FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

Table of Contents

		Page
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-16
Basic Financial Statements:	Exhibit	
Government-wide Financial Statements:		
Statement of Net Assets	A	18-19
Statement of Activities	B	20-21
Governmental Fund Financial Statements:		
Balance Sheet	C	22
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	23
Statement of Revenues, Expenditures and Changes in Fund Balances	E	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	25
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	27
Statement of Cash Flows	I	28
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	29
Statement of Changes in Fiduciary Net Assets	K	30
Notes to Financial Statements		31-40
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information - Budgetary Reporting		43
	Schedule	
Other Supplementary Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	46
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	47
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	48
Schedule of Expenditures of Federal Awards	5	49
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		50-51
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133		52-53
Schedule of Findings and Questioned Costs		54-60

FOREST CITY COMMUNITY SCHOOL DISTRICT

Officials

Name	Title	Term Expires
Board of Education		
(Before September 2007 Election)		
Susan Shaw	President	2007
Cindy Carter	Vice President	2009
Dave Bartlett	Board Member	2007
Arlyn Midtgaard	Board Member	2009
Keila Buffington	Board Member	2008
Sandra Lillquist	Board Member	2008
Julie Farland	Board Member	2009
(After September 2007 Election)		
Susan Shaw	President	2010
Cindy Carter	Vice President	2009
Dave Bartlett	Board Member	2010
Arlyn Midtgaard	Board Member	2009
Keila Buffington	Board Member	2008
Sandra Lillquist	Board Member	2008
Julie Farland	Board Member	2009
School Officials		
Darwin Lehmann	Superintendent	
Steven Rollefson	District Secretary/Treasurer and Business Manager	

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

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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, 2008, 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, 2008, 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 March 19, 2009, 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, contracts 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 16 and 42 through 43 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, 2007, (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

March 19, 2009

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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for fiscal 2008 were $11,519,195 while General Fund expenditures were $11,629,963. This resulted in a decrease in the District's General Fund balance from $240,314 in fiscal 2007 to $58,810 in fiscal 2008, or a $181,504 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 2009-2010 school year. The additional funding will be determined annually and shall not exceed ten percent (10%) of the total regular program district cost for the budget year which will on an annual basis raise approximately $500,000. The moneys received my 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 $20,669 for the 2008-2009 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 $80,344 for the 2008-2009 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 $530,115 for the 2008-2009 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 $54,607 for the 2008-2009 school year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are government-wide financial statements that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education were financed in the *short term* as well as what remains for future spending.
- The statement for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1

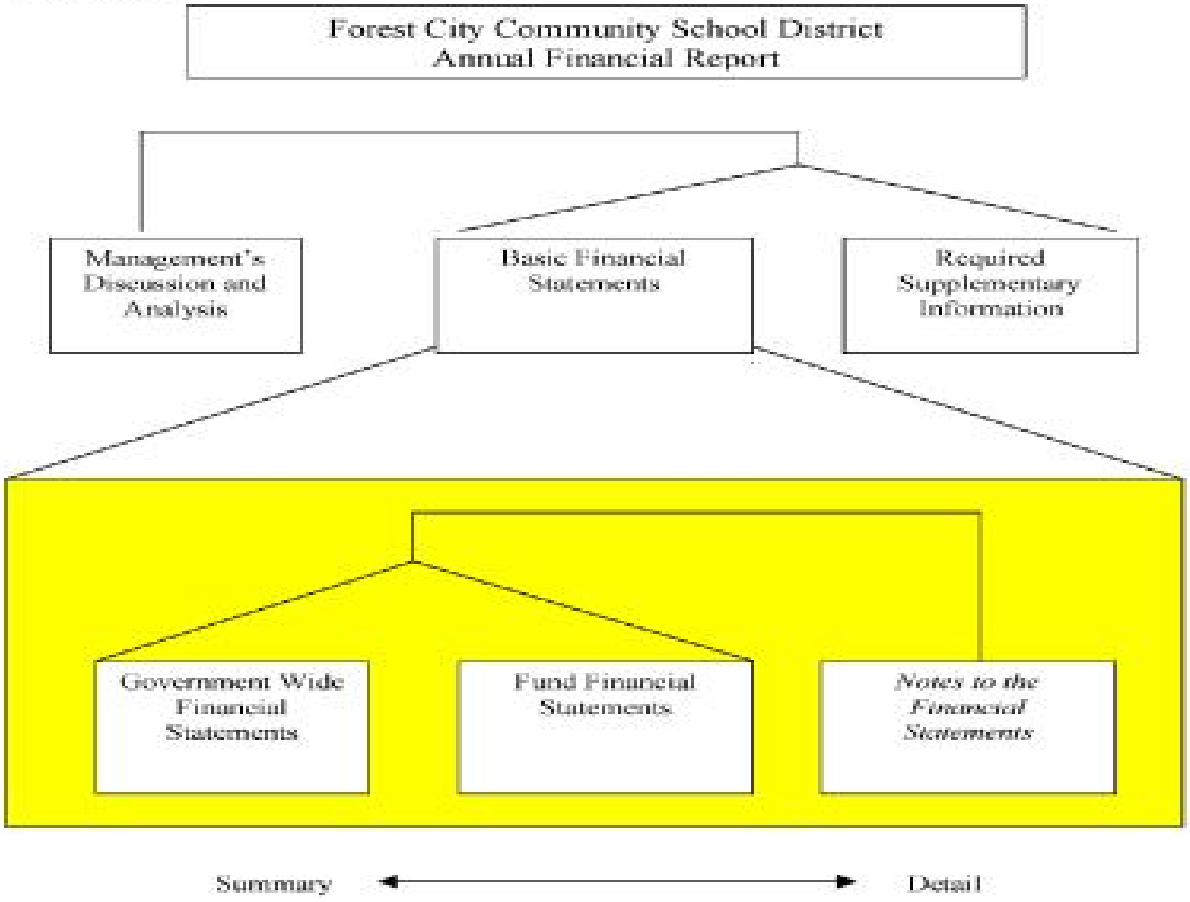
Forest City Community School District
Annual Financial Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Government Wide Financial Statements
Fund Financial Statements
Notes to the Financial Statements
Summary
Detail

