

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

JUNE 30, 2007

- Prepared By -

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CITY OF FOREST CITY, IOWA

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CITY OF FOREST CITY, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
George Wilson	Mayor	January 2008
Suzanne Murphy	Mayor Pro tem	January 2008
James Oulman	Council Member	Resigned
Jon West (Appointed)	Council Member	January 2008
Jerome Clouse	Council Member	January 2008
Rick Skjeie (Appointed)	Council Member	January 2008
Jack Caputo	Council Member	January 2010
Ronald Holland	Council Member	January 2010
Kay Sorensen	Council Member	January 2010
Paul Boock	Clerk/Treasurer	Indefinite
Steve Bakke	Attorney	Indefinite



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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Forest City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated November 27, 2007 on my consideration of the City of Forest City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 27, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Forest City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities increased 74.4%, or approximately \$2,973,000 from fiscal 2006 to fiscal 2007. Bond proceeds, other general receipts and property tax increased approximately \$1,996,000, \$645,000 and \$113,000, respectively.

Disbursements of the City's governmental activities increased 12.5%, or approximately \$474,000, in fiscal 2007 from fiscal 2006. Public works and culture and recreation disbursements increased approximately \$272,000 and \$176,000 respectively, while public safety and debt service disbursements decreased approximately \$93,000 and \$97,000, respectively.

The City's total cash basis net assets increased 9.14%, or approximately \$1,027,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$2,712,000 and the assets of the business type activities decreased by approximately \$1,685,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### **BASIS OF ACCOUNTING**

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

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

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

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

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1,297,000 to approximately \$4,010,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 476	\$ 448
Operating grants, contributions and restricted interest	862	881
Capital grants, contributions and restricted interest	216	179
General receipts:		
Property tax	1,600	1,487
Local option sales tax	306	274
Unrestricted investment earnings	327	201
Bond proceeds, net	1,996	-
Other general receipts	856	211
Transfers, net	330	315
Total receipts and transfers	<u>\$6,969</u>	<u>\$3,996</u>
Disbursements:		
Public safety	\$ 970	\$1,063
Public works	1,221	949
Health and social services	45	43
Culture and recreation	841	665
Community and economic development	542	394
General government	184	191
Debt service	326	423
Capital projects	127	54
Total disbursements	<u>\$4,256</u>	<u>\$3,782</u>
Change in cash basis net assets	\$2,713	\$ 214
Cash basis net assets beginning of year	<u>1,297</u>	<u>1,083</u>
Cash basis net assets end of year	<u>\$4,010</u>	<u>\$1,297</u>

The City's total receipts for governmental activities increased 74.4%, or approximately \$2,973,000. The total cost of all programs and services increased by approximately \$474,000, or 12.5%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation bonds.

The cost of all governmental activities this year was \$4,256,605 compared to \$3,782,048 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$2,702,618 because some of the cost was paid by those directly benefited from the programs (\$475,920) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$1,078,067). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,600,040 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 395	\$ 349
Sewer	574	469
Electric	3,803	3,672
Other	137	92
Operating grants, contributions and restricted interest	55	40
General receipts:		
Unrestricted interest on investments	255	211
Bond proceeds	-	895
Other general receipts	14	52
Total receipts	<u>\$ 5,233</u>	<u>\$5,780</u>
Disbursements and transfers:		
Water	\$ 394	\$ 263
Sewer	1,224	522
Electric	4,402	4,406
Other	568	227
Transfers, net	330	315
Total disbursements and transfers	<u>\$ 6,918</u>	<u>\$5,733</u>
Change in cash basis net assets	\$(1,685)	\$ 47
Cash basis net assets beginning of year	<u>9,943</u>	<u>9,896</u>
Cash basis net assets end of year	<u>\$ 8,258</u>	<u>\$9,943</u>

Total business type activities receipts for the fiscal year were \$5,233,000 compared to \$5,780,000 last year. This significant decrease was due primarily to the receipt of \$895,000 in electric revenue bond proceeds last year. The cash balance decreased by approximately \$1,685,000 from the prior year due to sewer disbursements. Total disbursements and transfers for the fiscal year increased by 20.7% to a total of \$6,918,000.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$3,873,187, an increase of \$2,646,888 from last year's total of \$1,226,299. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$125,673 from the prior year to \$1,612,132. This increase was due to property taxes and interest earnings.

The Capital Projects, Aquatic Center Fund cash balance increased \$2,257,912 to \$2,271,010 during the fiscal year. The primary increase was the result of proceeds of \$2,000,000 received from the issuance of general obligation bonds.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Sewer Rental Fund cash balance decreased by \$214,407 to \$441,432, due primarily to an increase in business type activities disbursements.

The Sewer Reserve Fund cash balance increased by \$693,000 to \$1,000,000 due to a transfer in.

The Electric Fund cash balance decreased by \$676,743 to \$2,066,712 due to an increase in debt service expenses and transfers out.

The Electric Capital Fund cash balance remained the same at \$3,200,000 due to no activity during the year.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2007 and resulted in an increase in operating revenue of approximately \$2,900,000, and an increase in operating disbursements of approximately \$900,000. The City will use the additional revenue for aquatic center expenses.

The City exceeded the amounts budgeted in the culture and recreation function prior to the May 21, 2007 budget amendment.

**DEBT ADMINISTRATION**

At June 30, 2007, the City had approximately \$7,493,000 in bonds and other long-term debt outstanding, compared to approximately \$5,963,000 last year, as shown below.

**Outstanding Debt at Year-End**  
(Expressed in Thousands)

	June 30,	
	2007	2006
General obligation bonds	\$3,315	\$ 1,585
Revenue bonds	4,105	4,275
Capital leases	73	103
Total	<u>\$7,493</u>	<u>\$ 5,963</u>

The City issued \$2,000,000 of general obligation bonds and \$22,210 of capital leases during the year ended June 30, 2007. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,315,000 is significantly below its constitutional debt limit of \$8,318,935.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Forest City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paul Boock, City Clerk, 305 North Clark Street, Forest City, Iowa 50436.

