

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

JUNE 30, 2008

- Prepared By -

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CITY OF FOREST CITY, IOWA

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CITY OF FOREST CITY, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2008)		
George Wilson	Mayor	January 2008
Suzanne Murphy	Mayor Pro tem	January 2008
James Oulman	Council Member	Resigned
Jon West (Appointed)	Council Member	January 2008
Jerome Clouse	Council Member	January 2008
Rick Skjeie (Appointed)	Council Member	January 2008
Jack Caputo	Council Member	January 2010
Ronald Holland	Council Member	January 2010
Kay Sorensen	Council Member	January 2010
Paul Boock	Clerk/Treasurer	Indefinite
Steve Bakke	Attorney	Indefinite
(After January 2008)		
George Wilson	Mayor	January 2010
Suzanne Murphy	Mayor Pro tem	January 2012
Jon West	Council Member	January 2012
Jerome Clouse	Council Member	January 2012
Rick Skjeie	Council Member	January 2012
Jack Caputo	Council Member	January 2010
Ronald Holland	Council Member	January 2010
Kay Sorensen	Council Member	January 2010
Paul Boock	Clerk/Treasurer	Indefinite
Steve Bakke	Attorney	Indefinite



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Forest City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated December 2, 2008 on my consideration of the City of Forest City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 2, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Forest City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 6.46%, or approximately \$429,000 from fiscal 2007 to fiscal 2008. Property tax and charges for service increased approximately \$233,000 and \$76,000, respectively. Other general receipts and operating grants, contributions and restricted interest decreased approximately \$373,000 and \$273,000, respectively.

Disbursements of the City's governmental activities increased 52.6%, or approximately \$2,237,000, in fiscal 2008 from fiscal 2007. Capital projects and debt service disbursements increased approximately \$2,625,000 and \$163,000, respectively, while public works and culture and recreation disbursements decreased approximately \$252,000 and \$219,000, respectively.

The City's total cash basis net assets decreased 3.22%, or approximately \$395,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$45,000 and the assets of the business type activities decreased by approximately \$440,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

A reconciliation between the government-wide statement and the fund financial statement follows the fund financial statement.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$4,010,000 to approximately \$4,055,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

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

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Receipts:		
Program receipts:		
Charges for service	\$ 552	\$ 476
Operating grants, contributions and restricted interest	589	862
Capital grants, contributions and restricted interest	137	216
General receipts:		
Property tax	1,833	1,600
Local option sales tax	292	306
Unrestricted interest on investments	284	327
Note proceeds, net	2,040	1,996
Other general receipts	483	856
Total receipts	<u>\$ 6,210</u>	<u>\$6,639</u>
Disbursements:		
Public safety	\$ 990	\$ 970
Public works	969	1,221
Health and social services	17	45
Culture and recreation	622	841
Community and economic development	443	542
General government	211	184
Debt service	489	326
Capital projects	2,752	127
Total disbursements	<u>\$ 6,493</u>	<u>\$4,256</u>
Change in cash basis net assets before transfers	\$ (283)	\$2,383
Transfers, net	<u>328</u>	<u>330</u>
Change in cash basis net assets	\$ 45	\$2,713
Cash basis net assets beginning of year	<u>4,010</u>	<u>1,297</u>
Cash basis net assets end of year	<u>\$ 4,055</u>	<u>\$4,010</u>

The City's total receipts for governmental activities decreased 6.46%, or approximately \$429,000. The total cost of all programs and services increased by approximately \$2,237,000, or 52.6%, with no new programs added this year. The significant increase in disbursements was primarily the result of capital projects relating to the Aquatic Center.

The cost of all governmental activities this year was \$6,493,614 compared to \$4,256,605 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$5,215,684 because some of the cost was paid by those directly benefited from the programs (\$551,763) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$726,167). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,832,893 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 399	\$ 395
Sewer	583	574
Electric	4,115	3,803
Other	138	137
Operating grants, contributions and restricted interest	-	55
General receipts:		
Unrestricted interest on investments	229	255
Note proceeds, net	1,527	-
Other general receipts	42	14
Total receipts	\$ 7,033	\$ 5,233
Disbursements:		
Water	\$ 404	\$ 394
Sewer	567	1,224
Electric	5,985	4,402
Other	189	568
Total disbursements	\$ 7,145	\$ 6,588
Change in cash basis net assets before transfers	\$ (112)	\$(1,355)
Transfers, net	(328)	(330)
Change in cash basis net assets	\$ (440)	\$(1,685)
Cash basis net assets beginning of year	8,258	9,943
Cash basis net assets end of year	\$ 7,818	\$ 8,258

Total business type activities receipts for the fiscal year were approximately \$7,033,000 compared to approximately \$5,233,000 last year. This significant increase was due primarily to the receipt of \$1,527,000 in sewer revenue note proceeds during the year. The cash balance decreased by approximately \$440,000 from the prior year due to electric disbursements. Total disbursements for the fiscal year increased by 8.45% to a total of approximately \$7,145,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$3,984,714, an increase of \$111,527 from last year's total of \$3,873,187. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$270,982 from the prior year to \$1,883,114. This was primarily due to increased property taxes.

The Capital Projects, Street Improvement Fund cash balance increased \$1,915,601 from the prior year to \$2,052,558. This increase was due to proceeds of \$2,040,000 received from the issuance of general obligation notes.

The Capital Projects, Aquatic Center Fund cash balance decreased \$2,259,654 to \$11,356 during the fiscal year. The primary decrease was the result of capital projects disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased \$494,552 from the prior year to \$1,047,214. This increase was attributable to \$500,000 in general obligation note proceeds.

The Sewer Rental Fund cash balance increased by \$1,033,957 to \$1,475,389, due primarily to the receipt of \$1,030,000 in sewer revenue note proceeds.

