

FOREST CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

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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, 2007, 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, 2007, 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 February 20, 2008, 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 38 through 39 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, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, 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 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

February 20, 2008

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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for fiscal 2007 were \$11,075,921 while General Fund expenditures were \$11,315,231. This resulted in a decrease in the District's General Fund balance from \$556,255 in fiscal 2006 to \$240,314 in fiscal 2007, or a \$315,941 decrease from the prior year.
- A decrease in the General Fund ending balance was attributable to increases for general expenses, wages and benefits, heat, utilities, fuel and repairs of the transportation fleet.
- The District passed a resolution to continue participation in the Instructional Support Program for another five years starting with the 2008-2009 school year. The additional funding will be determined annually and shall not exceed five percent (5%) of the total regular program district cost for the budget year which will on an annual basis raise approximately \$250,000. The moneys received may be used for implementation of the District's technology program, including the purchase of computer hardware and software, general maintenance and upgrading of equipment, staff development, including the student management system and for the use or purchase of new technologies that have been found to enhance student achievement or delivery of instruction.
- 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 \$31,396 for the 2007-2008 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 \$78,040 for the 2007-2008 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 \$556,424 for the 2007-2008 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 \$52,247 for the 2007-2008 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.

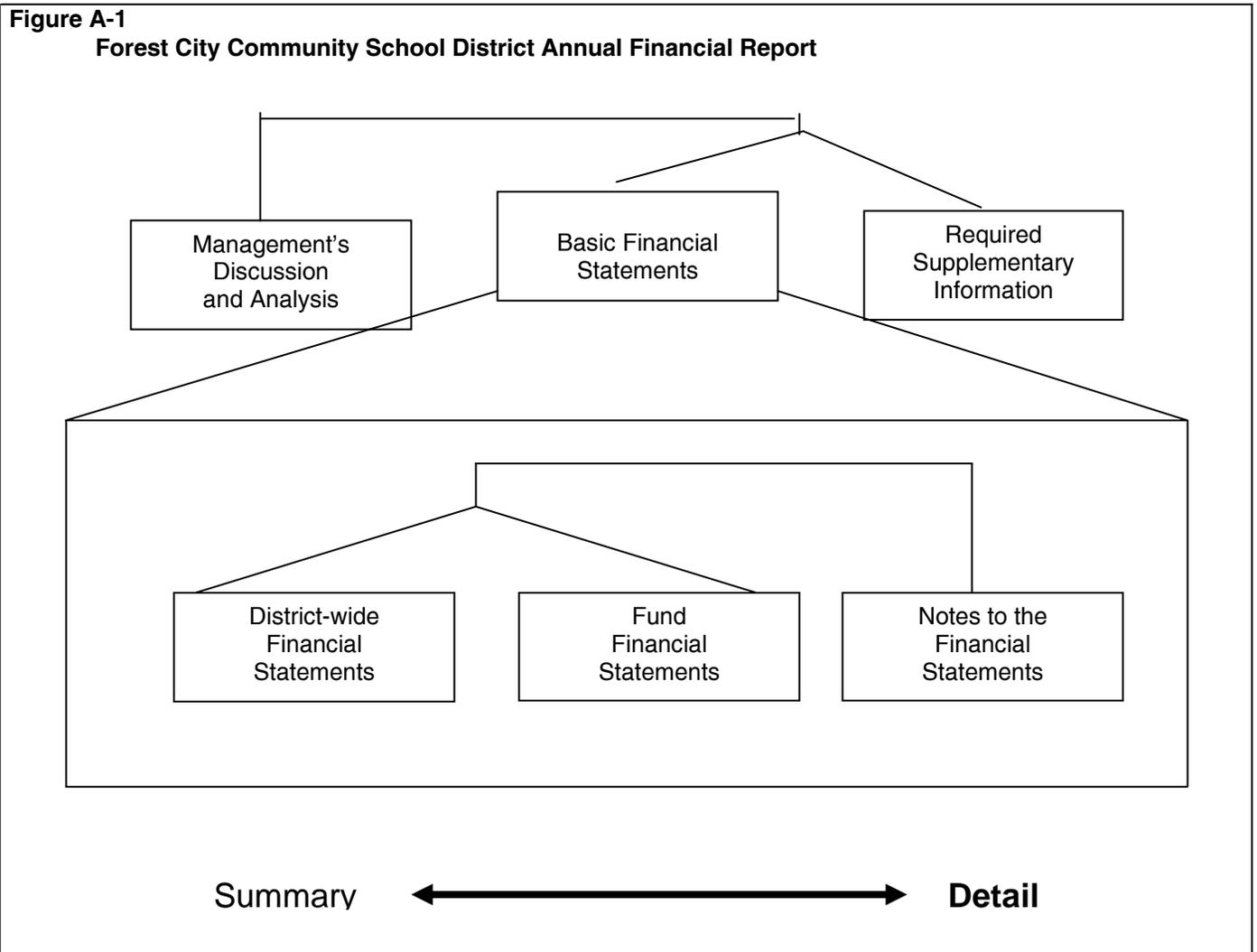


Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents 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, 2007 compared to 2006.

Figure A-3							
Condensed Statement of Net Assets (in millions of dollars)							
	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006-2007</u>
Current and other assets	\$8.721	\$8.197	\$.037	\$.043	\$8.758	\$8.240	-5.91%
Capital assets	8.624	8.894	.044	.041	8.668	8.935	3.08%
Total assets	17.345	17.091	.081	.084	17.426	17.175	-1.44%
Long-term debt outstanding	3.384	3.080	0	0	3.384	3.080	-8.98%
Other liabilities	7.262	7.137	.046	.047	7.308	7.184	-1.70%
Total liabilities	10.646	10.217	.046	.047	10.692	10.264	-4.00%
Net assets							
Invested in capital assets, net of related debt	5.400	5.937	.044	.041	5.444	5.978	9.81%
Restricted	.629	.535	0	0	.629	.535	-14.94%
Unrestricted	.670	.402	-.009	-.004	.661	.398	-39.79%
Total net assets	\$6.699	\$6.874	\$.035	\$.037	\$6.734	\$6.911	2.63%
<small>Note: totals may not add due to rounding.</small>							

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 decreased \$93,936 or 15.43% over the prior year. This decrease was caused by the expenditure of local sales tax and physical plan and equipment property tax monies that were received in fiscal year 2006, but were used to finance current year capital improvements and equipment purchases.

