

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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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, 2006, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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 at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2006, 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, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 three years ended June 30, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other 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 14, 2006

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for fiscal 2006 were \$10,850,142 while General Fund expenditures were \$10,938,660. This resulted in a decrease in the District's General Fund balance from \$709,615 in fiscal 2005 to \$556,255 in fiscal 2006, or a \$153,360 decrease from the prior year.
- A decrease in the General Fund ending balance was attributable to increases for general expenses, heat, utilities, fuel costs and repairs of the transportation fleet.
- 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 was completed during the 2004-2005 school year.
- 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 \$30,070 for the 2006-2007 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 an 80% yes vote and was effective as of July 1, 2003. This new source of funding will produce approximately \$91,919 for the 2006-2007 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 \$528,375 for the 2006-2007 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 an 80% yes vote and will be effective as of July 1, 2004. This new source of funding will produce approximately \$49,541 for the 2006-2007 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* explain 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-1

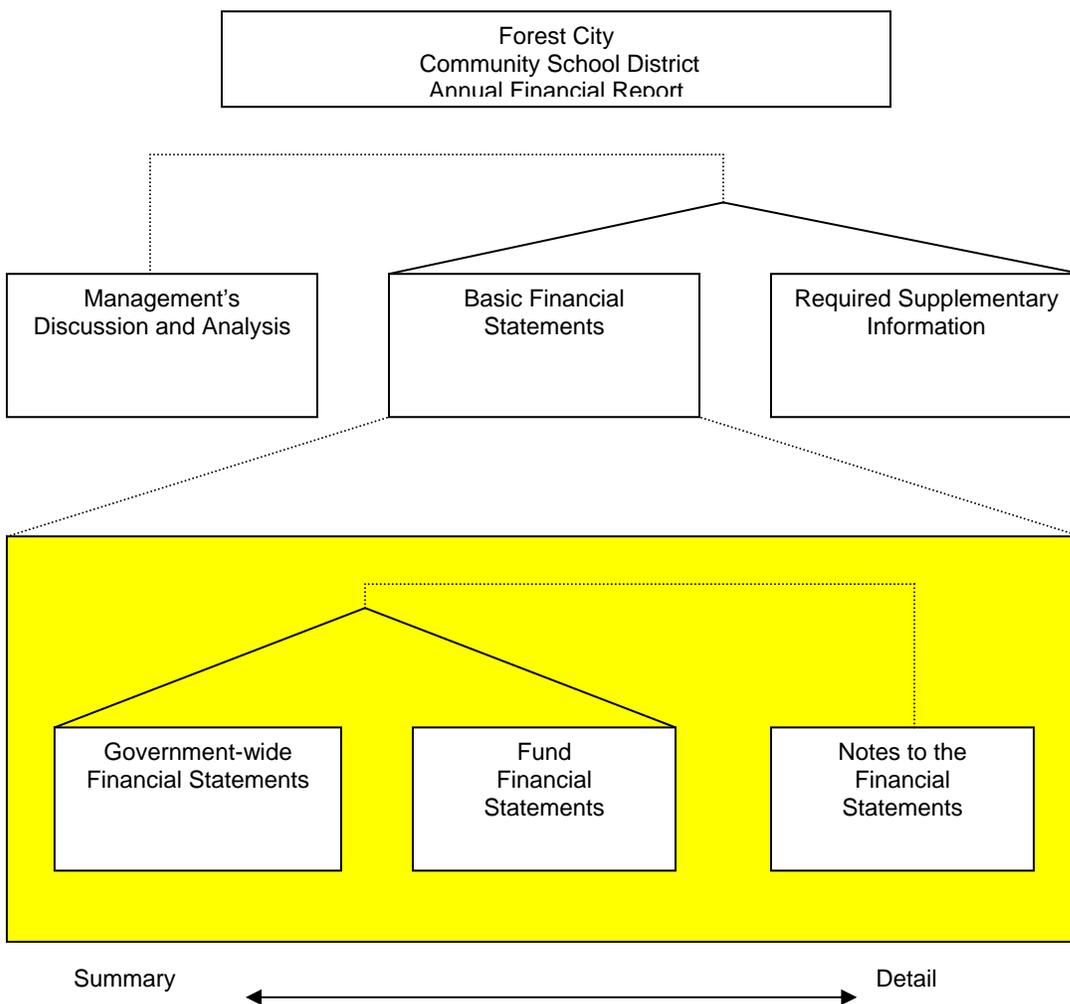


Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

Figure A-2: Major Features of the Government Wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<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 – are 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 or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the 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, 2006 compared to 2005.

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

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005-2006</u>
Current and other assets	\$8.351	\$8.721	\$.048	\$.037	\$8.399	\$8.758	4.27%
Capital assets	8.901	8.624	.049	.044	8.950	8.668	-3.15%
Total assets	17.252	17.345	.097	.081	17.349	17.426	0.44%
Long-term debt outstanding	3.544	3.384	0	0	3.544	3.384	-4.51%
Other liabilities	7.076	7.262	.048	.046	7.124	7.308	2.58%
Total liabilities	10.620	10.646	.048	.046	10.668	10.692	0.22%
Net assets							
Invested in capital assets, net of related debt	5.429	5.400	.049	.044	5.478	5.444	-0.62%
Restricted	.307	.629	0	0	.307	.629	104.89%
Unrestricted	.896	.670	.000	-.009	.896	.661	-26.23%
Total net assets	\$6.632	\$6.699	\$0.049	\$0.035	\$6.681	\$6.734	0.79%

Note: totals may not add due to rounding.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$321,891 or 105% over the prior year. This increase was caused by local sales tax monies that were received in fiscal year 2006, but that will be used to finance future capital improvements and equipment purchases.

