolutions providing for the issuance of the electric revenue bonds include the following provisions:

- a) At the option of the City, bonds maturing after June 1, 2015 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- c) A transfer shall be made from the bond proceeds to the electric revenue bond reserve account in an amount equal to the principal and interest payments for the fiscal year. The electric revenue bond reserve account is restricted for the purpose of paying principal and interest due on the electric revenue bonds when insufficient money is available in the electric revenue bond sinking account.
- d) Additional monthly transfers shall be made to an electric revenue improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other funds might be unable to make.

(4) **Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The city's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$117,886, \$107,925 and \$103,677, respectively, equal to the required contributions for each year.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(5) **Industrial Development Revenue Bonds**

The city has issued a total of \$851,865 of Health Care Facility Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds outstanding at June 30, 2005 were \$629,810.

(6) **Compensated Absences**

City employees earn vacation and sick leave at rates dependent on years of service. Sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 89,505
Compensatory time	26,268
Total	<u>\$115,773</u>

This liability has been computed based on rates of pay as of June 30, 2005.

(7) **Risk Management**

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

(8) **Economic Development**

On April 20, 2005, the City loaned \$15,000 to Progressive Image. The loan proceeds were to be used to start up and operate a hairstyling center in Forest City. The loan is a non-interest bearing loan. Progressive Image is obligated to repay the City in monthly installments of \$250 beginning May 1, 2005. The loan balance at June 30, 2005 was \$14,500.

On December 19, 2002, the City loaned \$15,000 to MJ Hooligans. The loan proceeds were to be used to start up and operate a restaurant in Forest City. The loan is a non-interest bearing loan. MJ Hooligans is obligated to repay the City in monthly installments of \$250 beginning March 1, 2004. The loan balance at June 30, 2005 was \$7,750.

On October 19, 1999, the City loaned \$10,000 to Carolyn Frakes. The loan proceeds were to be used to start up and operate a bookstore in Forest City. The loan is a non-interest bearing loan. Carolyn Frakes is obligated to repay the City in annual installments of \$2,000 beginning November 1, 2000. The loan balance was paid off during the year ended June 30, 2005.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(8) **Economic Development** - continued

On April 12, 1999, the City loaned \$10,000 to Primerica Financial. The loan proceeds were to be used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. Primerica Financial is obligated to repay the City in annual installments of \$2,000 beginning November 1, 2000. The loan balance at June 30, 2005 was \$2,000.

On June 23, 1999, the City loaned \$15,000 to Quilted Forest. The loan proceeds were to be used to start up and operate a retail business in Forest City. The loan is a non-interest bearing loan. Quilted Forest is obligated to repay the City in monthly installments of \$250 beginning July 1, 2000. The loan balance was paid off during the year ended June 30, 2005.

On October 6, 2000, the City loaned \$5,000 to Dale White. The loan proceeds were to be used to start up and operate a retail business in Forest City. The loan bears interest at 5%. Dale White is obligated to repay the City in monthly installments of \$94 beginning November 15, 2000. The loan balance was paid off during the year ended June 30, 2005.

On November 20, 2002, The City loaned \$200,000 to CDI, Inc. The loan proceeds were to be used to start up and operate a painting facility in Forest City. The loan bears interest at 5%. CDI, Inc. is obligated to repay the City in monthly installments of \$2,121 beginning January 1, 2004. The loan balance at June 30, 2004 was \$160,386.

On August 31, 2004, the City loaned \$102,000 to CDI, Inc. The loan proceeds were to be used to operate a painting facility in Forest City. One half of the amount loaned bears interest at 0% and CDI, Inc. is obligated to repay the City in monthly installments of \$875 beginning December 1, 2004. The other half of the amount loaned by the city is forgivable.

(9) **Forgivable Loan**

The City entered into a offer to buy real estate and contract for development with Forest Plaza, LLC. The sale price was \$250,000 of which \$1 has been paid. The City has agreed to forgive the remaining balance due in \$50,000 increments over the next five years provided that Forest Plaza, LLC is in compliance with the offer. The remaining balance was forgiven during June 30, 2005.