The decrease in unrestricted net assets was primarily due to the District's ever increasing general fund expenditures and additional year end expenses that continues to reduce our Unspent Authorized Budget balance, though our five year plan is 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, 2007.

Figure A-4

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

	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2006-2007
	2006	2007	2006	2007	2006	2007	
Revenues							
Program revenues							
Charges for services	\$1.218	\$1.337	\$.332	\$.344	\$1.550	\$1.681	8.45%
Operating Grants & Contributions	1.101	1.203	.217	.230	1.318	1.433	8.73%
Capital Grants & Contributions	.000	.096	0	0	.000	.096	100.00%
General revenues							
Property Taxes & Other Local Taxes	3.935	3.989	0	0	3.935	3.989	1.37%
Unrestricted State Aid	5.966	5.865	0	0	5.966	5.865	-1.69%
Other	.142	.204	0	0	.142	.204	43.66%
Total revenues	12.362	12.694	.549	.574	12.911	13.268	2.77%
Expenses							
Instruction	8.008	8.295	0	0	8.008	8.295	3.58%
Pupil & Instructional Services	.643	.566	0	0	.643	.566	-11.98%
Administrative & Business	1.081	1.166	0	0	1.081	1.166	7.86%
Maintenance & operations	.899	.992	0	0	.899	.992	10.35%
Transportation	.499	.492	0	0	.499	.492	-1.40%
Other	1.165	1.008	.563	.572	1.728	1.580	-8.56%
Total expenses	12.295	12.519	.563	.572	12.858	13.091	1.81%
Excess (deficiency) before special item	.067	.175	-.014	.002	.053	.177	233.96%
Special item:	0	0	0	0	0	0	
Increase (decrease) in net assets	\$.067	\$.175	\$.014	\$.002	\$.053	\$.177	233.96%

Note: totals may not add due to rounding.

Property tax, income surtax, sales taxes and state foundation aid account for 76 percent of the total revenue. The District's expenses primarily relate to instruction and support services that account for 88 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$12,693,991 and expenses were \$12,518,836. 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.

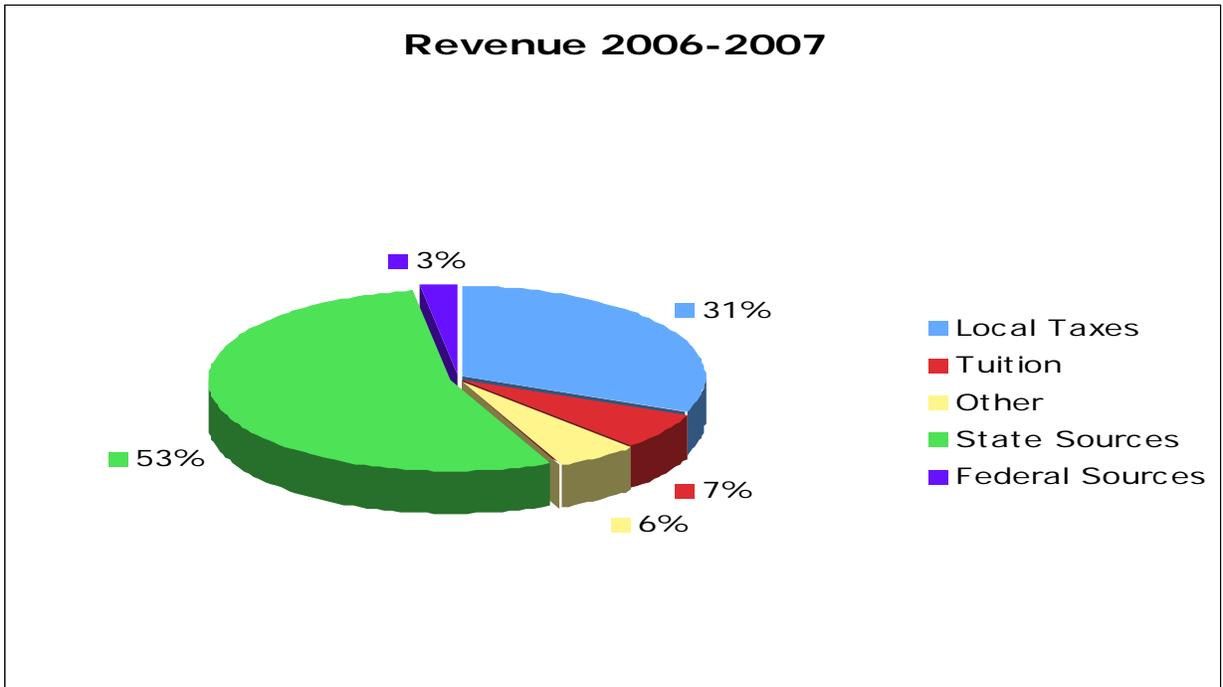


Figure A-6 The following graph presents the total Expenditures for the District's major governmental activities: instruction, student & instructional services, administration & business, operations & maintenance, transportation and AEA flow thru.