The Sewer Reserve Fund cash balance remained the same at \$1,000,000 due to no activity during the year.

The Electric Fund cash balance decreased by \$1,451,007 to \$615,705 due to several capital projects during the year.

The Electric Capital Fund cash balance decreased by \$499,787 to \$2,700,213 due to a transfer out.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 19, 2008 and resulted in an increase in operating revenue of approximately \$401,000, and an increase in operating disbursements of approximately \$1,650,000. The budget amendment also increased other financing sources \$3,570,000. The City will use the additional revenue for sewer capital projects.

The City exceeded the amount budgeted in the debt service function for the year ended June 30, 2008.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$10,520,000 in bonds and notes and other long-term debt outstanding, compared to approximately \$7,493,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2008	2007
General obligation notes	\$ 5,535	\$3,315
Revenue bonds and notes	4,955	4,105
Capital leases	30	73
Total	<u>\$10,520</u>	<u>\$7,493</u>

The City issued \$2,540,000 of general obligation notes and \$1,030,000 of revenue notes during the year ended June 30, 2008. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,535,000 is significantly below its constitutional debt limit of \$8,543,858.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Forest City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF FOREST CITY, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges For Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 990,190	\$ 14,412	\$ 135,071	\$ -
Public works	968,436	397,754	384,684	37,322
Health and social services	17,052	-	-	-
Culture and recreation	622,184	74,947	20,668	-
Community and economic development	443,449	-	47,695	-
General government	211,371	20,197	727	-
Debt service	488,804	8,824	-	-
Capital projects	<u>2,752,128</u>	<u>35,629</u>	<u>-</u>	<u>100,000</u>
Total governmental activities	<u>\$ 6,493,614</u>	<u>\$ 551,763</u>	<u>\$ 588,845</u>	<u>\$ 137,322</u>
Business type activities:				
Water	\$ 403,700	\$ 398,794	\$ -	\$ -
Sewer	567,064	583,082	-	-
Electric	5,985,260	4,114,816	-	-
Other	<u>188,360</u>	<u>138,484</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 7,144,384</u>	<u>\$5,235,176</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$13,637,998</u>	<u>\$5,786,939</u>	<u>\$ 588,845</u>	<u>\$ 137,322</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (840,707)	\$ -	\$ (840,707)
(148,676)	-	(148,676)
(17,052)	-	(17,052)
(526,569)	-	(526,569)
(395,754)	-	(395,754)
(190,447)	-	(190,447)
(479,980)	-	(479,980)
<u>(2,616,499)</u>	<u>-</u>	<u>(2,616,499)</u>
<u>\$ (5,215,684)</u>	<u>\$ -</u>	<u>\$ (5,215,684)</u>
\$ -	\$ (4,906)	\$ (4,906)
-	16,018	16,018
-	(1,870,444)	(1,870,444)
<u>-</u>	<u>(49,876)</u>	<u>(49,876)</u>
<u>\$ -</u>	<u>\$ (1,909,208)</u>	<u>\$ (1,909,208)</u>
<u>\$ (5,215,684)</u>	<u>\$ (1,909,208)</u>	<u>\$ (7,124,892)</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

General Receipts:

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

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 1,129,291	\$ -	\$ 1,129,291
213,873	-	213,873
489,729	-	489,729
291,880	-	291,880
284,411	229,249	513,660
2,040,000	1,530,000	3,570,000
-	(3,126)	(3,126)
462,964	42,111	505,075
19,820	-	19,820
<u>328,500</u>	<u>(328,500)</u>	<u>-</u>
<u>\$ 5,260,468</u>	<u>\$ 1,469,734</u>	<u>\$ 6,730,202</u>
\$ 44,784	\$ (439,474)	\$ (394,690)
<u>4,009,728</u>	<u>8,257,385</u>	<u>12,267,113</u>
<u>\$ 4,054,512</u>	<u>\$ 7,817,911</u>	<u>\$11,872,423</u>
\$ 36,978	\$ -	\$ 36,978
7,739	-	7,739
23,397	-	23,397
2,609,525	4,350,213	6,959,738
<u>1,376,873</u>	<u>3,467,698</u>	<u>4,844,571</u>
<u>\$ 4,054,512</u>	<u>\$ 7,817,911</u>	<u>\$11,872,423</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Capital Projects</u>	
		<u>Street Improvement</u>	<u>Aquatic Center</u>
RECEIPTS:			
Property tax	\$ 822,909	\$ -	\$ -
Tax increment financing	-	-	-
Other city tax	-	-	-
Licenses and permits	9,830	-	-
Use of money and property	246,620	-	38,677
Intergovernmental	201,855	-	100,000
Charges for service	465,544	-	-
Special assessments	-	35,629	-
Miscellaneous	264,506	2,350	182,223
Total receipts	<u>\$ 2,011,264</u>	<u>\$ 37,979</u>	<u>\$ 320,900</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 959,784	\$ -	\$ -
Public works	952,563	-	-
Health and social services	17,052	-	-
Culture and recreation	600,799	-	-
Community and economic development	150,752	-	-
General government	205,652	-	-
Debt service	-	-	-
Capital projects	-	162,378	2,580,554
Total disbursements	<u>\$ 2,886,602</u>	<u>\$ 162,378</u>	<u>\$ 2,580,554</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (875,338)</u>	<u>\$ (124,399)</u>	<u>\$ (2,259,654)</u>
Other financing sources (uses):			
Note proceeds	\$ -	\$ 2,040,000	\$ -
Sale of capital assets	19,820	-	-
Operating transfers in	1,126,500	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>\$ 1,146,320</u>	<u>\$ 2,040,000</u>	<u>\$ -</u>
Net change in cash balances	\$ 270,982	\$ 1,915,601	\$ (2,259,654)
Cash balances beginning of year	<u>1,612,132</u>	<u>136,957</u>	<u>2,271,010</u>
Cash balances end of year	<u>\$ 1,883,114</u>	<u>\$ 2,052,558</u>	<u>\$ 11,356</u>