CITY OF FOREST CITY, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges For Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 970,264	\$ 14,561	\$ 192,488	\$ -
Public works	1,221,021	367,350	380,582	216,400
Health and social services	44,693	-	-	-
Culture and recreation	863,310	40,815	17,906	-
Community and economic development	519,873	-	270,691	-
General government	184,565	17,571	-	-
Debt service	325,790	35,623	-	-
Capital projects	127,089	-	-	-
Total governmental activities	<u>\$ 4,256,605</u>	<u>\$ 475,920</u>	<u>\$ 861,667</u>	<u>\$ 216,400</u>
Business type activities:				
Sewer	\$ 1,223,664	\$ 573,551	\$ -	\$ -
Electric	4,402,011	3,803,357	6,143	-
Other	962,079	531,649	48,457	-
Total business type activities	<u>\$ 6,587,754</u>	<u>\$4,908,557</u>	<u>\$ 54,600</u>	<u>\$ -</u>
Total	<u>\$10,844,359</u>	<u>\$5,384,477</u>	<u>\$ 916,267</u>	<u>\$ 216,400</u>

(Continued)

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

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<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (763,215)	\$ -	\$ (763,215)
(256,689)	-	(256,689)
(44,693)	-	(44,693)
(804,589)	-	(804,589)
(249,182)	-	(249,182)
(166,994)	-	(166,994)
(290,167)	-	(290,167)
<u>(127,089)</u>	<u>-</u>	<u>(127,089)</u>
<u>\$ (2,702,618)</u>	<u>\$ -</u>	<u>\$ (2,702,618)</u>
\$ -	\$ (650,113)	\$ (650,113)
-	(592,511)	(592,511)
<u>-</u>	<u>(381,973)</u>	<u>(381,973)</u>
<u>\$ -</u>	<u>\$ (1,624,597)</u>	<u>\$ (1,624,597)</u>
<u>\$ (2,702,618)</u>	<u>\$ (1,624,597)</u>	<u>\$ (4,327,215)</u>

CITY OF FOREST CITY, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

**General Receipts:**

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

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
    Other purposes  
Unrestricted

**Total cash basis net assets**

*See Notes to Financial Statements.*

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 994,146	\$ -	\$ 994,146
245,779	-	245,779
360,115	-	360,115
306,257	-	306,257
326,603	255,358	581,961
2,000,000	-	2,000,000
(3,956)	-	(3,956)
855,898	13,992	869,890
<u>330,100</u>	<u>(330,100)</u>	<u>-</u>
<u>\$ 5,414,942</u>	<u>\$ (60,750)</u>	<u>\$ 5,354,192</u>
\$ 2,712,324	\$ (1,685,347)	\$ 1,026,977
<u>1,297,404</u>	<u>9,942,732</u>	<u>11,240,136</u>
<b><u>\$ 4,009,728</u></b>	<b><u>\$ 8,257,385</u></b>	<b><u>\$12,267,113</u></b>
\$ 106,461	\$ 5,196,579	\$ 5,303,040
<u>3,903,267</u>	<u>3,060,806</u>	<u>6,964,073</u>
<b><u>\$ 4,009,728</u></b>	<b><u>\$ 8,257,385</u></b>	<b><u>\$12,267,113</u></b>

CITY OF FOREST CITY, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Capital Projects Aquatic Center</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<b>RECEIPTS:</b>				
Property tax	\$ 778,473	\$ -	\$ 575,788	\$ 1,354,261
Tax increment financing	-	-	245,779	245,779
Other city tax	-	-	346,408	346,408
Licenses and permits	8,190	-	-	8,190
Use of money and property	274,490	47,120	6,706	328,316
Intergovernmental	437,086	-	637,075	1,074,161
Charges for service	398,769	-	-	398,769
Special assessments	-	-	37,233	37,233
Miscellaneous	175,498	574,110	87,840	837,448
Total receipts	<u>\$2,072,506</u>	<u>\$ 621,230</u>	<u>\$ 1,936,829</u>	<u>\$ 4,630,565</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ 989,741	\$ -	\$ -	\$ 989,741
Public works	1,232,196	-	-	1,232,196
Health and social services	44,693	-	-	44,693
Culture and recreation	512,959	359,362	7,539	879,860
Community and economic development	96,765	-	423,108	519,873
General government	190,579	-	-	190,579
Debt service	-	-	325,790	325,790
Capital projects	-	-	127,089	127,089
Total disbursements	<u>\$3,066,933</u>	<u>\$ 359,362</u>	<u>\$ 883,526</u>	<u>\$ 4,309,821</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (994,427)</u>	<u>\$ 261,868</u>	<u>\$ 1,053,303</u>	<u>\$ 320,744</u>
Other financing sources (uses):				
Bond proceeds	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
Bond discount	-	(3,956)	-	(3,956)
Operating transfers in	1,220,100	-	115,000	1,335,100
Operating transfers out	(100,000)	-	(905,000)	(1,005,000)
Total other financing sources (uses)	<u>\$1,120,100</u>	<u>\$ 1,996,044</u>	<u>\$ (790,000)</u>	<u>\$ 2,326,144</u>
Net change in cash balances	\$ 125,673	\$ 2,257,912	\$ 263,303	\$ 2,646,888
Cash balances beginning of year	<u>1,486,459</u>	<u>13,098</u>	<u>(273,258)</u>	<u>1,226,299</u>
<b>Cash balances end of year</b>	<u><b>\$1,612,132</b></u>	<u><b>\$ 2,271,010</b></u>	<u><b>\$ (9,955)</b></u>	<u><b>\$ 3,873,187</b></u>

(Continued)

CITY OF FOREST CITY, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Capital Projects Aquatic Center</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Cash Basis Fund Balances:</b>				
Reserved:				
Debt service	\$ -	\$ -	\$ 13,648	\$ 13,648
Unreserved:				
General fund	1,612,132	-	-	1,612,132
Special revenue funds	-	-	(337,844)	(337,844)
Capital project funds	-	2,271,010	136,957	2,407,967
Permanent funds	-	-	177,284	177,284
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total cash basis fund balances	<u>\$1,612,132</u>	<u>\$2,271,010</u>	<u>\$ (9,955)</u>	<u>\$3,873,187</u>