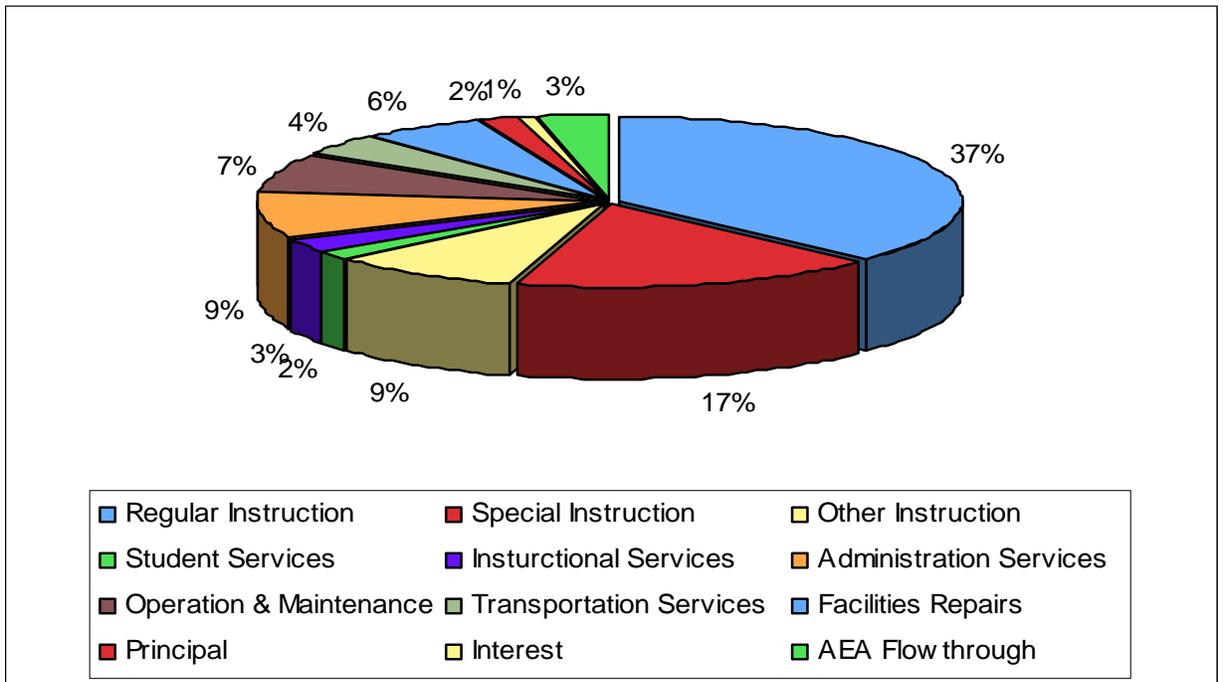


Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental 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>2006</u>	<u>2007</u>	<u>2006-2007</u>	<u>2006</u>	<u>2007</u>	<u>2006-2007</u>
Instruction	\$8.008	\$8.295	3.58%	\$ 6.128	\$ 6.202	1.21%
Pupil & Instructional Services	.643	.566	-11.98%	.643	.566	-11.98%
Administrative & Business	1.081	1.166	7.86%	1.081	1.166	7.86%
Maintenance & operations	.899	.992	10.34%	.894	.988	10.51%
Transportation	.499	.492	-1.40%	.491	.485	-0.01%
Other	1.165	1.008	13.48%	.739	.476	-35.59%
Total	\$12.295	\$12.519	1.82%	\$ 9.976	\$ 9.883	-0.09%

Note: totals may not add due to rounding.

- The cost of all governmental activities this year was \$12,518,836.
- Some of the cost was financed by the users of District programs in the amount of \$1,336,936.
- The federal and state governments subsidized certain programs with grants and contributions \$1,298,565.
- Most of the District's costs \$9,883,335 however was financed by District and state taxpayers.
- This portion of governmental activities was financed with \$3,000,057 million in property taxes, \$214,282 of income surtax and \$774,887 of sales tax \$5,865,387 million of unrestricted state aid based on the statewide finance formula, and 203,553 investment earnings and other revenues.

Business Type Activities

Revenues from the District's business-type activities included charges for services in the amount of \$343,630 and \$230,624 from operating grants, contributions and restricted interest. Expenses from the District's business type activities amounted to \$572,396. The Hot Lunch program was the only Business Type Activity for the District during the 2007 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 \$861,297 below last year's ending fund balances of \$1,290,189. The primary reason for the decrease in the total governmental funds is the expenditure of funds in the General and Physical Plant and Equipment Levy Funds.

Governmental Fund Highlights

- The District's 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 \$556,255 to \$240,314 due mainly to continued larger than anticipated insurance premiums and other costs increasing more than allowable growth that is allowed by the state legislature.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$81,257 in fiscal 2006 to \$2,727 in fiscal 2007. Revenues were spent on capital projects for the 2006-2007 school year.
- The Capital Projects Fund balance remained even due to the completion of the projects and contracts that were completed during the 2006-2007 school year. Fiscal 2007 ended with a balance of \$414,871 consisting of unexpended local option sales taxes.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$34,939 at June 30, 2006 to \$37,121 representing an increase of approximately \$2,182 dollars. An increase student and adult meal receipts helped to keep the ending balance relatively neutral for the year.

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 GAAP 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 \$405,935 more than budgeted receipts, a variance of a little over 3.16 percent. The most significant change was from the local sources that were not projected in the 2006-2007 budget.

Total expenditures were more 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 2007 the District had invested \$18.176 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 was \$521,473.

At June 30, 2007 the District had completed construction on a bus barn addition. Approximately \$315,000 was 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
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006-2007</u>
Land	\$.225	\$.225	\$ 0	\$ 0	\$.225	\$.225	0.00%
Construction in progress	.104	.000	0	0	.104	.000	100.00%
Buildings	7.169	7.223			7.169	7.223	0.75%
Improvements	.258	.598	0	0	.258	.598	131.78%
Equipment & Furniture	.867	.848	.044	.041	.911	.889	-2.41%
	\$ 8.624	\$ 8,894	\$.044	\$.041	\$ 8.667	\$8.935	3.09%

Note: totals may not add due to rounding.