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, 2006.

Figure A-4
Changes in Net Assets from Operating Results (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2005	2006	2005	2006	2005	2006	2005-2006
Revenues							
Program revenues							
Charges for services	\$1.178	\$1.218	\$.352	\$.332	\$1.530	\$1.550	1.31%
Operating Grants & Contributions	.978	1.101	.201	.217	1.179	1.318	11.79%
Capital Grants & Contributions	.100	.000	0	0	.100	.000	-100.00%
General revenues							
Property Taxes & Other Local Taxes	3.774	3.935	0	0	3.774	3.935	4.27%
Unrestricted State Aid	5.689	5.966	0	0	5.689	5.966	4.87%
Other	.092	.142	0	0	.092	.142	54.35%
Total revenues	11.811	12.362	.553	.549	12.364	12.911	4.42%
Expenses							
Instruction	7.496	8.008	0	0	7.496	8.008	6.83%
Pupil & Instructional Services	.706	.643	0	0	.706	.643	-8.92%
Administrative & Business	.935	1.081	0	0	.935	1.081	15.61%
Maintenance & operations	.869	.899	0	0	.869	.899	3.45%
Transportation	.437	.499	0	0	.437	.499	14.19%
Other	.981	1.165	.559	.563	1.540	1.728	12.21%
Total expenses	11.424	12.295	.559	.563	11.983	12.858	7.30%
Excess (deficiency) before special item	.387	.067	-.006	-.014	.381	.053	-86.09%
Special item:	0	0	0	0	0	0	
Increase (decrease) in net assets	\$.387	\$.067	\$.006	\$.014	\$.381	\$.053	-86.09%

Note: totals may not add due to rounding.

Property tax, income surtax, sales taxes and state foundation aid account for 77 percent of the total revenue. The District's expenses primarily relate to instruction and support services that account for 87 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$12,361,746 and expenses were \$12,294,953. In what was a good 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.

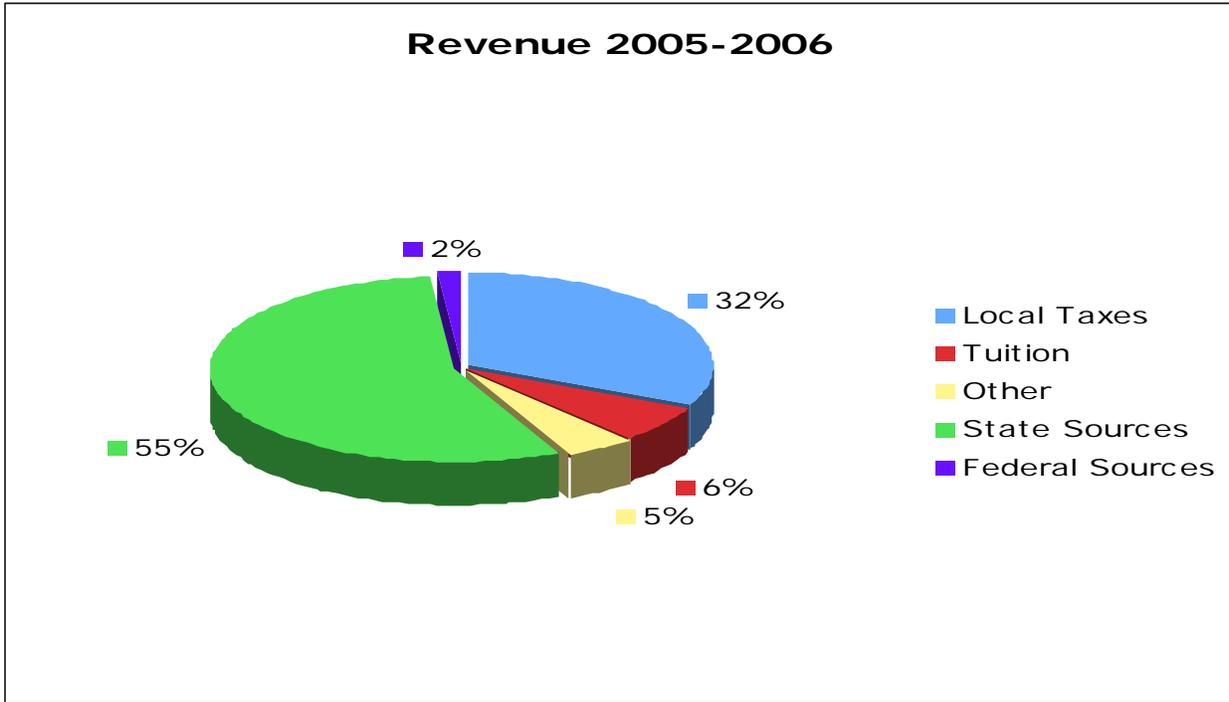


Figure A-6 The following graph presents the total Expenditures for the District's major governmental activities: instruction, student & instructional services, administration & business, operations & maintenance, transportation and AEA flow thru.