(Continued)

<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 752,459	\$ 1,575,368
213,873	213,873
335,532	335,532
-	9,830
2,633	287,930
424,312	726,167
-	465,544
8,824	44,453
42,302	491,381
<u>\$ 1,779,935</u>	<u>\$ 4,150,078</u>
\$ -	\$ 959,784
-	952,563
-	17,052
6,640	607,439
292,697	443,449
-	205,652
488,804	488,804
9,196	2,752,128
<u>\$ 797,337</u>	<u>\$ 6,426,871</u>
<u>\$ 982,598</u>	<u>\$ (2,276,793)</u>
\$ -	\$ 2,040,000
-	19,820
-	1,126,500
<u>(798,000)</u>	<u>(798,000)</u>
<u>\$ (798,000)</u>	<u>\$ 2,388,320</u>
\$ 184,598	\$ 111,527
<u>(146,912)</u>	<u>3,873,187</u>
<u>\$ 37,686</u>	<u>\$ 3,984,714</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Capital Projects</u>	
		<u>Street Improvement</u>	<u>Aquatic Center</u>
Cash Basis Fund Balances:			
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	1,883,114	-	-
Special revenue funds	-	-	-
Capital projects funds	-	2,052,558	11,356
Permanent funds	-	-	-
	<hr/>	<hr/>	<hr/>
Total cash basis fund balances	<u>\$1,883,114</u>	<u>\$ 2,052,558</u>	<u>\$ 11,356</u>

See Notes to Financial Statements.

<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 23,397	\$ 23,397
-	1,883,114
(162,834)	(162,834)
-	2,063,914
<u>177,123</u>	<u>177,123</u>
<u>\$ 37,686</u>	<u>\$ 3,984,714</u>

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

Total governmental funds cash balances (page 14) \$ 3,984,714

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

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

69,798

Cash basis net assets of governmental activities (page 12) \$ 4,054,512

Net change in cash balances (page 14) \$ 111,527

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

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

(66,743)

Change in cash balance of governmental activities (page 12) \$ 44,784

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>Enterprise</u>			
	<u>Water</u>	<u>Sewer Rental</u>	<u>Sewer Reserve</u>	<u>Electric</u>
Operating receipts:				
Charges for service	\$ 397,591	\$ 583,082	\$ -	\$ 4,106,786
Miscellaneous	1,203	-	-	8,030
Total operating receipts	<u>\$ 398,794</u>	<u>\$ 583,082</u>	<u>\$ -</u>	<u>\$ 4,114,816</u>
Operating disbursements:				
Business type activities	<u>403,700</u>	<u>567,064</u>	<u>-</u>	<u>3,709,758</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (4,906)</u>	<u>\$ 16,018</u>	<u>\$ -</u>	<u>\$ 405,058</u>
Non-operating receipts (disbursements):				
Interest on investments	\$ 9,179	\$ 53,994	\$ -	\$ 139,835
Miscellaneous	5,279	5,571	-	19,602
Debt service	-	-	-	(277,300)
Capital projects	-	-	-	(1,998,202)
Net non-operating receipts (disbursements)	<u>\$ 14,458</u>	<u>\$ 59,565</u>	<u>\$ -</u>	<u>\$ (2,116,065)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 9,552</u>	<u>\$ 75,583</u>	<u>\$ -</u>	<u>\$ (1,711,007)</u>
Other financing sources (uses):				
Note proceeds	\$ 500,000	\$1,030,000	\$ -	\$ -
Note discount	-	(3,126)	-	-
Operating transfer in	-	-	-	500,000
Operating transfers out	(15,000)	(68,500)	-	(240,000)
Total other financing sources in (uses)	<u>\$ 485,000</u>	<u>\$ 958,374</u>	<u>\$ -</u>	<u>\$ 260,000</u>
Net change in cash balances	\$ 494,552	\$1,033,957	\$ -	\$ (1,451,007)
Cash balances beginning of year	<u>552,662</u>	<u>441,432</u>	<u>1,000,000</u>	<u>2,066,712</u>
Cash balances end of year	<u>\$1,047,214</u>	<u>\$1,475,389</u>	<u>\$1,000,000</u>	<u>\$ 615,705</u>
Cash Basis Fund Balances:				
Reserved for other	\$ -	\$ -	\$1,000,000	\$ -
Unreserved	<u>1,047,214</u>	<u>1,475,389</u>	<u>-</u>	<u>615,705</u>
Total cash basis fund balances	<u>\$1,047,214</u>	<u>\$1,475,389</u>	<u>\$1,000,000</u>	<u>\$ 615,705</u>

See Notes to Financial Statements.