The City entered into an economic development agreement with CDI, Inc. on November 20, 2002. The City loaned the corporation \$100,000 to start up and operate a painting facility in Forest City. CDI, Inc. is obligated to pay interest only on the loan at 5%. The City has agreed to forgive the loan in \$50,000 increments in January 2008 and 2013 provided that CDI, Inc. is in compliance with the agreement. The remaining balance at June 30, 2005 is \$100,000.

**CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

(10) Interfund Transfers

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

<u>Transfer to</u> General	<u>Transfer from</u> Special Revenue:	<u>Amount</u>
	Road Use Tax	\$ 355,000
	Local Option Sales Tax	629,493
	Employee Benefits	127,000
		<u>\$1,111,493</u>
	Enterprise:	
	Water	\$ 15,000
	Sewer Rental	68,500
	Electric	222,000
		<u>\$ 305,500</u>
Enterprise:	Enterprise:	
Sewer Rental	Sewer Replacement	<u>\$ 289,100</u>
Electric Capital	Electric	<u>\$2,700,000</u>
Electric Reserve	Electric	<u>\$ 300,000</u>
Capital Project:	Special Revenue:	
Street Improvement	Road Use Tax	<u>\$ 10,000</u>
Total		<u>\$4,716,093</u>

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

(11) Related Party Transactions

The City had business transactions between the City and the City officials, totaling \$2,775 during the year ended June 30, 2005.

(12) Deficit Fund Balances

The Special Revenue Fund, CDBG, Hotel Motel Tax and Tax Increment Financing accounts had deficit balances of \$15,397, \$5,348 and \$708,482 respectively, at June 30, 2005. The deficits will be eliminated upon receipt of property taxes.

(13) Commitments

At June 30, 2005, the following construction commitments had been made:

<u>Project</u>	<u>Total</u> <u>Contract</u>	<u>Costs</u> <u>Incurred</u> <u>to Date</u>
Airport Road Rehab	\$ 81,080	\$ -
2005 Asphalt Overlay	90,961	-
Total	<u>\$ 172,041</u>	<u>\$ -</u>

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(14) Subsequent Events

On October 3, 2005 the City approved the purchase of a pickup for \$21,620. Between July and August 2005, the City approved various projects at the power plant substation for \$1,507,471.

Required Supplementary Information

CITY OF FOREST CITY, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 1,164,388	\$ -	\$ -
Tax increment financing collections	168,682	-	-
Other city tax	300,797	-	-
Licenses and permits	8,536	-	-
Use of money and property	64,867	35,315	-
Intergovernmental	1,218,306	7,019	-
Charges for service	386,845	4,626,941	-
Special assessments	87,770	-	-
Miscellaneous	279,948	49,392	3,850
Total receipts	<u>\$ 3,680,139</u>	<u>\$4,718,667</u>	<u>\$ 3,850</u>
DISBURSEMENTS:			
Public safety	\$ 1,413,391	\$ -	\$ -
Public works	1,264,610	-	-
Health and social services	39,499	-	-
Culture and recreation	522,967	-	-
Community and economic development	472,837	-	-
General government	193,037	-	-
Debt service	389,200	-	-
Capital projects	637,150	-	-
Business type activities	-	4,209,695	335
Total disbursements	<u>\$ 4,932,691</u>	<u>\$4,209,695</u>	<u>\$ 335</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (1,252,552)	\$ 508,972	\$ 3,515
Other financing sources, net	<u>305,500</u>	<u>3,204,607</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	\$ (947,052)	\$3,713,579	\$ 3,515
Balance beginning of year	<u>1,959,120</u>	<u>6,249,736</u>	<u>67,607</u>
Balance end of year	<u>\$ 1,012,068</u>	<u>\$9,963,315</u>	<u>\$ 71,122</u>