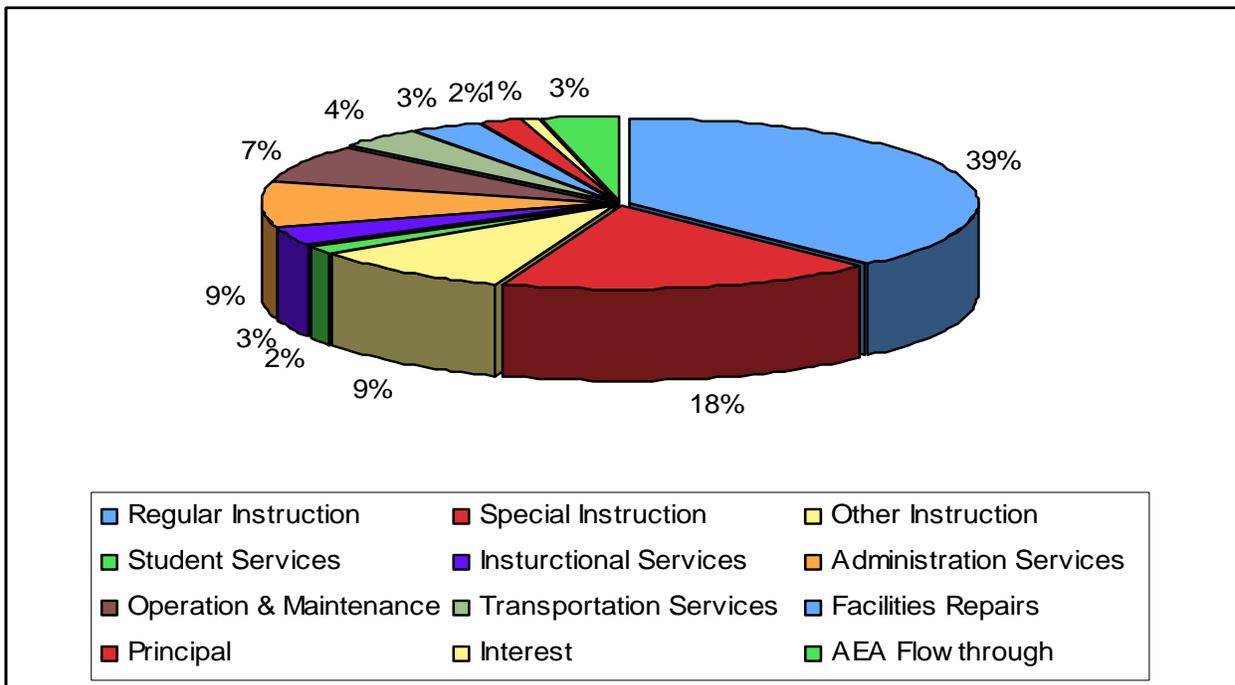


Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental 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>2005</u>	<u>2006</u>	<u>2005-2006</u>	<u>2005</u>	<u>2006</u>	<u>2005-2006</u>
Instruction	\$7.496	\$8.008	6.83%	\$ 5.757	\$ 6.128	6.44%
Pupil & Instructional Services	.706	.643	-8.92%	.706	.643	-8.92%
Administrative & Business	.935	1.081	15.61%	.935	1.081	15.61%
Maintenance & operations	.869	.899	3.45%	.865	.894	3.35%
Transportation	.437	.499	14.19%	.428	.491	14.72%
Other	.981	1.165	18.76%	.477	.739	54.93%
Total	\$11.424	\$12.295	7.62%	\$ 9.168	\$ 9.976	8.81%

Note: totals may not add due to rounding.

- The cost of all governmental activities this year was \$12,294,953.
- Some of the cost was financed by the users of District programs in the amount of \$1,217,751.
- The federal and state governments subsidized certain programs with grants and contributions \$1,100,975.
- Most of the District's costs \$9,976,227 however was financed by District and state taxpayers.
- This portion of governmental activities was financed with \$3,063,638 million in property taxes, \$187,662 of income surtax and \$683,995 of sales tax \$5,965,820 million of unrestricted state aid based on the statewide finance formula, and 141,905 state grants and investment earnings.

Business Type Activities

Revenues from the District's business-type activities included charges for services in the amount of \$332,248 and \$217,266 from operating grants, contributions and restricted interest. Expenses from the District's business type activities amounted to \$563,453. The Hot Lunch program was the only Business Type Activity for the District during the 2006 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 \$1,290,189 above last year's ending fund balances of \$1,087,141. The primary reason for the increase in the total governmental funds is the increase in the Capital Projects Fund.

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 \$709,615 to \$556,255 due mainly to continued larger than anticipated health insurance premiums and other costs increasing more than allowable growth that is allowed by the state legislature.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$59,606 in fiscal 2005 to \$81,254 in fiscal 2006. Revenues and expenditures in the fund have remained fairly stable the past few years.
- The Capital Projects Fund balance increase is due to the completion of the projects resulting from the general obligation bonds from fiscal 2003 and local option sales taxes. Fiscal 2006 ended with a balance of \$424,202 consisting of unexpended local option sales taxes.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$48,689 at June 30, 2005 to \$34,939 representing an increase of approximately 13,750 dollars. Declining student enrollment caused revenues for meal sales to decrease while labor and food costs continued to increase.

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 \$264,145 more than budgeted receipts, a variance of a little over 2 percent. The most significant change was from the new local option sales tax that was not projected in the 2006-2006 budget.

Total expenditures were less than budgeted due primarily to the District's budget for General Fund and Capitol Projects. The larger than normal increase of expenditures was largely due to the continuing major contract work that was completed later than initially anticipated for this and the prior school year. 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 instruction and support services functions due to timing of expenditures paid at year-end without sufficient time to amend the certified budget.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006 the District had invested \$17.39 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 6 to the financial statements.) Total depreciation expense for the year exceeded \$481,000.