Funds			Internal Service Funds		
Electric Capital	Nonmajor Enterprise Funds	Total	Clearing	Payroll Clearing	Total
\$ -	\$ 138,484	\$ 5,225,943	\$ -	\$ -	\$ -
-	-	9,233	176,082	2,566,119	2,742,201
\$ -	\$ 138,484	\$ 5,235,176	\$ 176,082	\$ 2,566,119	\$ 2,742,201
-	103,090	4,783,612	-	-	-
\$ -	\$ 35,394	\$ 451,564	\$ 176,082	\$ 2,566,119	\$ 2,742,201
\$ 213	\$ 26,028	\$ 229,249	\$ -	\$ -	\$ -
-	11,659	42,111	(176,082)	(2,632,862)	(2,808,944)
-	(85,270)	(362,570)	-	-	-
-	-	(1,998,202)	-	-	-
\$ 213	\$ (47,583)	\$ (2,089,412)	\$ (176,082)	\$ (2,632,862)	\$ (2,808,944)
\$ 213	\$ (12,189)	\$ (1,637,848)	\$ -	\$ (66,743)	\$ (66,743)
\$ -	\$ -	\$ 1,530,000	\$ -	\$ -	\$ -
-	-	(3,126)	-	-	-
-	-	500,000	-	-	-
(500,000)	(5,000)	(828,500)	-	-	-
\$ (500,000)	\$ (5,000)	\$ 1,198,374	\$ -	\$ -	\$ -
\$ (499,787)	\$ (17,189)	\$ (439,474)	\$ -	\$ (66,743)	\$ (66,743)
3,200,000	996,579	8,257,385	83,325	53,216	136,541
\$2,700,213	\$ 979,390	\$ 7,817,911	\$ 83,325	\$ (13,527)	\$ 69,798
\$2,700,213	\$ 650,000	\$ 4,350,213	\$ -	\$ -	\$ -
-	329,390	3,467,698	83,325	(13,527)	69,798
\$2,700,213	\$ 979,390	\$ 7,817,911	\$ 83,325	\$ (13,527)	\$ 69,798

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

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

Capital Projects:

The Street Improvement Fund is used to account for receipts and disbursements relating to street improvements.

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

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

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

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

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

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for clearing and payroll clearing accounts.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) **Summary of Significant Accounting Policies** - continued

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the debt service function.

(2) **Cash and Investments**

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$3,615,498 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(3) Bonds and Notes Payable

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

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Bonds and Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 365,000	\$ 204,788	\$ 190,000	\$ 214,417	\$ 555,000	\$ 419,205
2010	440,000	184,352	265,000	203,117	705,000	387,469
2011	455,000	171,482	280,000	192,798	735,000	364,280
2012	470,000	157,474	290,000	181,730	760,000	339,204
2013	485,000	142,376	295,000	170,086	780,000	312,462
2014-2018	2,275,000	461,764	1,690,000	654,653	3,965,000	1,116,417
2019-2023	610,000	173,356	1,450,000	284,167	2,060,000	457,523
2024-2026	435,000	38,436	495,000	33,900	930,000	72,336
Total	<u>\$5,535,000</u>	<u>\$1,534,028</u>	<u>\$4,955,000</u>	<u>\$1,934,868</u>	<u>\$10,490,000</u>	<u>\$ 3,468,896</u>

Revenue Bonds and Notes

The City has pledged future electric customer receipts, net of specified operating disbursement, to repay \$3,500,000 in electric revenue bonds issued in May 2005. Proceeds from the bonds provided financing for constructing improvements to the municipal electric plant. The bonds are payable solely from electric customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,527,528. For the current year, principal and interest paid and total customer net receipts were \$276,900 and \$405,058, respectively.

The City has pledged future storm sewer customer receipts, net of specified operating disbursement, to repay \$900,000 in storm sewer revenue bonds issued in May 2006. Proceeds from the bonds provided financing for constructing improvements and extensions to the municipal storm sewer utility. The bonds are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,039,950. For the current year, principal and interest paid and total customer net receipts were \$84,870 and \$35,394, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursement, to repay \$1,030,000 in sewer revenue notes issued in May 2008. Proceeds from the notes provided financing for constructing improvements and extensions to the municipal sewer utility. The notes are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,322,390. For the current year, no principal or interest was due and total customer net receipts were \$16,018.

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

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

CITY OF FOREST CITY, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

(3) Bonds and Notes Payable - continued

- b) At the option of the City, storm sewer revenue bonds maturing after June 1, 2013 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- c) At the option of the City, sewer revenue notes maturing after June 1, 2017 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- d) The bonds and notes will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- e) Sufficient monthly transfers shall be made to separate electric and storm sewer and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- f) A transfer shall be made from the bond proceeds to the electric revenue bond reserve account, the storm sewer revenue bond reserve account and the sewer revenue reserve account in an amount equal to the principal and interest payments for the fiscal year. The reserve accounts are restricted for the purpose of paying principal and interest due on the revenue bonds when insufficient money is available in the revenue bond sinking account.
- g) Additional monthly transfers shall be made to an electric revenue improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other funds might be unable to make.

(4) Capital Leases

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

<u>Year ended June 30,</u>	
2009	\$ 24,480
2010	<u>8,220</u>
Total minimum lease payments	\$ 32,700
Amounts representing interest	<u>2,892</u>
Present value of net minimum lease payments	<u>\$ 29,808</u>

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(5) **Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$124,393, \$118,160 and \$118,635, respectively, equal to the required contributions for each year.

(6) **Industrial Development Revenue Bonds**

The City has issued a total of \$851,865 of Health Care Facility Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds outstanding at June 30, 2008 were \$511,715.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death at rates dependent on years of service. However, sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for unrecognized accrued employee benefits at June 30, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$110,770</u>
Compensatory time	44,046
Total	<u>\$154,816</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

(8) **Risk Management**

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

**CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

(9) Economic Development

On April 20, 2005, the City loaned \$15,000 to Progressive Image. The loan proceeds were used to start up and operate a hairstyling center in Forest City. The loan is a non-interest bearing loan. Progressive Image is obligated to repay the City in monthly installments of \$250 beginning May 1, 2005. The loan balance at June 30, 2008 was \$6,000.

On December 19, 2002, the City loaned \$15,000 to MJ Hooligans. The loan proceeds were used to start up and operate a restaurant in Forest City. The loan is a non-interest bearing loan. MJ Hooligans is obligated to repay the City in monthly installments of \$250 beginning March 1, 2004. The loan balance was paid off during the year ended June 30, 2008.