See Accompanying Independent Auditor's Report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,164,388	\$ 1,141,270	\$ 1,141,270	\$ 23,118
168,682	90,956	260,956	(92,274)
300,797	300,485	300,485	312
8,536	7,100	7,100	1,436
100,182	66,586	66,586	33,596
1,225,325	872,920	872,920	352,405
5,013,786	5,453,259	5,453,259	(439,473)
87,770	47,000	87,000	770
325,490	60,510	60,510	264,980
<u>\$ 8,394,956</u>	<u>\$ 8,040,086</u>	<u>\$ 8,250,086</u>	<u>\$ 144,870</u>
\$ 1,413,391	\$ 1,083,040	\$ 1,583,040	\$ 169,649
1,264,610	1,028,332	1,178,332	(86,278)
39,499	19,500	19,500	(19,999)
522,967	501,480	536,480	13,513
472,837	85,000	345,000	(127,837)
193,037	197,410	224,410	31,373
389,200	389,303	389,303	103
637,150	623,440	923,440	286,290
4,209,360	5,166,645	5,421,645	1,212,285
<u>\$ 9,142,051</u>	<u>\$ 9,094,150</u>	<u>\$10,621,150</u>	<u>\$ 1,479,099</u>
\$ (747,095)	(1,054,064)	\$(2,371,064)	\$ 1,623,969
<u>3,510,107</u>	<u>-</u>	<u>3,500,000</u>	<u>10,107</u>
\$ 2,763,012	\$(1,054,064)	\$ 1,128,936	\$ 1,634,076
<u>8,141,249</u>	<u>7,068,211</u>	<u>7,068,211</u>	<u>1,073,038</u>
<u>\$10,904,261</u>	<u>\$ 6,014,147</u>	<u>\$ 8,197,147</u>	<u>\$ 2,707,114</u>

CITY OF FOREST CITY, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$1,527,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, health and social services and community and economic development functions.

Other Supplementary Information

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Special</u>			
	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>	<u>Low-Moderate Income</u>
RECEIPTS:				
Property tax	\$ -	\$ 128,685	\$ -	\$ -
Tax increment financing collections	-	-	-	-
Other city tax	-	-	262,410	-
Intergovernmental	365,510	-	-	-
Miscellaneous	-	-	-	6,125
Total receipts	<u>\$ 365,510</u>	<u>\$ 128,685</u>	<u>\$ 262,410</u>	<u>\$ 6,125</u>
DISBURSEMENTS:				
Culture and recreation	\$ -	\$ -	\$ -	\$ -
Community and economic development	-	-	-	-
Debt service	-	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 365,510	\$ 128,685	\$ 262,410	\$ 6,125
Other financing sources (uses):				
Operating transfers out	(365,000)	(127,000)	(629,493)	-
Net change in cash balances	\$ 510	\$ 1,685	\$ (367,083)	\$ 6,125
Cash balances beginning of year	<u>60,410</u>	<u>9,381</u>	<u>367,083</u>	<u>-</u>
Cash balances end of year	<u>\$ 60,920</u>	<u>\$ 11,066</u>	<u>\$ -</u>	<u>\$ 6,125</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
Special revenue funds	60,920	11,066	-	6,125
Permanent funds	-	-	-	-
Total cash basis fund balances	<u>\$ 60,920</u>	<u>\$ 11,066</u>	<u>\$ -</u>	<u>\$ 6,125</u>

See Accompanying Independent Auditor's Report.