At June 30, 2006 the District has started construction on a bus barn addition. Approximately \$315,000 will be spent in fiscal year 2007 to complete the project.

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

	Governmental Activities		Business Type Activities		Total School District		Total Percentage Change 2005-2006
	2005	2006	2005	2006	2005	2006	
Land	\$.225	\$.225	\$ 0	\$ 0	\$.225	\$.225	0.00%
Construction in progress	.51	.104	0	0	.51	.104	103.92%
Buildings	7.476	7.169			7.476	7.169	-4.11%
Improvements	.237	.258	0	0	.237	.258	8.86%
Equipment & Furniture	.912	.867	.050	.044	.962	.911	-5.30%
	\$ 8.901	\$ 8.624	\$.050	\$.044	\$ 8.951	\$ 8.667	3.17%

Note: totals may not add due to rounding.

Long-Term Debt

At year-end, the District had \$3,383,681 in general obligation bonds and other long-term debt outstanding. This represents a decrease of 4.51% 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
	<u>2005</u>	<u>2006</u>	<u>2005-2006</u>
General obligation bonds & notes (financed with property taxes)	\$ 3.110	\$ 2,910	-6.43%
Other general obligation debt	.434	.474	9.22%
Total	\$ 3.544	\$ 3.384	-4.51%

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 2006-2007 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 continues to go strong despite high fuel and heating prices.
- 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 and state economy.
- District enrollment increased in fiscal year 2004-2005 by 3.3 students, but for the 2005-2006 school year decreased by 72.0 students and for the 2006-2007 decreased by 37.9 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. The new housing development and stabilized enrollment projections should help to stabilize future finances.

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 Steve 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, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents			
ISCAP	2,972,546	-	2,972,546
Other	2,149,177	22,354	2,171,531
Receivables:			
Property tax:			
Delinquent	40,077	-	40,077
Succeeding year	2,987,668	-	2,987,668
Accounts	27,924	-	27,924
Accrued interest - ISCAP	24,211	-	24,211
Due from other governments	472,830	-	472,830
Inventories	34,546	14,494	49,040
Prepaid expenses	12,273	-	12,273
Capital assets, net of accumulated depreciation	8,623,611	44,088	8,667,699
Total assets	17,344,863	80,936	17,425,799
Liabilities			
Accounts payable	158,329	-	158,329
Salaries and benefits payable	1,093,778	43,553	1,137,331
Accrued interest payable	7,962	-	7,962
Deferred revenue:			
Succeeding year property tax	2,987,668	-	2,987,668
Other	-	2,444	2,444
ISCAP warrants payable	2,971,000	-	2,971,000
ISCAP accrued interest payable	22,670	-	22,670
ISCAP premium	21,022	-	21,022
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	205,000	-	205,000
Notes payable	56,381	-	56,381
Termination benefits	37,355	-	37,355
Portion due after one year:			
General obligation bonds payable	2,705,000	-	2,705,000
Notes payable	256,859	-	256,859
Termination benefits	123,086	-	123,086
Total liabilities	10,646,110	45,997	10,692,107

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	5,400,371	44,088	5,444,459
Restricted for:			
Physical plant and equipment levy	81,254	-	81,254
Other special revenue purposes	80,536	-	80,536
Local option sales tax capital projects	424,202	-	424,202
Debt service	42,403	-	42,403
Unrestricted	669,987	(9,149)	660,838
Total net assets	<u>6,698,753</u>	<u>34,939</u>	<u>6,733,692</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	4,727,674	502,310	501,546	-
Special instruction	2,121,876	379,059	69,875	-
Other instruction	1,158,048	323,459	103,707	-
	8,007,598	1,204,828	675,128	-
Support services:				
Student services	228,089	-	-	-
Instructional staff services	414,601	-	-	-
Administration services	1,080,693	-	-	-
Operation and maintenance of plant services	899,159	4,505	-	-
Transportation services	499,719	8,418	-	-
	3,122,261	12,923	-	-
Other expenditures:				
Facilities acquisition	257,384	-	-	-
Long-term debt interest	115,733	-	2,109	-
AEA flowthrough	423,738	-	423,738	-
Depreciation (unallocated)*	368,239	-	-	-
	1,165,094	-	425,847	-
Total governmental activities	12,294,953	1,217,751	1,100,975	-
Business type activities:				
Non-instructional programs:				
Food service operations	563,453	332,248	217,266	-
	563,453	332,248	217,266	-
Total	12,858,406	1,549,999	1,318,241	-
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.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(3,723,818)	-	(3,723,818)
(1,672,942)	-	(1,672,942)
(730,882)	-	(730,882)
<u>(6,127,642)</u>	<u>-</u>	<u>(6,127,642)</u>
(228,089)	-	(228,089)
(414,601)	-	(414,601)
(1,080,693)	-	(1,080,693)
(894,654)	-	(894,654)
(491,301)	-	(491,301)
<u>(3,109,338)</u>	<u>-</u>	<u>(3,109,338)</u>
(257,384)	-	(257,384)
(113,624)	-	(113,624)
-	-	-
<u>(368,239)</u>	<u>-</u>	<u>(368,239)</u>
<u>(739,247)</u>	<u>-</u>	<u>(739,247)</u>
(9,976,227)	-	(9,976,227)
-	(13,939)	(13,939)
<u>(9,976,227)</u>	<u>(13,939)</u>	<u>(9,990,166)</u>
2,696,611	-	2,696,611
298,679	-	298,679
68,348	-	68,348
187,662	-	187,662
683,995	-	683,995
5,965,820	-	5,965,820
134,347	189	134,536
7,558	-	7,558
<u>10,043,020</u>	<u>189</u>	<u>10,043,209</u>
66,793	(13,750)	53,043
<u>6,631,960</u>	<u>48,689</u>	<u>6,680,649</u>
<u>6,698,753</u>	<u>34,939</u>	<u>6,733,692</u>