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA  
 RECONCILIATION OF THE STATEMENT OF CASH  
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Total governmental funds cash balances (page 13) \$ 3,873,187

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

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

136,541

Cash basis net assets of governmental activities (page 12) \$ 4,009,728

Net change in cash balances (page 13) \$ 2,646,888

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

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

65,436

Change in cash balance of governmental activities (page 12) \$ 2,712,324

*See Notes to Financial Statements.*

CITY OF FOREST CITY, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Enterprise</u>		
	<u>Sewer Rental</u>	<u>Sewer Reserve</u>	<u>Electric</u>
Operating receipts:			
Charges for service	\$ 573,551	\$ -	\$ 3,803,357
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total operating receipts	\$ 573,551	\$ -	\$ 3,803,357
Operating disbursements:			
Business type activities	<u>1,223,664</u>	<u>-</u>	<u>4,124,061</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (650,113)</u>	<u>\$ -</u>	<u>\$ (320,704)</u>
Non-operating receipts (disbursements):			
Intergovernmental	\$ -	\$ -	\$ 6,143
Interest on investments	63,009	-	152,318
Miscellaneous	2,697	-	5,050
Debt service	<u>-</u>	<u>-</u>	<u>(277,950)</u>
Net non-operating receipts (disbursements)	<u>\$ 65,706</u>	<u>\$ -</u>	<u>\$ (114,439)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (584,407)</u>	<u>\$ -</u>	<u>\$ (435,143)</u>
Operating transfers in (out):			
Operating transfers in	\$ 370,000	\$ 693,000	\$ -
Operating transfers out	<u>-</u>	<u>-</u>	<u>(241,600)</u>
Total operating transfers in (out)	<u>\$ 370,000</u>	<u>\$ 693,000</u>	<u>\$ (241,600)</u>
Net change in cash balances	\$ (214,407)	\$ 693,000	\$ (676,743)
Cash balances beginning of year	<u>655,839</u>	<u>307,000</u>	<u>2,743,455</u>
Cash balances end of year	<u>\$ 441,432</u>	<u>\$1,000,000</u>	<u>\$ 2,066,712</u>
Cash Basis Fund Balances:			
Reserved for other	\$ -	\$1,000,000	\$ -
Unreserved	<u>441,432</u>	<u>-</u>	<u>2,066,712</u>
Total cash basis fund balances	<u>\$ 441,432</u>	<u>\$1,000,000</u>	<u>\$ 2,066,712</u>

*See Notes to Financial Statements.*

<u>Funds</u>			<u>Internal Service Funds</u>		
<u>Electric Capital</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Clearing</u>	<u>Payroll Clearing</u>	<u>Total</u>
\$ -	\$ 531,649	\$ 4,908,557	\$ -	\$ -	\$ -
-	-	-	12,220	-	12,220
\$ -	\$ 531,649	\$ 4,908,557	\$ 12,220	\$ -	\$ 12,220
-	877,099	6,224,824	-	-	-
\$ -	\$ (345,450)	\$ (1,316,267)	\$ 12,220	\$ -	\$ 12,220
\$ -	\$ 48,457	\$ 54,600	\$ -	\$ -	\$ -
-	40,031	255,358	-	-	-
-	6,245	13,992	-	53,216	53,216
-	(84,980)	(362,930)	-	-	-
\$ -	\$ 9,753	\$ (38,980)	\$ -	\$ 53,216	\$ 53,216
\$ -	\$ (335,697)	\$ (1,355,247)	\$ 12,220	\$ 53,216	\$ 65,436
\$ -	\$ 180,000	\$ 1,243,000	\$ -	\$ -	\$ -
-	(1,331,500)	(1,573,100)	-	-	-
\$ -	\$ (1,151,500)	\$ (330,100)	\$ -	\$ -	\$ -
\$ -	\$ (1,487,197)	\$ (1,685,347)	\$ 12,220	\$ 53,216	\$ 65,436
<u>3,200,000</u>	<u>3,036,438</u>	<u>9,942,732</u>	<u>71,105</u>	<u>-</u>	<u>71,105</u>
<u>\$3,200,000</u>	<u>\$ 1,549,241</u>	<u>\$ 8,257,385</u>	<u>\$ 83,325</u>	<u>\$ 53,216</u>	<u>\$ 136,541</u>
\$3,200,000	\$ 996,579	\$ 5,196,579	\$ -	\$ -	\$ -
-	552,662	3,060,806	83,325	53,216	136,541
<u>\$3,200,000</u>	<u>\$ 1,549,241</u>	<u>\$ 8,257,385</u>	<u>\$ 83,325</u>	<u>\$ 53,216</u>	<u>\$ 136,541</u>

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental fund:

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

The Capital Projects, Aquatic Center Fund is used to account for receipts and disbursements relating to the aquatic center.

The City reports the following major proprietary funds:

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

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

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

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for payroll clearing accounts.

C. Measurement Focus and Basis of Accounting

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

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) Summary of Significant Accounting Policies - continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the culture and recreation function prior to the budget amendment.

(2) Cash and Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$957,751 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(3) Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 320,000	\$ 167,604	\$ 180,000	\$ 181,770	\$ 500,000	\$ 349,374
2009	365,000	115,808	190,000	174,019	555,000	289,827
2010	190,000	102,217	190,000	165,827	380,000	268,044
2011	200,000	95,847	200,000	157,608	400,000	253,455
2012	205,000	88,979	205,000	148,940	410,000	237,919
2013-2017	880,000	331,197	1,160,000	602,929	2,040,000	934,126
2018-2022	585,000	197,358	1,255,000	326,485	1,840,000	523,843
2023-2026	570,000	63,102	725,000	66,670	1,295,000	129,772
Total	<u>\$3,315,000</u>	<u>\$1,162,112</u>	<u>\$4,105,000</u>	<u>\$1,824,248</u>	<u>\$ 7,420,000</u>	<u>\$ 2,986,360</u>

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

- a) At the option of the City, electric revenue bonds maturing after June 1, 2015 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- b) At the option of the City, storm sewer revenue bonds maturing after June 1, 2013 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- c) The bonds will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- d) Sufficient monthly transfers shall be made to separate electric and storm sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- e) A transfer shall be made from the bond proceeds to the electric revenue bond reserve account and storm sewer revenue bond reserve account in an amount equal to the principal and interest payments for the fiscal year. The reserve accounts are restricted for the purpose of paying principal and interest due on the revenue bonds when insufficient money is available in the revenue bond sinking account.
- f) Additional monthly transfers shall be made to an electric revenue improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other funds might be unable to make.