Revenue			Permanent				Total
CDBG	Hotel Motel Tax	Tax Increment Financing	Debt Service	Cemetery Perpetual Care	Library Trust	Capital Improvement Reserve	
\$ -	\$ -	\$ -	\$301,126	\$ -	\$ -	\$ -	\$ 429,811
-	-	168,682	-	-	-	-	168,682
-	38,387	-	-	-	-	-	300,797
70,818	-	107,220	-	-	-	-	543,548
10,681	-	30,456	-	441	4,046	-	51,749
<u>\$ 81,499</u>	<u>\$ 38,387</u>	<u>\$ 306,358</u>	<u>\$301,126</u>	<u>\$ 441</u>	<u>\$ 4,046</u>	<u>\$ -</u>	<u>\$ 1,494,587</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,759	\$ -	\$ 21,759
96,896	50,211	205,273	-	-	-	-	352,380
-	-	-	389,200	-	-	-	389,200
<u>\$ 96,896</u>	<u>\$ 50,211</u>	<u>\$ 205,273</u>	<u>\$389,200</u>	<u>\$ -</u>	<u>\$ 21,759</u>	<u>\$ -</u>	<u>\$ 763,339</u>
\$(15,397)	\$(11,824)	\$ 101,085	\$(88,074)	\$ 441	\$(17,713)	\$ -	\$ 731,248
-	-	-	-	-	-	-	(1,121,493)
\$(15,397)	\$(11,824)	\$ 101,085	\$(88,074)	\$ 441	\$(17,713)	\$ -	\$ (390,245)
-	6,476	(809,567)	130,797	43,094	142,708	9,196	(40,422)
<u>\$(15,397)</u>	<u>\$(5,348)</u>	<u>\$(708,482)</u>	<u>\$ 42,723</u>	<u>\$ 43,535</u>	<u>\$124,995</u>	<u>\$ 9,196</u>	<u>\$ (430,667)</u>
\$ -	\$ -	\$ -	\$ 42,723	\$ -	\$ -	\$ -	\$ 42,723
(15,397)	(5,348)	(708,482)	-	-	-	-	(651,116)
-	-	-	-	43,535	124,995	9,196	177,726
<u>\$(15,397)</u>	<u>\$(5,348)</u>	<u>\$(708,482)</u>	<u>\$ 42,723</u>	<u>\$ 43,535</u>	<u>\$124,995</u>	<u>\$ 9,196</u>	<u>\$ (430,667)</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Water</u>	<u>Water Reserve</u>	<u>Water Improvement</u>	<u>Sewer Reserve</u>
Operating receipts:				
Charges for service	\$341,656	\$ -	\$ -	\$ -
Operating disbursements:				
Business type activities	<u>294,160</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of operating receipts over Operating disbursements	<u>\$ 47,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-operating receipts:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Interest on investments	2,055	-	-	-
Miscellaneous	3,247	-	-	-
Total non-operating receipts	<u>\$ 5,302</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess of receipts over disbursements	<u>\$ 52,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating transfers in (out)	<u>\$(15,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	\$ 37,798	\$ -	\$ -	\$ -
Cash balances beginning of year	<u>384,195</u>	<u>120,000</u>	<u>50,000</u>	<u>307,000</u>
Cash balances end of year	<u>\$421,993</u>	<u>\$ 120,000</u>	<u>\$ 50,000</u>	<u>\$ 307,000</u>
Cash Basis Fund balances:				
Unreserved	\$421,993	\$ -	\$ -	\$ -
Reserved:				
Other	<u>-</u>	<u>120,000</u>	<u>50,000</u>	<u>307,000</u>
Total cash basis fund balances	<u>\$421,993</u>	<u>\$ 120,000</u>	<u>\$ 50,000</u>	<u>\$ 307,000</u>

See Accompanying Independent Auditor's Report.

<u>Storm Sewer</u>	<u>Electric Reserve</u>	<u>Total</u>
\$ 83,704	\$ -	\$ 425,360
<u>44,321</u>	<u>-</u>	<u>338,481</u>
\$ <u>39,383</u>	\$ <u>-</u>	\$ <u>86,879</u>
\$ 2,409	\$ -	\$ 2,409
-	-	2,055
-	-	3,247
\$ <u>2,409</u>	\$ <u>-</u>	\$ <u>7,711</u>
\$ <u>41,792</u>	\$ <u>-</u>	\$ <u>94,590</u>
\$ -	\$ 300,000	\$ 300,000
<u>-</u>	<u>-</u>	<u>(15,000)</u>
\$ <u>-</u>	\$ <u>300,000</u>	\$ <u>285,000</u>
\$ 41,792	\$ 300,000	\$ 379,590
<u>84,716</u>	<u>-</u>	<u>945,911</u>
<u>\$ 126,508</u>	<u>\$ 300,000</u>	<u>\$1,325,501</u>
\$ 126,508	\$ -	\$ 548,501
<u>-</u>	<u>300,000</u>	<u>777,000</u>
<u>\$ 126,508</u>	<u>\$ 300,000</u>	<u>\$1,325,501</u>