Long-Term Debt

At year-end, the District had \$3,080,486 in general obligation bonds and other long-term debt outstanding. This represents a decrease of 8.96% 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>2006</u>	<u>2007</u>	<u>2006-2007</u>
General obligation bonds & notes (financed with property taxes)	\$ 2,910	\$ 2,705	-7.04%
Other general obligation debt	.474	.375	-20.88%
Total	\$ 3.384	\$ 3.080	-8.98%

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:

- 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 2005-2006 by 72.0 students, but for the 2006-2007 school year decreased by 37.9 students and for the 2007-2008 decreased by 17.8 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 Steven J. 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, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	2,820,498	-	2,820,498
Other	1,484,233	21,554	1,505,787
Receivables:			
Property tax:			
Delinquent	50,992	-	50,992
Succeeding year	3,079,171	-	3,079,171
Accounts	2,824	2,037	4,861
Accrued interest - ISCAP	40,175	-	40,175
Due from other governments	679,532	-	679,532
Inventories	26,841	19,308	46,149
Prepaid expenses	12,273	-	12,273
Capital assets, net of accumulated depreciation	8,894,217	41,367	8,935,584
Total assets	17,090,756	84,266	17,175,022
Liabilities			
Accounts payable	88,982	-	88,982
Salaries and benefits payable	1,098,747	47,145	1,145,892
Accrued interest payable	7,577	-	7,577
Deferred revenue:			
Succeeding year property tax	3,079,171	-	3,079,171
ISCAP warrants payable	2,826,000	-	2,826,000
ISCAP accrued interest payable	19,725	-	19,725
ISCAP premium	16,484	-	16,484
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	210,000	-	210,000
Notes payable	92,378	-	92,378
Termination benefits	29,672	-	29,672
Portion due after one year:			
General obligation bonds payable	2,495,000	-	2,495,000
Notes payable	159,352	-	159,352
Termination benefits	94,084	-	94,084
Total liabilities	10,217,172	47,145	10,264,317

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	5,937,487	41,367	5,978,854
Restricted for:			
State categorical aid	9,931	-	9,931
Physical plant and equipment levy	2,727	-	2,727
Other special revenue purposes	62,667	-	62,667
Local option sales tax capital projects	414,871	-	414,871
Debt service	44,263	-	44,263
Unrestricted	401,638	(4,246)	397,392
Total net assets	<u>6,873,584</u>	<u>37,121</u>	<u>6,910,705</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	4,836,310	579,855	595,640	-
Special	2,247,424	411,144	66,974	-
Other	1,211,687	334,415	104,857	-
	8,295,421	1,325,414	767,471	-
Support services:				
Student	233,222	-	-	-
Instructional staff	332,593	-	-	-
Administration	1,166,384	-	-	-
Operation and maintenance of plant	991,449	4,490	-	-
Transportation services	491,997	7,032	-	-
	3,215,645	11,522	-	-
Other expenditures:				
Facilities acquisition	64,808	-	-	95,866
Long-term debt interest	110,678	-	2,439	-
AEA flowthrough	432,789	-	432,789	-
Depreciation (unallocated)*	399,495	-	-	-
	1,007,770	-	435,228	95,866
Total governmental activities	12,518,836	1,336,936	1,202,699	95,866
Business type activities:				
Non-instructional programs:				
Food service operations	572,396	343,630	230,624	-
Total	13,091,232	1,680,566	1,433,323	95,866
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
\$	\$	\$
(3,660,815)	-	(3,660,815)
(1,769,306)	-	(1,769,306)
<u>(772,415)</u>	-	<u>(772,415)</u>
<u>(6,202,536)</u>	-	<u>(6,202,536)</u>
(233,222)	-	(233,222)
(332,593)	-	(332,593)
(1,166,384)	-	(1,166,384)
(986,959)	-	(986,959)
<u>(484,965)</u>	-	<u>(484,965)</u>
<u>(3,204,123)</u>	-	<u>(3,204,123)</u>
31,058	-	31,058
(108,239)	-	(108,239)
-	-	-
<u>(399,495)</u>	-	<u>(399,495)</u>
<u>(476,676)</u>	-	<u>(476,676)</u>
(9,883,335)	-	(9,883,335)
-	1,858	1,858
<u>(9,883,335)</u>	<u>1,858</u>	<u>(9,881,477)</u>
2,778,446	-	2,778,446
149,847	-	149,847
71,764	-	71,764
214,282	-	214,282
774,887	-	774,887
5,865,387	-	5,865,387
187,334	324	187,658
<u>16,219</u>	-	<u>16,219</u>
<u>10,058,166</u>	<u>324</u>	<u>10,058,490</u>
174,831	2,182	177,013
<u>6,698,753</u>	<u>34,939</u>	<u>6,733,692</u>
<u><u>6,873,584</u></u>	<u><u>37,121</u></u>	<u><u>6,910,705</u></u>

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	2,820,498	-	2,820,498
Other	1,092,149	392,084	1,484,233
Receivables:			
Property tax:			
Delinquent	44,774	6,218	50,992
Succeeding year	2,807,497	271,674	3,079,171
Accounts	2,824	-	2,824
Accrued interest - ISCAP	40,175	-	40,175
Interfund receivable	-	25,000	25,000
Due from other governments	466,544	212,988	679,532
Inventories	26,841	-	26,841
Prepaid expenses	12,273	-	12,273
Total assets	7,313,575	907,964	8,221,539
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	73,675	15,307	88,982
Salaries and benefits payable	1,098,747	-	1,098,747
Interfund payable	25,000	-	25,000
ISCAP warrants payable	2,826,000	-	2,826,000
ISCAP accrued interest payable	19,725	-	19,725
ISCAP premium	16,484	-	16,484
Deferred revenue:			
Succeeding year property tax	2,807,497	271,674	3,079,171
Other	206,133	-	206,133
Total liabilities	7,073,261	286,981	7,360,242
Fund balances:			
Reserved for:			
State categorical aid	9,931	-	9,931
Debt service	-	51,840	51,840
Unreserved reported in:			
General fund	230,383	-	230,383
Special revenue funds	-	154,272	154,272
Capital projects funds	-	414,871	414,871
Total liabilities and fund balances	7,313,575	907,964	8,221,539