CITY OF FOREST CITY, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

(4) **Capital Lease**

The City leases various vehicles and pieces of equipment on a capital lease basis. The following is a schedule, by years, of future payments required under the leases:

<u>Year ended June 30,</u>	
2008	\$ 46,580
2009	24,480
2010	<u>8,220</u>
Total minimum lease payments	\$ 79,280
Amounts representing interest	<u>(6,037)</u>
Present value of net minimum lease payments	 <u>\$ 73,243</u>

(5) **Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$118,160, \$118,635 and \$117,886, respectively, equal to the required contributions for each year.

(6) **Industrial Development Revenue Bonds**

The City has issued a total of \$851,865 of Health Care Facility Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds outstanding at June 30, 2007 were \$552,678.

(7) **Compensated Absences**

City employees earn vacation and sick leave at rates dependent on years of service. Sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for unrecognized accrued employee benefits at June 30, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$101,299
Compensatory time	<u>38,455</u>
Total	<u>\$139,754</u>

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(7) **Compensated Absences** - continued

This liability has been computed based on rates of pay in effect at June 30, 2007.

(8) **Risk Management**

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

(9) **Economic Development**

On April 20, 2005, the City loaned \$15,000 to Progressive Image. The loan proceeds were used to start up and operate a hairstyling center in Forest City. The loan is a non-interest bearing loan. Progressive Image is obligated to repay the City in monthly installments of \$250 beginning May 1, 2005. The loan balance at June 30, 2007 was \$9,000.

On December 19, 2002, the City loaned \$15,000 to MJ Hooligans. The loan proceeds were used to start up and operate a restaurant in Forest City. The loan is a non-interest bearing loan. MJ Hooligans is obligated to repay the City in monthly installments of \$250 beginning March 1, 2004. The loan balance at June 30, 2007 was \$2,500.

On April 12, 1999, the City loaned \$10,000 to Primerica Financial. The loan proceeds were used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. Primerica Financial is obligated to repay the City in annual installments of \$2,000 beginning November 1, 2000. The loan balance at June 30, 2007 was \$2,000.

On November 20, 2002, The City loaned \$200,000 to CDI, Inc. The loan proceeds were used to start up and operate a painting facility in Forest City. The loan bears interest at 5%. CDI, Inc. is obligated to repay the City in monthly installments of \$2,121 beginning January 1, 2004. The loan balance at June 30, 2007 was \$119,210.

On August 31, 2004, the City loaned \$102,000 to CDI, Inc. The loan proceeds were used to operate a painting facility in Forest City. One half of the amount loaned bears interest at 0% and CDI, Inc. is obligated to repay the City in monthly installments of \$875 beginning December 1, 2004. The other half of the amount loaned by the City is forgivable and had a balance of \$52,000 at June 30, 2007. The repayable loan balance at June 30, 2007 was \$25,375.

(10) **Forgivable Loan**

The City entered into an economic development agreement with CDI, Inc. on November 20, 2002. The City loaned the corporation \$100,000 to start up and operate a painting facility in Forest City. CDI, Inc. is obligated to pay interest only on the loan at 5%. The City has agreed to forgive the loan in \$50,000 increments in 2007 and 2013 provided that CDI, Inc. is in compliance with the agreement. The remaining balance at June 30, 2007 is \$50,000.

**CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**(11) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 365,000
	Employee Benefits	260,000
	Local Option Sales Tax	265,000
		<u>\$ 890,000</u>
General	Enterprise:	
	Water	\$ 15,000
	Sewer Replacement	68,500
	Storm Sewer	5,000
	Electric	241,600
		<u>\$ 330,100</u>
		<u>\$1,220,100</u>
Special Revenue:	Special Revenue:	
Road Use Tax	Street Improvement	\$ 15,000
		<u>\$ 15,000</u>
Local Option Sales Tax	General	\$ 100,000
		<u>\$ 100,000</u>
Enterprise:	Enterprise:	
Sewer Rental	Sewer Replacement	\$ 370,000
Sewer Reserve	Sewer Replacement	693,000
Storm Sewer Sinking	Storm Sewer	90,000
Storm Sewer Reserve	Storm Sewer	90,000
		<u>\$1,243,000</u>
		<u>\$1,243,000</u>
Total		<u>\$2,578,100</u>

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

**(12) Related Party Transactions**

The City had business transactions between the City and the City officials, totaling \$6,230 during the year ended June 30, 2007.

**(13) Deficit Balances**

The Special Revenue, Employee Benefits and Tax Increment Financing Funds had deficit balances of \$6,422 and \$603,280 at June 30, 2007, respectively. These deficits will be eliminated upon receipt of property taxes.

**(14) Commitments**

At June 30, 2007, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
2006 Storm Sewer	\$ 430,305	\$ 408,790
Retention Basis Project	831,810	729,467
ISKU Metal Clad Switchgear	181,281	163,153
2006 Electric S Substation	816,704	150,215
Water Treatment Facility	76,000	28,690
Aquatic Center	2,611,550	143,621

CITY OF FOREST CITY, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

(14) Commitments - continued

	Total Contract	Costs Incurred to Date
Electric <u>Project</u> Distribution Plant	315,288	-
J Street Bridge	63,452	-
Runway Rehabilitation	858,571	-
Total	\$6,184,961	\$1,623,936

(15) Litigation

The City is subject to pending litigation. The probability of loss, if any, is undeterminable.