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	2,972,546	-	2,972,546
Other	1,583,308	565,869	2,149,177
Receivables:			
Property tax:			
Delinquent	33,338	6,739	40,077
Succeeding year	2,616,943	370,725	2,987,668
Accounts	27,924	-	27,924
Accrued interest - ISCAP	24,211	-	24,211
Interfund receivable	-	25,000	25,000
Due from other governments	280,338	192,492	472,830
Inventories	34,546	-	34,546
Prepaid expenses	12,273	-	12,273
Total assets	7,585,427	1,160,825	8,746,252
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	102,163	56,166	158,329
Salaries and benefits payable	1,093,778	-	1,093,778
Interfund payable	25,000	-	25,000
ISCAP warrants payable	2,971,000	-	2,971,000
ISCAP accrued interest payable	22,670	-	22,670
ISCAP premium	21,022	-	21,022
Deferred revenue:			
Succeeding year property tax	2,616,943	370,725	2,987,668
Other	176,596	-	176,596
Total liabilities	7,029,172	426,891	7,456,063
Fund balances:			
Reserved for:			
Inventories	34,546	-	34,546
Prepaid expenses	12,273	-	12,273
Debt service	-	50,365	50,365
Unreserved reported in:			
General fund	509,436	-	509,436
Special revenue funds	-	259,367	259,367
Capital projects funds	-	424,202	424,202
Total liabilities and fund balances:	7,585,427	1,160,825	8,746,252

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	1,290,189
<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.	8,623,611
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	176,596
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.	(7,962)
Long-term liabilities, including bonds payable, notes payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(3,383,681)</u>
Net assets of governmental activities (Exhibit A)	<u><u>6,698,753</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	2,752,926	1,201,653	3,954,579
Tuition	777,886	-	777,886
Other	255,042	328,837	583,879
State sources	6,840,790	398	6,841,188
Federal sources	223,498	-	223,498
Total revenues	<u>10,850,142</u>	<u>1,530,888</u>	<u>12,381,030</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	4,603,437	35,463	4,638,900
Special instruction	2,121,876	-	2,121,876
Other instruction	827,540	317,961	1,145,501
	<u>7,552,853</u>	<u>353,424</u>	<u>7,906,277</u>
Support services:			
Student services	227,634	-	227,634
Instructional staff services	410,126	-	410,126
Administration services	1,072,482	-	1,072,482
Operation and maintenance of plant services	762,835	128,237	891,072
Transportation services	488,992	-	488,992
	<u>2,962,069</u>	<u>128,237</u>	<u>3,090,306</u>
Other expenditures:			
Facilities acquisition	-	392,877	392,877
Long-term debt:			
Principal	-	248,718	248,718
Interest and fiscal charges	-	116,066	116,066
AEA flowthrough	423,738	-	423,738
	<u>423,738</u>	<u>757,661</u>	<u>1,181,399</u>
Total expenditures	<u>10,938,660</u>	<u>1,239,322</u>	<u>12,177,982</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(88,518)</u>	<u>291,566</u>	<u>203,048</u>
Other financing sources (uses):			
Operating transfers in	-	64,842	64,842
Operating transfers out	(64,842)	-	(64,842)
Total other financing sources (uses)	<u>(64,842)</u>	<u>64,842</u>	<u>-</u>
Net change in fund balances	(153,360)	356,408	203,048
Fund balances beginning of year	<u>709,615</u>	<u>377,526</u>	<u>1,087,141</u>
Fund balances end of year	<u><u>556,255</u></u>	<u><u>733,934</u></u>	<u><u>1,290,189</u></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, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		203,048
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	203,743	
Depreciation expense	<u>(480,991)</u>	(277,248)
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.		(19,284)
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.		248,718
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.		333
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>(88,774)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>66,793</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	22,354
Inventories	14,494
Capital assets, net of accumulated depreciation	<u>44,088</u>
Total assets	<u>80,936</u>
Liabilities	
Salaries and benefits payable	43,553
Deferred revenue	<u>2,444</u>
Total liabilities	<u>45,997</u>
Net assets	
Invested in capital assets, net of related debt	44,088
Unrestricted	<u>(9,149)</u>
Total net assets	<u><u>34,939</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>332,248</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	191,355
Benefits	85,537
Purchased services	2,018
Supplies	278,702
Depreciation	5,841
	<u>563,453</u>
Operating loss	<u>(231,205)</u>
Non-operating revenue:	
State sources	7,063
Federal sources	210,203
Interest income	189
Total non-operating revenue	<u>217,455</u>
Change in net assets	(13,750)
Net assets beginning of year	<u>48,689</u>
Net assets end of year	<u><u>34,939</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	332,174
Cash payments to employees for services	(278,786)
Cash payments to suppliers for goods or services	(231,560)
Net cash used by operating activities	<u>(178,172)</u>
Cash flows from non-capital financing activities:	
State grants received	7,063
Federal grants received	164,198
Net cash provided by non-capital financing activities	<u>171,261</u>
Cash flows from capital and related financing activities:	
Interfund loan repayment	<u>(5,334)</u>
Cash flows from investing activities:	
Interest on investments	<u>189</u>
Net increase in cash and cash equivalents	(12,056)
Cash and cash equivalents at beginning of year	<u>34,410</u>
Cash and cash equivalents at end of year	<u><u>22,354</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain (loss)	(231,205)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	46,005
Depreciation	5,841
Decrease (increase) in inventories	3,530
(Decrease) increase in accounts payable	(375)
(Decrease) increase in salaries and benefits payable	(1,894)
(Decrease) increase in deferred revenue	(74)
Net cash used in operating activities	<u><u>(178,172)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$46,005 of federal commodities.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Year ended June 30, 2006