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	861,297
<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.	8,894,217
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	206,133
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.	(7,577)
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>(3,080,486)</u>
Net assets of governmental activities (Exhibit A)	<u><u>6,873,584</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	2,812,568	1,147,121	3,959,689
Tuition	838,885	-	838,885
Other	359,149	344,894	704,043
State sources	6,837,621	328	6,837,949
Federal sources	227,698	95,866	323,564
Total revenues	<u>11,075,921</u>	<u>1,588,209</u>	<u>12,664,130</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,773,017	99,978	4,872,995
Special	2,247,424	-	2,247,424
Other	851,525	347,968	1,199,493
	<u>7,871,966</u>	<u>447,946</u>	<u>8,319,912</u>
Support services:			
Student	232,767	-	232,767
Instructional staff	345,894	-	345,894
Administration	1,157,573	-	1,157,573
Operation and maintenance of plant	837,066	122,873	959,939
Transportation	437,176	71,700	508,876
	<u>3,010,476</u>	<u>194,573</u>	<u>3,205,049</u>
Other expenditures:			
Facilities acquisition	-	757,699	757,699
Long-term debt:			
Principal	-	266,510	266,510
Interest and fiscal charges	-	111,063	111,063
AEA flowthrough	432,789	-	432,789
	<u>432,789</u>	<u>1,135,272</u>	<u>1,568,061</u>
Total expenditures	<u>11,315,231</u>	<u>1,777,791</u>	<u>13,093,022</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(239,310)</u>	<u>(189,582)</u>	<u>(428,892)</u>
Other financing sources (uses):			
Operating transfers in	-	226,631	226,631
Operating transfers out	(76,631)	(150,000)	(226,631)
Total other financing sources (uses)	<u>(76,631)</u>	<u>76,631</u>	<u>-</u>
Net change in fund balances	(315,941)	(112,951)	(428,892)
Fund balances beginning of year	<u>556,255</u>	<u>733,934</u>	<u>1,290,189</u>
Fund balances end of year	<u>240,314</u>	<u>620,983</u>	<u>861,297</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, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(428,892)
<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 Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	785,958	
Depreciation expense	<u>(515,352)</u>	270,606
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.		29,537
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.		266,510
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.		385
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:		
Termination benefits		<u>36,685</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>174,831</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	21,554
Accounts receivable	2,037
Inventories	19,308
Capital assets, net of accumulated depreciation	<u>41,367</u>
Total assets	84,266
Liabilities	
Salaries and benefits payable	<u>47,145</u>
Net assets	
Invested in capital assets, net of related debt	41,367
Unrestricted	<u>(4,246)</u>
Total net assets	<u><u>37,121</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>343,630</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	198,086
Benefits	90,097
Purchased services	5,342
Supplies	272,750
Depreciation	<u>6,121</u>
	<u>572,396</u>
Operating loss	<u>(228,766)</u>
Non-operating revenues:	
State sources	6,889
Federal sources	223,735
Interest income	324
Total non-operating revenues	<u>230,948</u>
Change in net assets	2,182
Net assets beginning of year	<u>34,939</u>
Net assets end of year	<u><u>37,121</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	339,149
Cash payments to employees for services	(284,591)
Cash payments to suppliers for goods or services	<u>(236,647)</u>
Net cash used by operating activities	<u>(182,089)</u>
Cash flows from non-capital financing activities:	
State grants received	6,889
Federal grants received	<u>177,476</u>
Net cash provided by non-capital financing activities	<u>184,365</u>
Cash flows from capital and related financing activities:	
Interfund loan repayment	<u>(3,400)</u>
Cash flows from investing activities:	
Interest on investments	<u>324</u>
Net increase (decrease) in cash and cash equivalents	(800)
Cash and cash equivalents at beginning of year	<u>22,354</u>
Cash and cash equivalents at end of year	<u><u>21,554</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain (loss)	(228,766)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	46,259
Depreciation	6,121
Decrease (increase) in inventories	(4,814)
Decrease (increase) in accounts receivable	(2,037)
(Decrease) increase in salaries and benefits payable	3,592
(Decrease) increase in deferred revenue	<u>(2,444)</u>
Net cash used in operating activities	<u><u>(182,089)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$46,259 of federal commodities.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Year ended June 30, 2007

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 imposed by management, which 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 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 instruction, 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 non-operating 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 non-operating 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 financial statements:

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 become 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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 not available for appropriation or 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 are 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, 2007, 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, 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 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 Statement No. 40.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 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, 2007 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental Funds: Debt Service	General	76,631
Nonmajor Governmental Funds: Debt Service	Nonmajor Governmental Funds: Capital Projects	150,000

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, 2007, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2006-07A	06/28/06	06/28/07	-	15,584	-	-
2006-07B	01/26/07	01/25/08	1,066,274	24,067	1,069,000	19,293
2007-08A	06/27/07	06/27/08	1,754,224	524	1,757,000	432
Total			<u>2,820,498</u>	<u>40,175</u>	<u>2,826,000</u>	<u>19,725</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, 2007, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	400,000	400,000	-

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>
	%	%
2006-07A	4.500	5.676
2006-07B	4.250	5.315
2007-08A	4.500	5.455

6. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	104,073	-	104,073	-
Land	225,000	-	-	225,000
Total capital assets not being depreciated	<u>329,073</u>	<u>-</u>	<u>104,073</u>	<u>225,000</u>
Capital assets being depreciated:				
Buildings	14,044,466	428,234	-	14,472,700
Improvements other than buildings	303,024	365,730	-	668,754
Furniture and equipment	2,541,353	96,067	-	2,637,420
Total capital assets being depreciated	<u>16,888,843</u>	<u>890,031</u>	<u>-</u>	<u>17,778,874</u>
Less accumulated depreciation for:				
Buildings	6,875,714	373,900	-	7,249,614
Improvements other than buildings	44,689	25,595	-	70,284
Furniture and equipment	1,673,902	115,857	-	1,789,759
Total accumulated depreciation	<u>8,594,305</u>	<u>515,352</u>	<u>-</u>	<u>9,109,657</u>
Total capital assets being depreciated, net	<u>8,294,538</u>	<u>374,679</u>	<u>-</u>	<u>8,669,217</u>
Governmental activities capital assets, net	<u>8,623,611</u>	<u>374,679</u>	<u>104,073</u>	<u>8,894,217</u>
Business type activities:				
Furniture and equipment	169,099	3,400	-	172,499
Less accumulated depreciation	<u>125,011</u>	<u>6,121</u>	<u>-</u>	<u>131,132</u>
Business type activities capital assets, net	<u>44,088</u>	<u>(2,721)</u>	<u>-</u>	<u>41,367</u>