(16) Subsequent Events

Between July 1 and September 4, 2007, the City approved electric plant construction contracts for \$1,008,576, and a street project for \$20,637.

**Required Supplementary Information**

CITY OF FOREST CITY, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES  
 BUDGET AND ACTUAL (CASH BASIS) - ALL  
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required To Be Budgeted
<b>RECEIPTS:</b>			
Property tax	\$ 1,354,261	\$ -	\$ -
Tax increment financing collections	245,779	-	-
Other city tax	346,408	-	-
Licenses and permits	8,190	-	-
Use of money and property	328,316	255,358	-
Intergovernmental	1,074,161	54,600	-
Charges for service	398,769	4,908,557	-
Special assessments	37,233	-	-
Miscellaneous	837,448	79,428	65,436
Total receipts	<u>\$ 4,630,565</u>	<u>\$ 5,297,943</u>	<u>\$ 65,436</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 989,741	\$ -	\$ -
Public works	1,232,196	-	-
Health and social services	44,693	-	-
Culture and recreation	879,860	-	-
Community and economic development	519,873	-	-
General government	190,579	-	-
Debt service	325,790	-	-
Capital projects	127,089	-	-
Business type activities	-	6,587,754	-
Total disbursements	<u>\$ 4,309,821</u>	<u>\$ 6,587,754</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 320,744	\$(1,289,811)	\$ 65,436
Other financing sources, net	<u>2,326,144</u>	<u>(330,100)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 2,646,888	\$(1,619,911)	\$ 65,436
Balances beginning of year	<u>1,226,299</u>	<u>10,013,837</u>	<u>71,105</u>
<b>Balances end of year</b>	<b><u>\$ 3,873,187</u></b>	<b><u>\$ 8,393,926</u></b>	<b><u>\$ 136,541</u></b>

*See Accompanying Independent Auditor's Report.*

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$1,354,261	\$ 1,344,237	\$1,344,237	\$ 10,024
245,779	281,776	281,776	(35,997)
346,408	319,271	319,271	27,137
8,190	8,575	8,575	(385)
583,674	162,050	172,050	411,624
1,128,761	1,591,235	1,956,235	(827,474)
5,307,326	5,799,404	6,085,404	(778,078)
37,233	80,000	86,000	(48,767)
851,440	94,100	146,700	704,740
<u>\$ 9,863,072</u>	<u>\$ 9,680,648</u>	<u>\$10,400,248</u>	<u>\$ (537,176)</u>
\$ 989,741	\$ 1,174,165	\$ 1,174,165	\$ 184,424
1,232,196	1,697,400	1,672,400	440,204
44,693	20,000	45,000	307
879,860	549,704	1,049,704	169,844
519,873	408,871	823,871	303,998
190,579	216,905	216,905	26,326
325,790	325,890	325,890	100
127,089	160,000	160,000	32,911
6,587,754	7,829,025	7,829,025	1,241,271
<u>\$10,897,575</u>	<u>\$12,381,960</u>	<u>\$13,296,960</u>	<u>\$ 2,399,385</u>
\$(1,034,503)	\$(2,701,312)	\$(2,896,712)	\$ 1,862,209
<u>1,996,044</u>	<u>-</u>	<u>2,200,000</u>	<u>(203,956)</u>
\$ 961,541	\$(2,701,312)	\$ (696,712)	\$ 1,658,253
<u>11,169,031</u>	<u>9,144,519</u>	<u>9,144,519</u>	<u>2,024,512</u>
<u><b>\$12,130,572</b></u>	<u><b>\$ 6,443,207</b></u>	<u><b>\$ 8,447,807</b></u>	<u><b>\$ 3,682,765</b></u>

**CITY OF FOREST CITY, IOWA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**  
**JUNE 30, 2007**

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended once, resulting in increased budgeted disbursements by \$915,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation function prior to the budget amendment.

Other Supplementary Information

CITY OF FOREST CITY, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Special</u>			
	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>	<u>Low-Moderate Income</u>
<b>RECEIPTS:</b>				
Property tax	\$ -	\$ 251,296	\$ -	\$ -
Tax increment financing collections	-	-	-	-
Other city tax	-	-	306,257	-
Use of money and property	-	-	-	-
Intergovernmental	366,384	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	10,500
Total receipts	<u>\$ 366,384</u>	<u>\$ 251,296</u>	<u>\$ 306,257</u>	<u>\$ 10,500</u>
<b>DISBURSEMENTS:</b>				
Culture and recreation	\$ -	\$ -	\$ -	\$ -
Community and economic development	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 366,384</u>	<u>\$ 251,296</u>	<u>\$ 306,257</u>	<u>\$ 10,500</u>
Other financing sources (uses):				
Operating transfers in	\$ 15,000	\$ -	\$ 100,000	\$ -
Operating transfers out	(365,000)	(260,000)	(265,000)	-
Total other financing sources (uses)	<u>\$(350,000)</u>	<u>\$(260,000)</u>	<u>\$(165,000)</u>	<u>\$ -</u>
Net change in cash balances	\$ 16,384	\$ (8,704)	\$ 141,257	\$ 10,500
Cash balances beginning of year	(8,023)	2,282	-	16,625
<b>Cash balances end of year</b>	<u><b>\$ 8,361</b></u>	<u><b>\$ (6,422)</b></u>	<u><b>\$ 141,257</b></u>	<u><b>\$ 27,125</b></u>
<b>Cash Basis Fund Balances:</b>				
Reserved:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
Special revenue funds	8,361	(6,422)	141,257	27,125
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	<u>\$ 8,361</u>	<u>\$ (6,422)</u>	<u>\$ 141,257</u>	<u>\$ 27,125</u>

(Continued)