On April 12, 1999, the City loaned \$10,000 to Primerica Financial. The loan proceeds were used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. Primerica Financial is obligated to repay the City in annual installments of \$2,000 beginning November 1, 2000. The loan balance at June 30, 2008 was \$2,000.

On March 12, 2008, the City loaned \$15,000 to The Club at Bear Creek. The loan proceeds were used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. The Club at Bear Creek is obligated to repay the City in monthly installments of \$500 beginning May 1, 2008. The loan balance at June 30, 2008 was \$13,500.

On November 20, 2002, The City loaned \$200,000 to CDI, Inc. The loan proceeds were used to start up and operate a painting facility in Forest City. The loan bears interest at 5%. CDI, Inc. is obligated to repay the City in monthly installments of \$2,121 beginning January 1, 2004. The loan balance at June 30, 2008 was \$104,076.

On August 31, 2004, the City loaned \$102,000 to CDI, Inc. The loan proceeds were used to operate a painting facility in Forest City. One half of the amount loaned bears interest at 0% and CDI, Inc. is obligated to repay the City in monthly installments of \$875 beginning December 1, 2004. The other half of the amount loaned by the City is forgivable and had a balance of \$52,000 at June 30, 2008. The repayable loan balance at June 30, 2008 was \$14,875.

(10) Forgivable Loan

The City entered into an economic development agreement with CDI, Inc. on November 20, 2002. The City loaned the corporation \$100,000 to start up and operate a painting facility in Forest City. CDI, Inc. is obligated to pay interest only on the loan at 5%. The City has agreed to forgive the loan in \$50,000 increments in 2007 and 2013 provided that CDI, Inc. is in compliance with the agreement. The remaining balance at June 30, 2008 is \$50,000.

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 348,000
	Employee Benefits	250,000
	Local Option Sales Tax	200,000
		<u>\$ 798,000</u>

CITY OF FOREST CITY, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

(11) **Interfund Transfers** - continued

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
	Enterprise:	
	Water	\$ 15,000
	Sewer Rental	68,500
	Storm Sewer	5,000
	Electric	240,000
		<u>\$ 328,500</u>
		\$1,126,500
Enterprise:	Enterprise:	
Water	Electric Capital	500,000
		<u>500,000</u>
Total		<u>\$1,626,500</u>

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

(12) **Related Party Transactions**

The City had business transactions between the City and the City officials, totaling \$2,629 during the year ended June 30, 2008.

(13) **Deficit Balances**

The Special Revenue, Tax Increment Financing Fund and the Payroll Clearing Internal Service Fund had deficit balances of \$506,241 and \$13,527 at June 30, 2008, respectively. These deficits will be eliminated upon receipt of property taxes and other receipts.

(14) **Commitments**

At June 30, 2008, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Retention Basis Project	\$ 819,653	\$ 794,653
2006 Electric S Substation	819,077	751,361
Aquatic Center	2,731,531	2,594,954
Runway Rehabilitation	858,571	-
Electric Distribution Plant	286,506	192,855
Awos Installation	124,013	-
2008 Westgate Storm Sewer	265,604	-
2008 Street Resurfacing	444,639	-
Total	<u>\$6,349,594</u>	<u>\$4,333,823</u>

(15) **Litigation**

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

(16) **Subsequent Events**

On September 2, 2008, the City approved the 2008 Sanitary Sewer Lining and Grouting Improvement Project for \$173,884.

Required Supplementary Information

CITY OF FOREST CITY, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 1,575,368	\$ -	\$ -
Tax increment financing	213,873	-	-
Other city tax	335,532	-	-
Licenses and permits	9,830	-	-
Use of money and property	287,930	229,249	-
Intergovernmental	726,167	-	-
Charges for service	465,544	5,225,943	-
Special assessments	44,453	-	-
Miscellaneous	491,381	2,793,545	2,742,201
Total receipts	<u>\$ 4,150,078</u>	<u>\$ 8,248,737</u>	<u>\$ 2,742,201</u>
DISBURSEMENTS:			
Public safety	\$ 959,784	\$ -	\$ -
Public works	952,563	-	-
Health and social services	17,052	-	-
Culture and recreation	607,439	-	-
Community and economic development	443,449	-	-
General government	205,652	-	-
Debt service	488,804	-	-
Capital projects	2,752,128	-	-
Business type activities	-	9,953,328	2,808,944
Total disbursements	<u>\$ 6,426,871</u>	<u>\$ 9,953,328</u>	<u>\$ 2,808,944</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (2,276,793)	\$ (1,704,591)	\$ (66,743)
Other financing sources, net	<u>2,388,320</u>	<u>1,198,374</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 111,527	\$ (506,217)	\$ (66,743)
Balances beginning of year	<u>3,873,187</u>	<u>8,393,926</u>	<u>136,541</u>
Balances end of year	<u>\$ 3,984,714</u>	<u>\$ 7,887,709</u>	<u>\$ 69,798</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 1,575,368	\$ 1,553,715	\$ 1,553,715	\$ 21,653
213,873	275,104	275,104	(61,231)
335,532	328,558	328,558	6,974
9,830	8,175	8,175	1,655
517,179	210,296	248,296	268,883
726,167	1,346,600	1,612,600	(886,433)
5,691,487	6,376,635	6,376,635	(685,148)
44,453	84,000	86,000	(41,547)
542,725	1,010,550	1,105,550	(562,825)
<u>\$ 9,656,614</u>	<u>\$11,193,633</u>	<u>\$11,594,633</u>	<u>\$(1,938,019)</u>
\$ 959,784	\$ 1,024,945	\$ 1,099,945	\$ 140,161
952,563	1,053,927	1,053,927	101,364
17,052	20,000	20,000	2,948
607,439	539,034	614,034	6,595
443,449	444,150	444,150	701
205,652	220,190	220,190	14,538
488,804	488,654	488,654	(150)
2,752,128	4,072,060	4,072,060	1,319,932
7,144,384	6,553,180	8,053,180	908,796
<u>\$13,571,255</u>	<u>\$14,416,140</u>	<u>\$16,066,140</u>	<u>\$ 2,494,885</u>
\$(3,914,641)	\$(3,222,507)	\$(4,471,507)	\$ 556,866
<u>3,586,694</u>	<u>-</u>	<u>3,570,000</u>	<u>16,694</u>
\$ (327,947)	\$(3,222,507)	\$ (901,507)	\$ 573,560
<u>12,130,572</u>	<u>9,945,285</u>	<u>9,945,285</u>	<u>2,185,287</u>
<u>\$11,802,625</u>	<u>\$ 6,722,778</u>	<u>\$ 9,043,778</u>	<u>\$ 2,758,847</u>