Depreciation expense was charged to the following programs:

	\$
Governmental activities:	
Instruction:	
Other	12,194
Support services:	
Student support	455
Instructional staff support	6,450
Administration	8,811
Operation and maintenance of plant	33,126
Transportation	54,821
	<u>115,857</u>
Unallocated depreciation	399,495
Total governmental activities depreciation expense	<u>515,352</u>
Business type activities:	
Food service operations	<u>6,121</u>

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	2,910,000	-	205,000	2,705,000	210,000
Energy management notes	313,240	-	61,510	251,730	92,378
Termination benefits	160,441	-	36,685	123,756	29,672
	<u>3,383,681</u>	<u>-</u>	<u>303,195</u>	<u>3,080,486</u>	<u>332,050</u>

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, 2007, the District has obligations to eight participants with a total liability of \$123,756. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$36,685.

General Obligation Bonds Payable

Details of the District's June 30, 2007, general obligation bonded indebtedness are as follows:

June 1, 2003 Issue

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	%	\$	\$	\$
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	3.25	235,000	64,465	299,465
2013-2017	3.30-3.70	1,305,000	198,377	1,503,377
2018	3.75	295,000	11,062	306,062
Total		<u>2,705,000</u>	<u>600,359</u>	<u>3,305,359</u>

Energy Management Notes

The District has two energy management notes at June 30, 2007.

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, 2007 is \$53,995.

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, 2007 is \$197,735.

Energy management note payments are due as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$	\$	\$
2008	92,378	11,945	104,323
2009	40,953	9,375	50,328
2010	118,399	3,107	121,506
	<u>251,730</u>	<u>24,427</u>	<u>276,157</u>

During the year ended June 30, 2007 the District made principal and interest payments totaling \$76,630 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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$415,660, \$403,479, and \$384,542 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 \$432,789 for the year ended June 30, 2007, 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 \$209,007 for tuck-pointing and driveway improvements. Work on the projects had not started at June 30, 2007.

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, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	5,502,617	343,954	5,846,571	5,703,226	5,703,226	143,345
State sources	6,837,949	6,889	6,844,838	6,757,447	6,757,447	87,391
Federal sources	323,564	223,735	547,299	372,100	372,100	175,199
Total revenues	<u>12,664,130</u>	<u>574,578</u>	<u>13,238,708</u>	<u>12,832,773</u>	<u>12,832,773</u>	<u>405,935</u>
Expenditures:						
Instruction	8,319,912	-	8,319,912	7,915,853	7,915,853	(404,059)
Support services	3,205,049	-	3,205,049	3,095,240	3,095,240	(109,809)
Non-instructional programs	-	572,396	572,396	575,100	575,100	2,704
Other expenditures	1,568,061	-	1,568,061	1,649,506	1,649,506	81,445
Total expenditures	<u>13,093,022</u>	<u>572,396</u>	<u>13,665,418</u>	<u>13,235,699</u>	<u>13,235,699</u>	<u>(429,719)</u>
Excess (deficiency) of revenues over (under) expenditures	(428,892)	2,182	(426,710)	(402,926)	(402,926)	(23,784)
Other financing sources, net	-	-	-	250,000	250,000	(250,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(428,892)	2,182	(426,710)	(152,926)	(152,926)	(273,784)
Balance beginning of year	<u>1,290,189</u>	<u>34,939</u>	<u>1,325,128</u>	<u>1,288,868</u>	<u>1,288,868</u>	<u>36,260</u>
Balance end of year	<u><u>861,297</u></u>	<u><u>37,121</u></u>	<u><u>898,418</u></u>	<u><u>1,135,942</u></u>	<u><u>1,135,942</u></u>	<u><u>(237,524)</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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 function level, not by fund. The Code of Iowa also provides 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, 2007, 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, 2007

Assets	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
	\$	Fund	Equipment	Fund		\$
	\$	\$	Levy	\$	\$	\$
Cash and pooled investments	61,312	62,667	1,553	217,190	49,362	392,084
Receivables:						
Property tax:						
Delinquent	2,566	-	1,174	-	2,478	6,218
Succeeding year	200,000	-	71,674	-	-	271,674
Interfund receivable	25,000	-	-	-	-	25,000
Due from other governments	-	-	-	212,988	-	212,988
Total assets	288,878	62,667	74,401	430,178	51,840	907,964
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	-	-	15,307	-	15,307
Deferred revenue:						
Succeeding year property tax	200,000	-	71,674	-	-	271,674
Total liabilities	200,000	-	71,674	15,307	-	286,981
Fund balances:						
Reserved for debt service	-	-	-	-	51,840	51,840
Unreserved reported in:						
Special revenue funds	88,878	62,667	2,727	-	-	154,272
Capital projects funds	-	-	-	414,871	-	414,871
Total fund equity	88,878	62,667	2,727	414,871	51,840	620,983
Total liabilities and fund balances	288,878	62,667	74,401	430,178	51,840	907,964