Revenue			Capital Projects		
CDBG	Hotel Motel Tax	Tax Increment Financing	Capital Improvement Reserve	Street Improvement	Debt Service
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 324,492
-	-	245,779	-	-	-
-	40,151	-	-	-	-
-	-	-	-	-	-
270,691	-	-	-	-	-
-	-	-	-	1,610	35,623
-	-	36,996	-	-	32,908
<u>\$270,691</u>	<u>\$ 40,151</u>	<u>\$ 282,775</u>	<u>\$ -</u>	<u>\$ 1,610</u>	<u>\$ 393,023</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
257,972	22,262	142,874	-	-	-
-	-	-	-	-	325,790
-	-	-	-	127,089	-
<u>\$257,972</u>	<u>\$ 22,262</u>	<u>\$ 142,874</u>	<u>\$ -</u>	<u>\$ 127,089</u>	<u>\$ 325,790</u>
<u>\$ 12,719</u>	<u>\$ 17,889</u>	<u>\$ 139,901</u>	<u>\$ -</u>	<u>\$(125,479)</u>	<u>\$ 67,233</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	(15,000)	-
\$ -	\$ -	\$ -	\$ -	\$ (15,000)	\$ -
\$ 12,719	\$ 17,889	\$ 139,901	\$ -	\$(140,479)	\$ 67,233
44,608	10,703	(743,181)	9,196	277,436	(53,585)
<u>\$ 57,327</u>	<u>\$ 28,592</u>	<u>\$(603,280)</u>	<u>\$ 9,196</u>	<u>\$ 136,957</u>	<u>\$ 13,648</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,648
57,327	28,592	(603,280)	9,196	-	-
-	-	-	-	136,957	-
-	-	-	-	-	-
<u>\$ 57,327</u>	<u>\$ 28,592</u>	<u>\$(603,280)</u>	<u>\$ 9,196</u>	<u>\$ 136,957</u>	<u>\$ 13,648</u>

CITY OF FOREST CITY, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Permanent		
	Cemetery Perpetual Care	Library Trust	Total
<b>RECEIPTS:</b>			
Property tax	\$ -	\$ -	\$ 575,788
Tax increment financing collections	-	-	245,779
Other city tax	-	-	346,408
Use of money and property	-	6,706	6,706
Intergovernmental	-	-	637,075
Special assessments	-	-	37,233
Miscellaneous	725	6,711	87,840
Total receipts	\$ 725	\$ 13,417	\$1,936,829
<b>DISBURSEMENTS:</b>			
Culture and recreation	\$ -	\$ 7,539	\$ 7,539
Community and economic development	-	-	423,108
Debt service	-	-	325,790
Capital projects	-	-	127,089
Total disbursements	\$ -	\$ 7,539	\$ 883,526
Excess (deficiency) of receipts over (under) disbursements	\$ 725	\$ 5,878	\$1,053,303
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ 115,000
Operating transfers out	-	-	(905,000)
Total other financing sources (uses)	\$ -	\$ -	\$ (790,000)
Net change in cash balances	\$ 725	\$ 5,878	\$ 263,303
Cash balances beginning of year	43,955	126,726	(273,258)
<b>Cash balances end of year</b>	<b>\$ 44,680</b>	<b>\$ 132,604</b>	<b>\$ (9,955)</b>
<b>Cash Basis Fund Balances:</b>			
Reserved:			
Debt service	\$ -	\$ -	\$ 13,648
Unreserved:			
Special revenue funds	-	-	(337,844)
Capital projects fund	-	-	136,957
Permanent funds	44,680	132,604	177,284
Total cash basis fund balances	\$ 44,680	\$ 132,604	\$ (9,955)

*See Accompanying Independent Auditor's Report.*

CITY OF FOREST CITY, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Water</u>	<u>Water Reserve</u>	<u>Water Improvement</u>	<u>Sewer Replacement</u>
Operating receipts:				
Charges for service	\$ 394,769	\$ -	\$ -	\$ -
Operating disbursements:				
Business type activities	<u>394,017</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-operating receipts (disbursements):				
Intergovernmental	\$ 43,200	\$ -	\$ -	\$ -
Interest on investments	8,245	-	-	-
Miscellaneous	6,245	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>\$ 57,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 58,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(1,131,500)</u>
Total other financing sources (uses)	<u>\$ (15,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,131,500)</u>
Net change in cash balances	\$ 43,442	\$ -	\$ -	\$ (1,131,500)
Cash balances beginning of year	<u>509,220</u>	<u>120,000</u>	<u>50,000</u>	<u>1,131,500</u>
<b>Cash balances end of year</b>	<b><u>\$ 552,662</u></b>	<b><u>\$ 120,000</u></b>	<b><u>\$ 50,000</u></b>	<b><u>\$ -</u></b>
<b>Cash Basis Fund balances:</b>				
Reserved for other	\$ -	\$ 120,000	\$ 50,000	\$ -
Unreserved	<u>552,662</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 552,662</u>	<u>\$ 120,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>

*See Accompanying Independent Auditor's Report.*

<u>Electric Reserve</u>	<u>Storm Sewer</u>	<u>Storm Sewer Sinking</u>	<u>Storm Sewer Reserve</u>	<u>Total</u>
\$ -	\$ 136,880	\$ -	\$ -	\$ 531,649
<u>-</u>	<u>483,082</u>	<u>-</u>	<u>-</u>	<u>877,099</u>
<u>\$ -</u>	<u>\$(346,202)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (345,450)</u>
\$ -	\$ 5,257	\$ -	\$ -	\$ 48,457
-	31,786	-	-	40,031
-	-	-	-	6,245
<u>-</u>	<u>(84,980)</u>	<u>-</u>	<u>-</u>	<u>(84,980)</u>
<u>\$ -</u>	<u>\$ (47,937)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,753</u>
<u>\$ -</u>	<u>\$(394,139)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (335,697)</u>
\$ -	\$ -	\$ 90,000	\$ 90,000	\$ 180,000
<u>-</u>	<u>(185,000)</u>	<u>-</u>	<u>-</u>	<u>(1,331,500)</u>
<u>\$ -</u>	<u>\$(185,000)</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$(1,151,500)</u>
\$ -	\$(579,139)	\$ 90,000	\$ 90,000	\$(1,487,197)
<u>300,000</u>	<u>925,718</u>	<u>-</u>	<u>-</u>	<u>3,036,438</u>
<u><b>\$ 300,000</b></u>	<u><b>\$ 346,579</b></u>	<u><b>\$ 90,000</b></u>	<u><b>\$ 90,000</b></u>	<u><b>\$ 1,549,241</b></u>
\$ 300,000	\$ 346,579	\$ 90,000	\$ 90,000	\$ 996,579
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>552,662</u>
<u>\$ 300,000</u>	<u>\$ 346,579</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 1,549,241</u>