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 fund:

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 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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, 2006, expenditures in the instruction and support services functions exceeded the amounts budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by No. 40.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Nonmajor Governmental Funds:		
Management Fund	General Fund	25,000

The Management Fund loaned the School Nutrition Fund money to purchase equipment during the year ended June 30, 2004. \$25,000 of loan repayments were deposited in the General Fund instead of the Management Fund.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor Governmental Funds:		
Debt Service	General	64,842

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, 2006, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2005-06B	1/26/06	1/26/07	1,167,059	23,650	1,163,000	22,224
2005-06A	6/28/06	6/28/07	1,805,487	562	1,808,000	446
Total			<u>2,972,546</u>	<u>24,212</u>	<u>2,971,000</u>	<u>22,670</u>

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, 2006, is as follows:

<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
\$	\$	\$	\$
-	-	-	-

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>
	%	%
2005-06A	4.000	3.903
2005-06B	4.500	4.772
2006-07A	4.500	5.676

6. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	51,321	104,073	51,321	104,073
Land	225,000	-	-	225,000
Total capital assets not being depreciated	<u>276,321</u>	<u>104,073</u>	<u>51,321</u>	<u>329,073</u>
Capital assets being depreciated:				
Buildings	13,993,145	51,321	-	14,044,466
Improvements other than buildings	271,604	31,420	-	303,024
Furniture and equipment	2,633,172	68,250	160,069	2,541,353
Total capital assets being depreciated	<u>16,897,921</u>	<u>150,991</u>	<u>160,069</u>	<u>16,888,843</u>
Less accumulated depreciation for:				
Buildings	6,517,784	357,930	-	6,875,714
Improvements other than buildings	34,380	10,309	-	44,689
Furniture and equipment	1,721,219	112,752	160,069	1,673,902
Total accumulated depreciation	<u>8,273,383</u>	<u>480,991</u>	<u>160,069</u>	<u>8,594,305</u>
Total capital assets being depreciated, net	<u>8,624,538</u>	<u>(330,000)</u>	<u>-</u>	<u>8,294,538</u>
Governmental activities capital assets, net	<u>8,900,859</u>	<u>(225,927)</u>	<u>51,321</u>	<u>8,623,611</u>
Business type activities:				
Furniture and equipment	169,099	-	-	169,099
Less accumulated depreciation	<u>119,170</u>	<u>5,841</u>	<u>-</u>	<u>125,011</u>
Business type activities capital assets, net	<u>49,929</u>	<u>(5,841)</u>	<u>-</u>	<u>44,088</u>
Depreciation expense was charged to the following programs:				
				\$
Governmental activities:				
Instruction:				
Other				12,547
Support Services:				
Student support				455
Instructional staff support				4,475
Administration				8,211
Operation and maintenance of plant				31,837
Transportation				55,227
				<u>112,752</u>
Unallocated depreciation				368,239
Total governmental activities depreciation expense				<u>480,991</u>
Business type activities:				
Food service operations				<u>5,841</u>

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	3,110,000	-	200,000	2,910,000	205,000
Energy management notes	361,958	-	48,718	313,240	56,381
Termination benefits	71,667	120,000	31,226	160,441	37,355
Total	3,543,625	120,000	279,944	3,383,681	298,736

Termination Benefits

The District offered a voluntary early retirement plan to its employees during fiscal year 2006. Eligible employees must have completed at least ten years of continuous service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education and the board reserved the right to limit the number of retirements.

Early retirement benefits for certified staff consist of \$30,000 of future health insurance premiums and benefits for classified staff consist of a cash payment equal to 20% of the prior year salary.

At June 30, 2006, the District has obligations to eight participants with a total liability of \$160,441. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$31,226.

General Obligation Bonds Payable

Details of the District's June 30, 2006, 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>
	%	\$	\$	\$
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	3.20	220,000	78,705	298,705
2011	3.20	225,000	71,665	296,665
2012-2016	3.25-3.60	1,260,000	241,420	1,501,420
2017-2018	3.70-3.75	575,000	32,485	607,485
Total		2,910,000	695,902	3,605,902

Energy Management Notes

The District has two energy management notes at June 30, 2006.

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, 2006 is \$76,103.

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, 2006 is \$237,137.

Energy management note payments are due as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$	\$	\$
2007	56,381	14,355	70,736
2008	94,079	11,945	106,024
2009	40,953	9,375	50,328
2010	121,827	3,107	124,934
	<u>313,240</u>	<u>38,782</u>	<u>352,022</u>

During the year ended June 30, 2006 the District made principal and interest payments totaling \$64,862 under 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 that 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 salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$403,479, \$384,542, and \$376,082 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 \$423,738 for the year ended June 30, 2006, 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 \$426,885 for a bus barn addition and driveway improvements. As of June 30, 2006 costs of \$114,431 had been incurred against the contracts. The balances remaining at June 30, 2006 will be paid as work on the projects progresses.