CITY OF FOREST CITY, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2008

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended once, resulting in increased budgeted disbursements by \$1,650,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Special				
	Road Use Tax	Employee Benefits	Local Option Sales Tax	Low-Moderate Income	ED/RLF
RECEIPTS:					
Property tax	\$ -	\$ 262,730	\$ -	\$ -	\$ -
Tax increment financing	-	-	-	7,739	-
Other city tax	-	-	291,880	-	-
Use of money and property	-	-	-	-	-
Intergovernmental	376,617	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	-	-	-	10,500
Total receipts	<u>\$ 376,617</u>	<u>\$ 262,730</u>	<u>\$ 291,880</u>	<u>\$ 7,739</u>	<u>\$ 10,500</u>
DISBURSEMENTS:					
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -
Community and economic development	-	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 376,617	\$ 262,730	\$ 291,880	\$ 7,739	\$ 10,500
Operating transfers out	<u>(348,000)</u>	<u>(250,000)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	\$ 28,617	\$ 12,730	\$ 91,880	\$ 7,739	\$ 10,500
Cash balances beginning of year	<u>8,361</u>	<u>(6,422)</u>	<u>141,257</u>	<u>-</u>	<u>27,125</u>
Cash balances end of year	<u>\$ 36,978</u>	<u>\$ 6,308</u>	<u>\$ 233,137</u>	<u>\$ 7,739</u>	<u>\$ 37,625</u>
Cash Basis Fund Balances:					
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved:					
Special revenue funds	36,978	6,308	233,137	7,739	37,625
Permanent funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 36,978</u>	<u>\$ 6,308</u>	<u>\$ 233,137</u>	<u>\$ 7,739</u>	<u>\$ 37,625</u>

(Continued)

<u>Revenue</u>				
<u>CDBG</u>	<u>Hotel Motel Tax</u>	<u>Tax Increment Financing</u>	<u>Capital Improvement Reserve</u>	<u>Debt Service</u>
\$ -	\$ -	\$ -	\$ -	\$ 489,729
-	-	206,134	-	-
-	43,652	-	-	-
-	-	-	-	-
47,695	-	-	-	-
-	-	-	-	8,824
-	-	27,956	-	-
<u>\$ 47,695</u>	<u>\$ 43,652</u>	<u>\$ 234,090</u>	<u>\$ -</u>	<u>\$ 498,553</u>
\$ -	\$ -	\$ -	\$ -	\$ -
104,332	51,314	137,051	-	-
-	-	-	-	488,804
-	-	-	9,196	-
<u>\$104,332</u>	<u>\$ 51,314</u>	<u>\$ 137,051</u>	<u>\$ 9,196</u>	<u>\$ 488,804</u>
\$(56,637)	\$ (7,662)	\$ 97,039	\$ (9,196)	\$ 9,749
-	-	-	-	-
\$(56,637)	\$ (7,662)	\$ 97,039	\$ (9,196)	\$ 9,749
57,327	28,592	(603,280)	9,196	13,648
<u>\$ 690</u>	<u>\$ 20,930</u>	<u>\$ (506,241)</u>	<u>\$ -</u>	<u>\$ 23,397</u>
\$ -	\$ -	\$ -	\$ -	\$ 23,397
690	20,930	(506,241)	-	-
-	-	-	-	-
<u>\$ 690</u>	<u>\$ 20,930</u>	<u>\$ (506,241)</u>	<u>\$ -</u>	<u>\$ 23,397</u>

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Permanent		
	Cemetery Perpetual Care	Library Trust	Total
RECEIPTS:			
Property tax	\$ -	\$ -	\$ 752,459
Tax increment financing	-	-	213,873
Other city tax	-	-	335,532
Use of money and property	-	2,633	2,633
Intergovernmental	-	-	424,312
Special assessments	-	-	8,824
Miscellaneous	500	3,346	42,302
Total receipts	\$ 500	\$ 5,979	\$1,779,935
DISBURSEMENTS:			
Culture and recreation	\$ 151	\$ 6,489	\$ 6,640
Community and economic development	-	-	292,697
Debt service	-	-	488,804
Capital projects	-	-	9,196
Total disbursements	\$ 151	\$ 6,489	\$ 797,337
Excess (deficiency) of receipts over (under) disbursements	\$ 349	\$ (510)	\$ 982,598
Operating transfers out	-	-	(798,000)
Net change in cash balances	\$ 349	\$ (510)	\$ 184,598
Cash balances beginning of year	44,680	132,604	(146,912)
Cash balances end of year	\$ 45,029	\$ 132,094	\$ 37,686
Cash Basis Fund Balances:			
Reserved for debt service	\$ -	\$ -	\$ 23,397
Unreserved:			
Special revenue funds	-	-	(162,834)
Permanent funds	45,029	132,094	177,123
Total cash basis fund balances	\$ 45,029	\$ 132,094	\$ 37,686

See Accompanying Independent Auditor's Report.