CITY OF FOREST CITY, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Bonds:</b>			
Essential Corporate Purpose	06-01-03	1.40 - 3.75%	\$1,255,000
Essential Corporate Purpose	01-30-02	2.25 - 4.35	1,370,000
Essential Corporate Purpose	12-01-06	3.65 - 4.40	2,000,000
<b>Revenue Bonds:</b>			
Electric	05-24-05	4.52%	\$3,500,000
Storm Sewer	05-01-06	3.70 - 4.35	900,000
<b>Capital Leases:</b>			
Police cars	01-02-06	6.10%	\$ 64,496
John Deere cab and broom	12-01-01	7.50	7,415
Case wheel loader	08-06-04	4.75	23,144
John Deere lawn tractor	05-03-07	9.25	22,210
John Deere lawn tractor	10-06-04	8.50	8,510
International 4300 truck	09-10-04	5.07	57,564

**Total indebtedness**

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$1,055,000	\$ -	\$ 100,000	\$ 955,000	\$ 33,000	\$ -
530,000	-	170,000	360,000	22,190	-
-	2,000,000	-	2,000,000	-	-
<u>\$1,585,000</u>	<u>\$2,000,000</u>	<u>\$ 270,000</u>	<u>\$3,315,000</u>	<u>\$ 55,190</u>	<u>\$ -</u>
\$3,375,000	\$ -	\$ 125,000	\$3,250,000	\$ 152,550	\$ -
900,000	-	45,000	855,000	39,580	-
<u>\$4,275,000</u>	<u>\$ -</u>	<u>\$ 170,000</u>	<u>\$4,105,000</u>	<u>\$ 192,130</u>	<u>\$ -</u>
\$ 42,496	\$ -	\$ 21,667	\$ 20,829	\$ 433	\$ -
1,705	-	1,705	-	128	-
11,840	-	11,840	-	543	-
-	22,210	-	22,210	-	-
2,830	-	2,830	-	250	-
44,222	-	14,018	30,204	2,242	-
<u>\$ 103,093</u>	<u>\$ 22,210</u>	<u>\$ 52,060</u>	<u>\$ 73,243</u>	<u>\$ 3,596</u>	<u>\$ -</u>
<u>\$5,963,093</u>	<u>\$2,022,210</u>	<u>\$ 492,060</u>	<u>\$7,493,243</u>	<u>\$ 250,916</u>	<u>\$ -</u>

CITY OF FOREST CITY, IOWA  
BOND MATURITIES  
JUNE 30, 2007

General Obligation Bonds

Year Ending June 30,	Essential Corporate Purpose Issued January 30, 2002		Essential Corporate Purpose Issued June 1, 2003	
	Interest Rates	Amount	Interest Rates	Amount
	2008	4.20%	\$ 180,000	2.40%
2009	4.35	180,000	2.75	110,000
2010		-	3.10	110,000
2011		-	3.20	115,000
2012		-	3.30	120,000
2013		-	3.50	125,000
2014		-	3.60	130,000
2015		-	3.75	140,000
2016		-		-
2017		-		-
2018		-		-
2019		-		-
2020		-		-
2021		-		-
2022		-		-
2023		-		-
2024		-		-
2025		-		-
2026		-		-
<b>Total</b>		<b><u>\$ 360,000</u></b>		<b><u>\$ 955,000</u></b>

Revenue Bonds

Year Ending June 30,	Electric Issued May 24, 2005		Storm Sewer Issued May 1, 2006		Total
	Interest Rates	Amount	Interest Rates	Amount	
	2008	4.52%	\$ 130,000	3.75%	
2009	4.52	135,000	3.80	55,000	190,000
2010	4.52	135,000	3.85	55,000	190,000
2011	4.52	140,000	3.90	60,000	200,000
2012	4.52	145,000	3.95	60,000	205,000
2013	4.52	150,000	4.00	60,000	210,000
2014	4.52	160,000	4.05	65,000	225,000
2015	4.52	165,000	4.10	65,000	230,000
2016	4.52	170,000	4.15	70,000	240,000
2017	4.52	180,000	4.20	75,000	255,000
2018	4.52	185,000	4.25	75,000	260,000
2019	4.52	195,000	4.30	80,000	275,000
2020	4.52	205,000	4.35	85,000	290,000
2021	4.52	210,000		-	210,000
2022	4.52	220,000		-	220,000
2023	4.52	230,000		-	230,000
2024	4.52	240,000		-	240,000
2025	4.52	255,000		-	255,000
<b>Total</b>		<b><u>\$3,250,000</u></b>		<b><u>\$ 855,000</u></b>	<b><u>\$4,105,000</u></b>

<b>Essential</b>		
<b>Corporate Purpose</b>		
<b>Issued December 1, 2006</b>		
<b>Interest Rates</b>	<b>Amount</b>	<b>Total</b>
3.65%	\$ 35,000	\$ 320,000
3.65	75,000	365,000
3.70	80,000	190,000
3.75	85,000	200,000
3.75	85,000	205,000
3.80	90,000	215,000
3.85	95,000	225,000
3.87	95,000	235,000
3.90	100,000	100,000
4.00	105,000	105,000
4.00	110,000	110,000
4.05	115,000	115,000
4.10	115,000	115,000
4.15	120,000	120,000
4.20	125,000	125,000
4.25	135,000	135,000
4.30	140,000	140,000
4.35	145,000	145,000
4.40	150,000	150,000
	<b><u>\$2,000,000</u></b>	<b><u>\$3,315,000</u></b>