CITY OF FOREST CITY, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Essential Corporate Purpose	06-01-03	1.40 - 3.75%	\$1,255,000
Essential Corporate Purpose	01-30-02	2.25 - 4.35	1,370,000
Revenue Bonds:			
Electric	05-24-05	4.52%	\$3,500,000
Capital Leases:			
Police cars	01-29-03	6.85%	\$ 69,006
John Deere cab and broom	12-01-01	7.50	7,415
Case wheel loader	08-06-04	4.75	23,144
Elgin street sweeper	03-24-05	5.00	97,450
John Deere lawn tractor	10-06-04	8.50	8,510
International 4300 truck	09-10-04	5.07	57,564
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$1,255,000	\$ -	\$ 100,000	\$1,155,000	\$ 36,100	\$ -
970,000	-	215,000	755,000	37,500	-
<u>\$2,225,000</u>	<u>\$ -</u>	<u>\$ 315,000</u>	<u>\$1,910,000</u>	<u>\$ 73,600</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$3,500,000</u>	<u>\$ -</u>	<u>\$3,500,000</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 22,402	\$ -	\$ 22,402	\$ -	\$ 1,429	\$ -
4,766	-	1,475	3,291	357	-
-	23,144	-	23,144	-	-
-	97,450	-	97,450	-	-
-	8,510	3,080	5,430	-	-
-	57,564	-	57,564	-	-
<u>\$ 27,168</u>	<u>\$ 186,668</u>	<u>\$ 26,957</u>	<u>\$ 186,879</u>	<u>\$ 1,786</u>	<u>\$ -</u>
<u>\$2,252,168</u>	<u>\$3,686,668</u>	<u>\$ 341,957</u>	<u>\$5,596,879</u>	<u>\$ 75,386</u>	<u>\$ -</u>

CITY OF FOREST CITY, IOWA
BOND MATURITIES
JUNE 30, 2005

Year Ending June 30,	General Obligation Bonds				
	Essential Corporate Purpose		Essential Corporate Purpose		Total
	Issued January 30, 2002		Issued June 1, 2003		
	Interest Rate	Amount	Interest Rate	Amount	
2006	3.70%	\$ 225,000	1.70%	\$ 100,000	\$ 325,000
2007	4.00	170,000	2.10	100,000	270,000
2008	4.20	180,000	2.40	105,000	285,000
2009	4.35	180,000	2.75	110,000	290,000
2010		-	3.10	110,000	110,000
2011		-	3.20	115,000	115,000
2012		-	3.30	120,000	120,000
2013		-	3.50	125,000	125,000
2014		-	3.60	130,000	130,000
2015		-	3.75	140,000	140,000
Total		<u>\$ 755,000</u>		<u>\$ 1,155,000</u>	<u>\$1,910,000</u>

Year Ending June 30,	Revenue Bonds	
	Electric	
	Issued May 24, 2005	
	Interest Rate	Amount
2006	4.52%	\$ 125,000
2007	4.52	125,000
2008	4.52	130,000
2009	4.52	135,000
2010	4.52	135,000
2011	4.52	140,000
2012	4.52	145,000
2013	4.52	150,000
2014	4.52	160,000
2015	4.52	165,000
2016	4.52	170,000
2017	4.52	180,000
2018	4.52	185,000
2019	4.52	195,000
2020	4.52	205,000
2021	4.52	210,000
2022	4.52	220,000
2023	4.52	230,000
2024	4.52	240,000
2025	4.52	255,000
Total		<u>\$3,500,000</u>