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>Water Sinking</u>	<u>Water Improvement</u>
Operating receipts:		
Charges for service	\$ -	\$ -
Operating disbursements:		
Business type activities	<u>-</u>	<u>-</u>
Excess of operating receipts over operating disbursements	\$ <u>-</u>	\$ <u>-</u>
Non-operating receipts (disbursements):		
Interest on investments	\$ -	\$ -
Miscellaneous	-	-
Debt service	-	-
Net non-operating receipts (disbursements)	<u>\$ -</u>	<u>\$ -</u>
Deficiency of receipts under disbursements	\$ -	\$ -
Operating transfers out	<u>-</u>	<u>-</u>
Net change in cash balances	\$ -	\$ -
Cash balances beginning of year	<u>120,000</u>	<u>50,000</u>
Cash balances end of year	<u>\$ 120,000</u>	<u>\$ 50,000</u>
Cash Basis Fund balances:		
Reserved for other	\$ 120,000	\$ 50,000
Unreserved	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 120,000</u>	<u>\$ 50,000</u>

See Accompanying Independent Auditor's Report.

<u>Electric Reserve</u>	<u>Storm Sewer</u>	<u>Storm Sewer Sinking</u>	<u>Storm Sewer Reserve</u>	<u>Total</u>
\$ -	\$ 138,484	\$ -	\$ -	\$ 138,484
<u>-</u>	<u>103,090</u>	<u>-</u>	<u>-</u>	<u>103,090</u>
<u>\$ -</u>	<u>\$ 35,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,394</u>
\$ -	\$ 26,028	\$ -	\$ -	\$ 26,028
-	11,659	-	-	11,659
-	(85,270)	-	-	(85,270)
<u>\$ -</u>	<u>\$ (47,583)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,583)</u>
\$ -	\$ (12,189)	\$ -	\$ -	\$ (12,189)
<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>
\$ -	\$ (17,189)	\$ -	\$ -	\$ (17,189)
<u>300,000</u>	<u>346,579</u>	<u>90,000</u>	<u>90,000</u>	<u>996,579</u>
<u>\$ 300,000</u>	<u>\$ 329,390</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 979,390</u>
\$ 300,000	\$ -	\$ 90,000	\$ 90,000	\$ 650,000
<u>-</u>	<u>329,390</u>	<u>-</u>	<u>-</u>	<u>329,390</u>
<u>\$ 300,000</u>	<u>\$ 329,390</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 979,390</u>

CITY OF FOREST CITY, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Essential Corporate Purpose	06-01-03	1.40 - 3.75%	\$1,255,000
Essential Corporate Purpose	01-30-02	2.25 - 4.35	1,370,000
Essential Corporate Purpose	12-01-06	3.65 - 4.40	2,000,000
Essential Corporate Purpose	05-01-08	2.60 - 3.70	2,540,000
Revenue Bonds and Notes:			
Electric	05-24-05	4.52%	\$3,500,000
Storm Sewer	05-01-06	3.70 - 4.35	900,000
Sewer	05-01-08	2.80 - 4.10	1,030,000
Capital Leases:			
Police Cars	01-02-06	6.10%	\$ 64,496
John Deere Lawn Tractor	05-03-07	9.25	22,210
International 4300 Truck	09-10-04	5.07	57,564
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 955,000	\$ -	\$ 105,000	\$ 850,000	\$ 30,900	\$ -
360,000	-	180,000	180,000	15,390	-
2,000,000	-	35,000	1,965,000	121,314	-
-	2,540,000	-	2,540,000	-	-
<u>\$3,315,000</u>	<u>\$2,540,000</u>	<u>\$ 320,000</u>	<u>\$ 5,535,000</u>	<u>\$ 167,604</u>	<u>\$ -</u>
\$3,250,000	\$ -	\$ 130,000	\$ 3,120,000	\$ 146,900	\$ -
855,000	-	50,000	805,000	34,870	-
-	1,030,000	-	1,030,000	-	-
<u>\$4,105,000</u>	<u>\$1,030,000</u>	<u>\$ 180,000</u>	<u>\$ 4,955,000</u>	<u>\$ 181,770</u>	<u>\$ -</u>
\$ 20,829	\$ -	\$ 20,829	\$ -	\$ 1,271	\$ -
22,210	-	7,877	14,333	344	-
30,204	-	14,729	15,475	1,531	-
<u>\$ 73,243</u>	<u>\$ -</u>	<u>\$ 43,435</u>	<u>\$ 29,808</u>	<u>\$ 3,146</u>	<u>\$ -</u>
<u>\$7,493,243</u>	<u>\$3,570,000</u>	<u>\$ 543,435</u>	<u>\$10,519,808</u>	<u>\$ 352,520</u>	<u>\$ -</u>

CITY OF FOREST CITY, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2008

G E N E R A L

Year Ending June 30,	Essential Corporate Purpose Issued January 30, 2002		Essential Corporate Purpose Issued June 1, 2003	
	Interest Rates	Amount	Interest Rates	Amount
	2009	4.35%	\$ 180,000	2.75%
2010		-	3.10	110,000
2011		-	3.20	115,000
2012		-	3.30	120,000
2013		-	3.50	125,000
2014		-	3.60	130,000
2015		-	3.75	140,000
2016		-		-
2017		-		-
2018		-		-
2019		-		-
2020		-		-
2021		-		-
2022		-		-
2023		-		-
2024		-		-
2025		-		-
2026		-		-
Total		<u>\$ 180,000</u>		<u>\$ 850,000</u>