*See Accompanying Independent Auditor's Report.*

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:					
Property tax	\$1,354,261	\$1,320,332	\$1,164,388	\$1,117,857	\$1,180,239
Tax increment financing	245,779	166,442	170,804	124,984	99,092
Other city tax	346,408	313,419	262,410	271,452	292,560
Licenses and permits	8,190	8,840	8,536	7,860	7,295
Use of money and property	328,316	203,483	64,867	31,226	102,423
Intergovernmental	1,074,161	893,940	1,267,374	668,132	929,947
Charges for service	398,769	386,510	386,845	387,136	409,874
Special assessments	37,233	49,448	87,770	31,339	47,231
Miscellaneous	837,448	338,748	267,145	790,953	1,463,921
<b>Total</b>	<b><u>\$4,630,565</u></b>	<b><u>\$3,681,162</u></b>	<b><u>\$3,680,139</u></b>	<b><u>\$3,430,939</u></b>	<b><u>\$4,532,582</u></b>
Disbursements:					
Operating:					
Public safety	\$ 989,741	\$1,063,005	\$1,413,391	\$ 979,468	\$ 961,680
Public works	1,232,196	948,615	1,264,610	827,126	807,330
Health and social services	44,693	43,142	39,499	15,627	15,787
Culture and recreation	879,860	665,101	522,967	675,261	1,351,958
Community and economic development	519,873	393,957	472,837	557,578	1,487,329
General government	190,579	190,425	193,038	191,471	209,626
Debt service	325,790	423,723	389,200	290,188	247,307
Capital projects	127,089	54,063	637,150	1,365,867	94,961
<b>Total</b>	<b><u>\$4,309,821</u></b>	<b><u>\$3,782,031</u></b>	<b><u>\$4,932,692</u></b>	<b><u>\$4,902,586</u></b>	<b><u>\$5,175,978</u></b>

*See Accompanying Independent Auditor's Report.*

CITY OF FOREST CITY, IOWA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
<b>Direct:</b>			
Federal Aviation Administration: Airport Improvement Program: Apron and Taxi Lane Rehabilitation	20.106	03-19-0034-07	\$ <u>221,115</u>
<b>Indirect:</b>			
Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grant Program	14.228	05-CF-013	\$ <u>257,972</u>
Department of Justice: Iowa Department of Public Health: Governor's Alliance on Substance Abuse: North Central Iowa Narcotics Task Force: Drug Control and Systems Improvement	16.579	GASA	\$ <u>37,961</u>
Federal Emergency Management Agency: Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Disaster Assistance Program	97.036 97.036	FEMA-3275-EM-IA FEMA-DR-1688-IA	\$ 8,169 19,559 <u>27,728</u>
<b>Total</b>			<b>\$ <u>544,776</u></b>

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

*See Accompanying Independent Auditor's Report.*



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

To the Honorable Mayor and  
 Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated November 27, 2007. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Forest City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Forest City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Forest City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Forest City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Forest City's financial statements that is more than inconsequential will not be prevented or detected by the City of Forest City's internal control. I consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Forest City's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. I noted no matters involving the internal control structure and its operation that I consider to be a material weakness as defined above.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Forest City's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Forest City's responses and, accordingly, I express no opinion on them.

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

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



November 27, 2007



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

To Honorable Mayor and  
Members of the City Council:

Compliance

I have audited the compliance of the City of Forest City, Iowa, with the types of compliance requirements described in U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2007. The City of Forest City's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of the City of Forest City's management. My responsibility is to express an opinion on the City of Forest City's compliance based on my audit.

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

In my opinion, the City of Forest City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Forest City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing my audit, I considered the City of Forest City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Forest City's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City of Forest City's internal control that might be significant deficiencies or material weaknesses as defined below. No current year significant deficiencies or material weaknesses were noted.

A control deficiency in the City of Forest City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Forest City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of Forest City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Forest City's internal control.

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



November 27, 2007

**CITY OF FOREST CITY, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2007**

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 - Community Development Block Grants/State's Program and CFDA Number 16.579 - Drug Control and Systems Improvement.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Forest City did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCY:**

II-A-07      Clerk's Monthly Financial Report - One imprest cash fund was not included in the clerk's balances.

Recommendation - Chapter 384.20 of the Code of Iowa states in part that "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." All funds of the City should be included in the Clerk's report to comply with Chapter 384.20 of the Code of Iowa.

Response - We will include all imprest cash funds in the Clerk's report.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

CITY OF FOREST CITY, IOWA  
Schedule of Findings  
Year Ended June 30, 2007

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCE OF NON-COMPLIANCE:**

There were no matters noted.

**SIGNIFICANT DEFICIENCY:**

None

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-07      Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the culture and recreation function prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will do this in the future.

Conclusion - Response accepted.

IV-B-07      Questionable Disbursements - No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-07      Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07      Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tony Coloff, Cable TV Committee, Owner KIOW Radio Station	Advertising/legal publications	\$ 2,405
Ron Holland, Council Member, Owner Ron Holland House Moving	Services	3,825

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

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

Response - We will do this.

Conclusion - Response accepted.

IV-E-07      Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF FOREST CITY, IOWA  
Schedule of Findings  
Year Ended June 30, 2007

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

IV-F-07      Council Minutes - No transactions were found that we believe should have been approved in the minutes but were not.

IV-G-07      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-07      Revenue Bonds - The City has complied with the revenue bond resolutions.

IV-I-07      Financial Condition - The Special Revenue, Employee Benefits Fund and Tax Increment Financing Fund had deficit balances of \$6,422 and \$603,280, respectively, at June 30, 2007.

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

Response - These accounts will be monitored in the future.

Conclusion - Response accepted.

IV-J-07      Mileage Reimbursement - The City reimbursed mileage at a rate in excess of the Internal Revenue Service allowable rate. The City is not in compliance with Chapter 70A.9 of the Code of Iowa.

Recommendation - The City should change its mileage reimbursement rate when the Internal Revenue Service mileage reimbursement rate is changed.

Response - We will do this in the future.

Conclusion - Response accepted.