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	150,623	-	71,764	774,887	149,847	1,147,121
Other	3,025	330,099	2,648	6,683	2,439	344,894
State sources	136	-	61	-	131	328
Federal sources	-	-	95,866	-	-	95,866
Total revenues	<u>153,784</u>	<u>330,099</u>	<u>170,339</u>	<u>781,570</u>	<u>152,417</u>	<u>1,588,209</u>
Expenditures:						
Current:						
Instruction:						
Regular	39,610	-	60,368	-	-	99,978
Other	-	347,968	-	-	-	347,968
Support services:						
Plant operation and maintenance	122,873	-	-	-	-	122,873
Transportation	-	-	71,700	-	-	71,700
Other expenditures:						
Facilities acquisition	-	-	116,798	640,901	-	757,699
Long-term debt:						
Principal	-	-	-	-	266,510	266,510
Interest and fiscal charges	-	-	-	-	111,063	111,063
Total expenditures	<u>162,483</u>	<u>347,968</u>	<u>248,866</u>	<u>640,901</u>	<u>377,573</u>	<u>1,777,791</u>
Excess (deficiency) of revenues over (under) expenditures	(8,699)	(17,869)	(78,527)	140,669	(225,156)	(189,582)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	226,631	226,631
Operating transfers out	-	-	-	(150,000)	-	(150,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>	<u>226,631</u>	<u>76,631</u>
Net change in fund balances	(8,699)	(17,869)	(78,527)	(9,331)	1,475	(112,951)
Fund balances beginning 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>
Fund balances end of year	<u><u>88,878</u></u>	<u><u>62,667</u></u>	<u><u>2,727</u></u>	<u><u>414,871</u></u>	<u><u>51,840</u></u>	<u><u>620,983</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Interest	669	1,377	-	2,046
Athletics and cheerleading	5,925	111,999	122,904	(4,980)
Sp. Ed. wind suit	462	-	48	414
Bay team	1,838	591	2,429	-
Elementary activities	18,696	25,397	33,170	10,923
Elementary juice	6,381	2,696	4,501	4,576
Elementary student council	1,714	-	-	1,714
Elementary book fair	1,306	-	-	1,306
FFA	1,317	24,477	22,620	3,174
HS activities	178	962	1,011	129
HS band	-	6,067	6,067	-
HS home ec. awards	1	-	-	1
HS TSA club	144	-	-	144
HS music	-	11,763	11,763	-
HS marketing	1,059	10,982	10,975	1,066
HS student council	530	4,783	2,807	2,506
Student insurance	-	370	370	-
Junior class(Class of 2008)	(127)	1,583	1,576	(120)
MS activities	9,577	27,548	31,499	5,626
MS band and chorus	(377)	2,822	2,445	-
MS history club	(527)	43,728	42,958	243
MS industrial arts	2,054	-	-	2,054
MS memory book	2,193	2,403	3,033	1,563
MS scholarship	1,837	55	200	1,692
MS student council	3,724	3,352	3,769	3,307
Masonic scholarship	10,001	-	-	10,001
Health - CPR	110	-	-	110
Student services	4,978	-	2,033	2,945
Senior class(Class of 2007)	(19)	2,464	2,445	-
Spanish club	599	-	-	599
Special needs	750	-	-	750
Speech and drama	-	5,899	4,886	1,013
Rotary corner funds	2,445	5,046	4,368	3,123
Pep-C team	720	-	-	720
Yearbook	-	12,213	11,544	669
Benson-Torkelson scholarship	2,795	2,316	5,111	-
Horticulture	99	-	-	99
Class of 2010	-	432	-	432
Student activity tickets	-	8,595	8,275	320
Class of 2009	-	1,352	-	1,352
Baseball field improvement	271	5,540	2,850	2,961
Frank Sinnard scholarship	2,287	24	2,311	-
HS pepsi	1	-	-	1
Electric car	188	-	-	188
Colorado music trip	(3,263)	3,263	-	-
Total	80,536	330,099	347,968	62,667

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			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,959,689	3,954,579	3,787,667	3,221,127
Tuition	838,885	777,886	769,041	878,311
Other	704,043	583,879	487,027	551,272
State sources	6,837,949	6,841,188	6,442,267	6,054,777
Federal sources	323,564	223,498	323,357	210,706
Total revenues	<u>12,664,130</u>	<u>12,381,030</u>	<u>11,809,359</u>	<u>10,916,193</u>
Expenditures:				
Instruction:				
Regular	4,872,995	4,638,900	4,340,606	4,166,255
Special	2,247,424	2,121,876	2,346,828	2,276,276
Other	1,199,493	1,145,501	807,658	777,055
Support services:				
Student	232,767	227,634	237,857	216,622
Instructional staff	345,894	410,126	452,861	384,480
Administration	1,157,573	1,072,482	926,806	916,879
Operation and maintenance of plant	959,939	891,072	880,312	905,573
Transportation	508,876	488,992	459,071	464,650
Other expenditures:				
Facilities acquisition	757,699	392,877	1,481,485	2,797,704
Long-term debt:				
Principal	266,510	248,718	261,458	306,316
Interest and other charges	111,063	116,066	123,345	130,335
AEA flowthrough	432,789	423,738	404,063	398,349
Total expenditures	<u>13,093,022</u>	<u>12,177,982</u>	<u>12,722,350</u>	<u>13,740,494</u>

FOREST CITY COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
National School Lunch Program	10.555	FY07	153,605
School Breakfast Program	10.553	FY07	23,871
			<u>177,476</u>
Food Donation (non-cash)	10.550	FY07	46,259
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Education Agencies	84.010	2295-G-07	92,997
Improving Teacher Quality State Grants	84.367	FY07	45,480
Grants for State Assessments and Related Activities	84.369	FY07	9,499
Fund for the Improvement of Education	84.215	FY07	95,866
State Grants for Innovative Programs	84.298	FY07	1,592
Safe & Drug Free Schools and Communities - State Grant	84.186	FY07	4,162
Services for Children with Deaf - Blindness	84.025	FY07	200
Northern Trails Area Education Agency:			
Title IIIB Vocational Education Basic Grants to States	84.048	FY07	6,793
Special Education Grants to States	84.027	FY07	66,974
			<u>66,974</u>
Total			<u><u>547,298</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Forest City Community School District and is presented on the accrual or modified accrual 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 Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 20, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Forest City Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Forest City Community School District's internal control over financial reporting.

Our 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, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

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 Forest City Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Forest City Community School District's financial statements that is more than inconsequential will not be prevented or detected by Forest City Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies 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 Forest City Community School District's internal control.

Our 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. However, of the significant deficiencies described above, we believe items 07-II-A and 07-II-B 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

Forest City Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Forest City Community School District's responses and, accordingly, we 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 Forest City Community School District and other parties to whom Forest City Community School District 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.

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

February 20, 2008

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Forest City Community School District 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 each of its major federal programs for the year ended June 30, 2007. Forest City Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Forest City Community School District's management. Our responsibility is to express an opinion on Forest City Community School District's compliance based on our audit.