R E V E N U E B O N D S

Year Ending June 30,	Electric Issued May 24, 2005		Storm Sewer Issued May 1, 2006	
	Interest Rates	Amount	Interest Rates	Amount
	2009	4.52%	\$ 135,000	3.80%
2010	4.52	135,000	3.85	55,000
2011	4.52	140,000	3.90	60,000
2012	4.52	145,000	3.95	60,000
2013	4.52	150,000	4.00	60,000
2014	4.52	160,000	4.05	65,000
2015	4.52	165,000	4.10	65,000
2016	4.52	170,000	4.15	70,000
2017	4.52	180,000	4.20	75,000
2018	4.52	185,000	4.25	75,000
2019	4.52	195,000	4.30	80,000
2020	4.52	205,000	4.35	85,000
2021	4.52	210,000		-
2022	4.52	220,000		-
2023	4.52	230,000		-
2024	4.52	240,000		-
2025	4.52	255,000		-
Total		<u>\$3,120,000</u>		<u>\$ 805,000</u>

See Accompanying Independent Auditor's Report

O B L I G A T I O N		N O T E S		
Essential		Essential		
Corporate Purpose		Corporate Purpose		
Issued December 1, 2006		Issued May 1, 2008		
Interest Rates	Amount	Interest Rates	Amount	Total
3.65%	\$ 75,000		\$ -	\$ 365,000
3.70	80,000	2.60%	250,000	440,000
3.75	85,000	2.80	255,000	455,000
3.75	85,000	3.00	265,000	470,000
3.80	90,000	3.10	270,000	485,000
3.85	95,000	3.20	280,000	505,000
3.87	95,000	3.35	290,000	525,000
3.90	100,000	3.50	300,000	400,000
4.00	105,000	3.60	310,000	415,000
4.00	110,000	3.70	320,000	430,000
4.05	115,000		-	115,000
4.10	115,000		-	115,000
4.15	120,000		-	120,000
4.20	125,000		-	125,000
4.25	135,000		-	135,000
4.30	140,000		-	140,000
4.35	145,000		-	145,000
4.40	150,000		-	150,000
	<u>\$1,965,000</u>		<u>\$2,540,000</u>	<u>\$5,535,000</u>

A N D N O T E S		
Sewer		
Issued May 1, 2008		
Interest Rates	Amount	Total
	\$ -	\$ 190,000
2.80%	75,000	265,000
3.00	80,000	280,000
3.20	85,000	290,000
3.35	85,000	295,000
3.50	90,000	315,000
3.60	90,000	320,000
3.75	95,000	335,000
3.90	100,000	355,000
4.00	105,000	365,000
4.05	110,000	385,000
4.10	115,000	405,000
	-	210,000
	-	220,000
	-	230,000
	-	240,000
	-	255,000
	<u>\$ 1,030,000</u>	<u>\$4,955,000</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:					
Property tax	\$1,575,368	\$1,354,261	\$1,320,332	\$1,164,388	\$1,117,857
Tax increment financing	213,873	245,779	166,442	170,804	124,984
Other city tax	335,532	346,408	313,419	262,410	271,452
Licenses and permits	9,830	8,190	8,840	8,536	7,860
Use of money and property	287,930	328,316	203,483	64,867	31,226
Intergovernmental	726,167	1,074,161	893,940	1,267,374	668,132
Charges for service	465,544	398,769	386,510	386,845	387,136
Special assessments	44,453	37,233	49,448	87,770	31,339
Miscellaneous	491,381	837,448	338,748	267,145	790,953
Total	<u>\$4,150,078</u>	<u>\$4,630,565</u>	<u>\$3,681,162</u>	<u>\$3,680,139</u>	<u>\$3,430,939</u>
Disbursements:					
Operating:					
Public safety	\$ 959,784	\$ 989,741	\$1,063,005	\$1,413,391	\$ 979,468
Public works	952,563	1,232,196	948,615	1,264,610	827,126
Health and social services	17,052	44,693	43,142	39,499	15,627
Culture and recreation	607,439	879,860	665,101	522,967	675,261
Community and economic development	443,449	519,873	393,957	472,837	557,578
General government	205,652	190,579	190,425	193,038	191,471
Debt service	488,804	325,790	423,723	389,200	290,188
Capital projects	2,752,128	127,089	54,063	637,150	1,365,867
Total	<u>\$6,426,871</u>	<u>\$4,309,821</u>	<u>\$3,782,031</u>	<u>\$4,932,692</u>	<u>\$4,902,586</u>

See Accompanying Independent Auditor's Report.



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

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated December 2, 2008. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above, item II-A-08, is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



December 2, 2008

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

II-A-08 Bank Reconciliations - Reconciliations of book balances to the bank accounts by fund were not prepared during the audit period.

Recommendation - To improve financial accountability and control, a monthly reconciliation by fund of the book and bank balances should be prepared by the City. Any differences should be investigated and resolved in a timely manner.

Response - We will begin performing monthly reconciliations.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - We will do this in the future.

Conclusion - Response accepted.

IV-B-08 Questionable Disbursements - No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2008

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

IV-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tony Coloff, Cable TV Committee, Owner KIOW Radio Station	Advertising/legal publications	\$ 2,134
Ron Holland, Council Member, Owner Ron Holland House Moving	Services	495

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Ron Holland does not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year. The transaction with Tony Coloff may represent a conflict of interest since the total transaction was over \$1,500 during the fiscal year.

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

Response - We will do this.

Conclusion - Response accepted.

IV-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Council Minutes - No transactions were found that we believe should have been approved in the minutes but were not.

IV-G-08 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-08 Financial Condition - The Special Revenue, Tax Increment Financing Fund and the Payroll Clearing Internal Service Fund had deficit balances of \$506,241 and \$13,527, respectively, at June 30, 2008.

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

Response - These accounts will be monitored in the future.

Conclusion - Response accepted.