REQUIRED SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	5,316,344	332,437	5,648,781	5,492,356	5,492,356	156,425
State sources	6,841,188	7,063	6,848,251	6,827,832	6,827,832	20,419
Federal sources	223,498	210,203	433,701	346,400	346,400	87,301
Total revenues	<u>12,381,030</u>	<u>549,703</u>	<u>12,930,733</u>	<u>12,666,588</u>	<u>12,666,588</u>	<u>264,145</u>
Expenditures:						
Instruction	7,906,277	-	7,906,277	7,782,180	7,782,180	(124,097)
Support services	3,090,306	-	3,090,306	3,032,636	3,032,636	(57,670)
Non-instructional programs	-	563,453	563,453	575,100	575,100	11,647
Other expenditures	1,181,399	-	1,181,399	1,751,878	1,751,878	570,479
Total expenditures	<u>12,177,982</u>	<u>563,453</u>	<u>12,741,435</u>	<u>13,141,794</u>	<u>13,141,794</u>	<u>400,359</u>
Excess (deficiency) of revenues over (under) expenditures	203,048	(13,750)	189,298	(475,206)	(475,206)	664,504
Other financing sources, net	-	-	-	200,000	200,000	(200,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	203,048	(13,750)	189,298	(275,206)	(275,206)	464,504
Balance beginning of year	<u>1,087,141</u>	<u>48,689</u>	<u>1,135,830</u>	<u>2,158,704</u>	<u>2,158,704</u>	<u>(1,022,874)</u>
Balance end of year	<u><u>1,290,189</u></u>	<u><u>34,939</u></u>	<u><u>1,325,128</u></u>	<u><u>1,883,498</u></u>	<u><u>1,883,498</u></u>	<u><u>(558,370)</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

During the year ended June 30, 2006, expenditures in the instruction and support services functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
	\$	\$	\$	\$	\$	\$
Cash and pooled investments	70,579	80,780	80,398	287,632	46,480	565,869
Receivables:						
Property tax:						
Delinquent	1,998	-	856	-	3,885	6,739
Succeeding year	150,000	-	70,182	-	150,543	370,725
Interfund receivable	25,000	-	-	-	-	25,000
Due from other governments	-	-	-	192,492	-	192,492
Total assets	247,577	80,780	151,436	480,124	200,908	1,160,825
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	244	-	55,922	-	56,166
Deferred revenue:						
Succeeding year property tax	150,000	-	70,182	-	150,543	370,725
Total liabilities	150,000	244	70,182	55,922	150,543	426,891
Fund balances:						
Reserved for debt service	-	-	-	-	50,365	50,365
Unreserved reported in:						
Special revenue funds	97,577	80,536	81,254	-	-	259,367
Capital projects funds	-	-	-	424,202	-	424,202
Total fund equity	97,577	80,536	81,254	424,202	50,365	733,934
Total liabilities and fund balances	247,577	80,780	151,436	480,124	200,908	1,160,825

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	150,631	-	68,348	683,995	298,679	1,201,653
Other	1,912	320,501	1,272	3,043	2,109	328,837
State sources	118	-	51	-	229	398
Total revenues	<u>152,661</u>	<u>320,501</u>	<u>69,671</u>	<u>687,038</u>	<u>301,017</u>	<u>1,530,888</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	35,463	-	-	-	-	35,463
Other instruction	-	317,961	-	-	-	317,961
Support services:						
Plant operation and maintenance	128,237	-	-	-	-	128,237
Other expenditures:						
Facilities acquisition	-	-	48,023	344,854	-	392,877
Long-term debt:						
Principal	-	-	-	-	248,718	248,718
Interest and fiscal charges	-	-	-	-	116,066	116,066
Total expenditures	<u>163,700</u>	<u>317,961</u>	<u>48,023</u>	<u>344,854</u>	<u>364,784</u>	<u>1,239,322</u>
Excess (deficiency) of revenues over (under) expenditures	(11,039)	2,540	21,648	342,184	(63,767)	291,566
Other financing sources (uses):						
Operating transfers in	-	-	-	-	64,842	64,842
Net change in fund balances	(11,039)	2,540	21,648	342,184	1,075	356,408
Fund balances beginning of year	108,616	77,996	59,606	82,018	49,290	377,526
Fund balances end of year	<u>97,577</u>	<u>80,536</u>	<u>81,254</u>	<u>424,202</u>	<u>50,365</u>	<u>733,934</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-fund Transfers</u>	<u>Balance End of Year</u>
Interest	25	644	-	-	669
Athletics and cheerleading	3,523	110,184	107,934	152	5,925
Sp. Ed. wind suit	644	143	325	-	462
Bay team	6,908	-	5,012	(58)	1,838
Elementary activities	11,346	30,186	22,836	-	18,696
Elementary juice	6,430	3,418	3,467	-	6,381
Elementary student council	1,714	-	-	-	1,714
Elementary book fair	1,306	-	-	-	1,306
FFA	1,916	25,558	26,069	(88)	1,317
HS activities	-	2,209	2,031	-	178
HS band	-	6,741	6,741	-	-
HS home ec. awards	1	-	-	-	1
HS TSA club	-	250	106	-	144
HS music	-	12,254	12,254	-	-
HS marketing	526	9,773	9,240	-	1,059
HS student council	438	2,924	2,832	-	530
Student insurance	-	415	415	-	-
Junior class(Class of 2008)	1,605	5,071	6,803	-	(127)
MS activities	10,985	34,533	35,935	(6)	9,577
MS band and chorus	563	1,894	2,834	-	(377)
MS history club	(1,129)	34,065	33,463	-	(527)
MS industrial arts	3,142	-	1,088	-	2,054
MS memory book	1,032	2,557	1,396	-	2,193
MS scholarship	1,798	39	-	-	1,837
MS student council	3,871	4,013	4,160	-	3,724
Masonic scholarship	11,418	-	1,417	-	10,001
Health - CPR	110	-	-	-	110
Student services	4,978	-	-	-	4,978
Spirit club	-	163	163	-	-
Science club	-	19	19	-	-
Senior class(Class of 2007)	(175)	2,199	2,043	-	(19)
Spanish club	449	150	-	-	599
Special needs	1,312	675	1,237	-	750
Speech and drama	-	5,605	5,605	-	-
Rotary corner funds	-	3,000	555	-	2,445
Pep-C team	720	-	-	-	720
Yearbook	-	11,614	11,614	-	-
Benson-Torkelson scholarship	2,828	510	543	-	2,795
Horticulture	99	-	-	-	99
Student activity tickets	-	9,375	9,375	-	-
Baseball field improvement	-	271	-	-	271
Frank Sinnard scholarship	2,687	49	449	-	2,287
HS pepsi	1	-	-	-	1
Electric car	188	-	-	-	188
Colorado music trip	(3,263)	-	-	-	(3,263)
Total	77,996	320,501	317,961	-	80,536