We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Forest City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Forest City Community School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of Forest City Community School District 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 our audit, we considered Forest City Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Forest City Community School District's internal control over compliance.

Our 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 District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be material weaknesses.

A control deficiency in the District'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 noncompliance 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 District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 07-III-A, 07-III-B, 07-III-C, 07-III-D, and 07-III-E to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program, will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-III-A to be a material weakness.

Forest City Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Forest City Community School District's responses and, accordingly, we 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 Forest City Community School District and other parties to whom Forest City Community School District 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

February 20, 2008

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

- (a) An unqualified opinion was issued on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 Title I Grants to Local Education Agencies
 - CFDA Number 10.553 Clustered Programs:
 - School Breakfast Program
 - National School Lunch Program
 - CFDA Number 84.215 Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Forest City Community School did not qualify as a low-risk auditee.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

Significant deficiencies:

07-II-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, preparing and posting general journal entries, 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.

07-II-B Financial Reporting: During the audit, we identified material amounts of capital assets additions not recorded in the District's financial records, accounts payable that were overstated, and prior year audit adjustments that were not posted. Adjustments were subsequently made by the District to properly revise the financial statements.

Recommendation: The District should implement procedures to match balance sheet account totals to supporting detailed lists of receivable and payables, to ensure all capital assets additions are identified and included in the District's financial statements and to post agreed upon audit adjustments.

District Response: We will implement procedures to review financial statement for the above items.

Conclusion: Response accepted.

07-II-C 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.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

07-I-D 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.

Conclusion: Response accepted.

Instances of Noncompliance

No matters were reported.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance:

No matters were reported.

Significant deficiencies:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2007
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.215: Fund for the Improvement of Education
Federal Award Year: 2007
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Education Agencies
Federal Award Year: 2007
U.S. Department of Education
Passed through the Iowa Department of Education

07-III-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, preparing and posting general journal entries, 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 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.

CFDA Number 84.215: Fund for the Improvement of Education
Federal Award Year 2007
U.S. Department of Education
Passed through the Iowa Department of Education

07-III-B Suspension or Debarment: The grant agreement requires that the District obtain a certification from contractors that the contractor and/or its principal officials are not suspended or debarred from doing federal work. The District could not locate this contractor certification.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards (continued):

Recommendation: The District must make sure that it is aware of all grant compliance requirements for projects that are financed by federal grants before bids are awarded and work on the project starts.

District Response: We will revise our procedures for grant management to ensure that compliance with the suspension and debarment requirements are documented.

Conclusion: Response accepted.

07-III-C Davis-Bacon: The grant agreement requires that all wages paid in connection with the grant meet or exceed minimum wage limits as determined by the Department of Labor under the Davis-Bacon Act. The District did not have a system in place to monitor the contractor's compliance with the minimum wage requirements.

Recommendation: For future construction projects, with Davis-Bacon requirements, the District should monitor the contractor's compliance by obtaining copies of payroll records and comparing them to the minimum wage rates and by conducting employee interviews.

District Response: We will revise our procedures for grant management to ensure that we monitor compliance with Davis-Bacon requirements and that we document that monitoring.

Conclusion: Response accepted.

07-III-D Project bids: The grant agreement requires that recipients follow Iowa Code Chapter 73A.18 which requires advertisement for sealed bids for projects exceeding \$25,000. The District did not have any documentation that it advertised for bids.

Recommendation: The District should document that it followed bidding procedures for future projects.

District response: This project was a continuation of a project started two years ago and was bid two years ago, but not completed due to lack of funds. This grant allowed the project to be completed. We used the same contractor that worked on the project previously.

Conclusion: Response accepted

CFDA Number 84.010: Title I Grants to Local Education Agencies

Federal Award Year: 2007

U.S. Department of Education

Passed through the Iowa Department of Education

07-III-E Title I Salary Expenditures: Office of Management and Budget Circular A-87 requires that employees working on a single Federal award semi-annually certify that 100% of their time is spent on that federal program. The District did not have controls in place to obtain the required certifications.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards (continued):

Recommendation: The District should adopt a standard time certification form and a timeline for completing the form twice a year.

District Response: We have created a form and will have it completed twice a year.

Conclusion: Response accepted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part IV: Other Findings Related to Statutory Reporting:

07-IV-A Certified Budget: Expenditures for the year ended June 30, 2007, 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.

07-IV-B Questionable Expenditures: During our testing of expenditures, we noted that the District paid approximately \$39 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.

07-IV-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.

07-IV-D Business Transactions: No business transactions between the District and District officials or employees were noted.

07-IV-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.

07-IV-F Board Minutes: During our testing of expenditures we noted three Student Activity Fund expenditures, all dated January 2007, that were not on the lists of bills approved by the board of directors.

Recommendation: All District expenditures should be approved by the board of directors.

District Response: The omission of these items was an oversight, we will be more diligent in the future.

Conclusion: Response accepted.

07-IV-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

07-IV-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.

07-IV-I Certified Annual Report (CAR): The Certified Annual Report was certified to the Iowa Department of Education timely.

07-IV-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 miscellaneous building and scholarship accounts 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.

07-IV-K Public Hearing: As of January 1, 2007, the Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$100,000. We noted that the District approved contracts for athletic field lighting and tuck-pointing without holding public hearings.

Recommendation: The District should hold public hearings and take bids for all capital projects with cost in excess of \$100,000.

District Response: We will do this in the future.

Conclusion: Response accepted.

07-IV-L Local Option Sales Tax Capital Projects Fund (LOST) and Physical Plant and Equipment Levy Fund (PPEL) Expenditures: The LOST and PPEL monies may be used to purchase a single unit of equipment that has a cost exceeding \$500. We noted that expenditures from these funds included \$22,060 of purchases for furnishings and equipment with a unit cost of less than \$500.

Recommendation: The District should review the types of expenditures that are allowable from the LOST and PPEL monies and record the expenditures in the appropriate funds.

District Response: We will monitor expenditures from these funds.

Conclusion: Response accepted.