See Accompanying Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$1,164,388	\$1,117,857	\$1,180,239
Tax increment financing collections	170,804	124,984	99,092
Other city tax	262,410	271,452	292,560
Licenses and permits	8,536	7,860	7,295
Use of money and property	64,867	31,226	102,423
Intergovernmental	1,267,374	668,132	929,947
Charges for service	386,845	387,136	409,874
Special assessments	87,770	31,339	47,231
Miscellaneous	<u>267,145</u>	<u>790,953</u>	<u>1,463,921</u>
Total	<u>\$3,680,139</u>	<u>\$3,430,939</u>	<u>\$4,532,582</u>
Disbursements:			
Operating:			
Public safety	\$1,413,391	\$ 979,468	\$ 961,680
Public works	1,264,610	827,126	807,330
Health and social services	39,499	15,627	15,787
Culture and recreation	522,967	675,261	1,351,958
Community and economic development	472,837	557,578	1,487,329
General government	193,038	191,471	209,626
Debt service	389,200	290,188	247,307
Capital projects	<u>637,150</u>	<u>1,365,867</u>	<u>94,961</u>
Total	<u>\$4,932,692</u>	<u>\$4,902,586</u>	<u>\$5,175,978</u>

See Accompanying Independent Auditor's Report.

CITY OF FOREST CITY, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
Direct:			
Federal Aviation Administration:			
Airport Improvement Program:			
Runway Rehabilitation	20.106	03-19-0034-05	\$ 242,508
Entrance Road Rehabilitation	20.106	03-19-0034-06	12,125
			<u>\$ 254,633</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant Program	14.228	03-ED-003	\$ 107,220
	14.228	03-HSG-060	70,818
			<u>\$ 178,038</u>
Department of Justice:			
Iowa Department of Public Health:			
Governor's Alliance on Substance Abuse:			
North Central Iowa Narcotics Task Force:			
Drug Control and Systems Improvement	16.579	GASA	\$ 147,175
Department of Public Defense:			
Iowa Department of Homeland Security and Emergency Management:			
Hazard Mitigation Grant Program	97.039	PDM-2002-0007	\$ 5,700
Public Assistance Program	97.039		26,803
			<u>\$ 32,503</u>
Total			<u>\$ 612,349</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Forest City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

See Accompanying Independent Auditor's Report.



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
 Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated November 16, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Forest City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted one matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Forest City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above, item II-A-05, is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



November 16, 2005



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
 TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
 IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
 Members of the City Council:

Compliance

I have audited the compliance of the City of Forest City, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Forest City's management. My responsibility is to express an opinion on the City of Forest City's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Forest City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Forest City's compliance with those requirements.

In my opinion, the City of Forest City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Forest City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing my audit, I considered the City of Forest City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the City of Forest City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I noted no matters involving the internal control structure and its operation that I consider to be a reportable condition or a material weakness as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and members of the City of Forest City and other parties to whom the City of Forest City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Larry Pump".

November 16, 2005

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2005

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

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements which was a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) The audit did not disclose any reportable conditions in the internal control over the major programs.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228, Community Development Block Grant Program and CPDA Number 20.106, Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Forest City did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

II-A-05 Comment - Some reimbursement claims for the Drug Control and Systems Improvement grant were not filed.

Recommendation - We recommend that reimbursements be applied for in a timely manner, as expenses are incurred.

Response - Claims were not previously filed due to vacancy in the position responsible for these claims. We will reassign responsibility for filing reimbursements and submit claims for all unreimbursed amounts.

Conclusion - Response accepted.

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

None

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, exceeded the amount budgeted in the Public Works, Health and Social Services and Community and Economic Development Function before the amendment was adopted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - We will do this in the future.

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tony Coloff, Cable TV Committee, Owner KIOW Radio Station	Advertising/legal publications	\$ 1,626
Ron Holland, Council Member, Owner Ron Holland House Moving	Services	799
Scott Koeneke, City employee	Services	350

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

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2005

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

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

Response - We will do this.

Conclusion - Response accepted.

IV-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Council Minutes - No transactions were found that we believe should have been approved in the minutes but were not.

IV-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-05 Financial Condition - The Special Revenue Fund-CDBG, Hotel Motel Tax and Tax Increment Financing accounts had deficit balances of \$15,397, \$5,348 and \$708,482, respectively, at June 30, 2005.

Recommendation - The City should monitor these accounts and investigate alternatives to eliminate the deficits in order to return them to a sound financial condition.

Response - These accounts will be monitored in the future.

Conclusion - Response accepted.

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