See accompanying independent auditor's report.

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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,954,579	3,787,667	3,221,127	3,355,181
Tuition	777,886	769,041	878,311	796,864
Other	583,879	487,027	551,272	586,160
State sources	6,841,188	6,442,267	6,054,777	6,353,442
Federal sources	223,498	323,357	210,706	190,668
Total revenues	<u>12,381,030</u>	<u>11,809,359</u>	<u>10,916,193</u>	<u>11,282,315</u>
Expenditures:				
Instruction:				
Regular instruction	4,638,900	4,340,606	4,166,255	4,000,199
Special instruction	2,121,876	2,346,828	2,276,276	2,265,211
Other instruction	1,145,501	807,658	777,055	807,713
Support services:				
Student services	227,634	237,857	216,622	218,566
Instructional staff services	410,126	452,861	384,480	364,394
Administration services	1,072,482	926,806	916,879	905,419
Operation and maintenance of plant services	891,072	880,312	905,573	783,034
Transportation services	488,992	459,071	464,650	415,040
Other expenditures:				
Facilities acquisition	392,877	1,481,485	2,797,704	15,191
Long-term debt:				
Principal	248,718	261,458	306,316	544,687
Interest and other charges	116,066	123,345	130,335	44,668
AEA flowthrough	423,738	404,063	398,349	418,813
Total expenditures	<u>12,177,982</u>	<u>12,722,350</u>	<u>13,740,494</u>	<u>10,782,935</u>

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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 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 as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 06-I-A, 06-I-B, 06-I-C and 06-I-D are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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 14, 2006

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-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.

06-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.

06-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.

District Response: We will review our current receipts system.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

Conclusion: Response accepted.

06-I-D Supporting Documentation: We tested twenty-nine General Fund payments. Five of the payments tested were missing part of the supporting documentation. We tested sixteen Student Activity Fund payments and noted that the supporting documentation for one payment was missing. The supporting documentation for one of the twelve School Nutrition Fund payments tested was missing.

Recommendation: The District should receive detailed documentation for all expenditures.

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, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the instruction and support services functional areas.

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

District Response: Future budgets will be amended.

Conclusion: Response accepted.

06-II-B Questionable Expenditures: During our testing of expenditures, we noted that the District paid approximately \$38 for alcoholic beverages. Expenditures for alcoholic beverages may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation: The board should review its policy for travel and meal expenditures and revise to specifically exclude alcohol.

District Response: We will review and revise our policy.

Conclusion: Response accepted.

06-II-C 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.

06-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Rick Juhl, Board President, owner of Forest City Floor Covering	Floor Covering	\$ 277

The transaction does not appear to represent a conflict of interest since the dollar amount was less than \$2,500.

06-II-E 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.

06-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

06-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 7 of the Certified Enrollment Certification Form for September 2005, was overstated by three students.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

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.

06-II-H 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.

06-II-I Certified Annual Report (CAR): The CAR was certified to the Department of Education timely.

06-II-J 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.

06-II-K Financial Condition: The Student Activity Fund has several accounts with deficit balances at June 30, 2006.

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.

06-II-L Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the District was constructing a bus barn addition and did not hold a public hearing.

Recommendation: The District should hold public hearings and take bids for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-N Local Option Sales Tax Capital Projects Fund Expenditures (LOST): The LOST monies may be used to purchase a single unit of equipment that has a cost exceeding \$500. We noted that expenditures from this fund included \$63,048 of purchases for furnishings with a unit cost of less than \$500 and \$11,596 of software. However, there were offsetting purchases of vehicles and technology in the General Fund that could have been paid with LOST monies instead.

Recommendation: The District should review the types of expenditures that are allowable from the local option sales tax monies and record the expenditures in the appropriate funds.

District Response: We will monitor expenditures from this fund.

Conclusion: Response accepted.