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	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net assets • Statement of cash flows • Statement of revenues, expenses and changes in net assets	• 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 of 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, 2008 compared to 2007.

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

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2007	2008	2007	2008	2007	2008	2007-2008
Current and other assets	$8.197	$7.894	$.043	$.056	$8.240	$7.950	-3.52%
Capital assets	8.894	8.879	.041	.036	8.935	8.915	-0.22%
Total assets	**17.091**	**16.773**	**.084**	**.092**	**17.175**	**16.865**	**-1.80%**
Long-term debt outstanding	3.080	2.808	0	0	3.080	2.808	-8.83%
Other liabilities	7.137	7.165	.047	.043	7.184	7.208	0.03%
Total liabilities	**10.217**	**9.973**	**.047**	**.043**	**10.264**	**10.016**	**-2.42%**
Net assets							
Invested in capital assets, net of related debt	5.937	6.192	.041	.036	5.978	6.228	4.18%
Restricted	.535	.338	0	0	.535	.338	-36.82%
Unrestricted	.402	.270	-.004	.013	.398	.283	-28.89%
Total net assets	**$6.874**	**$6.800**	**$.037**	**$.049**	**$6.911**	**$6.849**	**0.89%**

Note: totals may not add due to rounding.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased $196,309 or 36.73% over the prior year. This decrease was caused by the

expenditure of local sales tax monies that were received in fiscal year 2008 and used to finance future capital improvements and equipment purchases.

The decrease in unrestricted net assets was primarily due to the Districts 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, 2008.

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

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2007	2008	2007	2008	2007	2008	2007-2008
Revenues							
Program revenues							
Charges for services	$1.337	$1.423	$.344	$.331	$1.681	$1.754	4.34%
Operating Grants & Contributions	1.203	1.392	.230	.300	1.433	1.692	18.07%
Capital Grants & Contributions	.096	.000	0	0	.096	.000	-100.00%
General revenues							
Property Taxes & Other Local Taxes	3.989	4.034	0	0	3.989	4.034	1.13%
Unrestricted State Aid	5.865	5.923	0	0	5.865	5.923	0.99%
Other	.204	.152	0	0	.204	.152	-25.49%
Total revenues	**12.694**	**12.924**	**.574**	**.631**	**13.268**	**13.555**	**2.16%**
Expenses							
Instruction	8.295	8.488	0	0	8.295	8.488	2.33%
Pupil & Instructional Services	.566	.687	0	0	.566	.687	21.38%
Administrative & Business	1.166	1.163	0	0	1.166	1.163	-0.25%
Maintenance & operations	.992	.981	0	0	.992	.981	-1.11%
Transportation	.492	.499	0	0	.492	.499	1.42%
Other	1.008	1.179	.572	.619	1.580	1.798	13.80%
Total expenses	**12.519**	**12.997**	**.572**	**.619**	**13.091**	**13.616**	**4.01%**
Increase (decrease) in net assets	**$.175**	**$-.073**	**$ .002**	**$ .012**	**$ .177**	**$-.061**	**-134.46%**

Note: totals may not add due to rounding.

Property tax, income surtax, sales taxes and state foundation aid account for 73 percent of the total revenue. The District's expenses primarily relate to instruction and support services that account for 87 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were $12,923,987 and expenses were $12,997,402. In what was a good budget year, the District was able to balance the budget by trimming expenses to match available revenues. In what appears to be overspending, was actually expenditures of balances available in the capital account for major projects and their completion.

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.

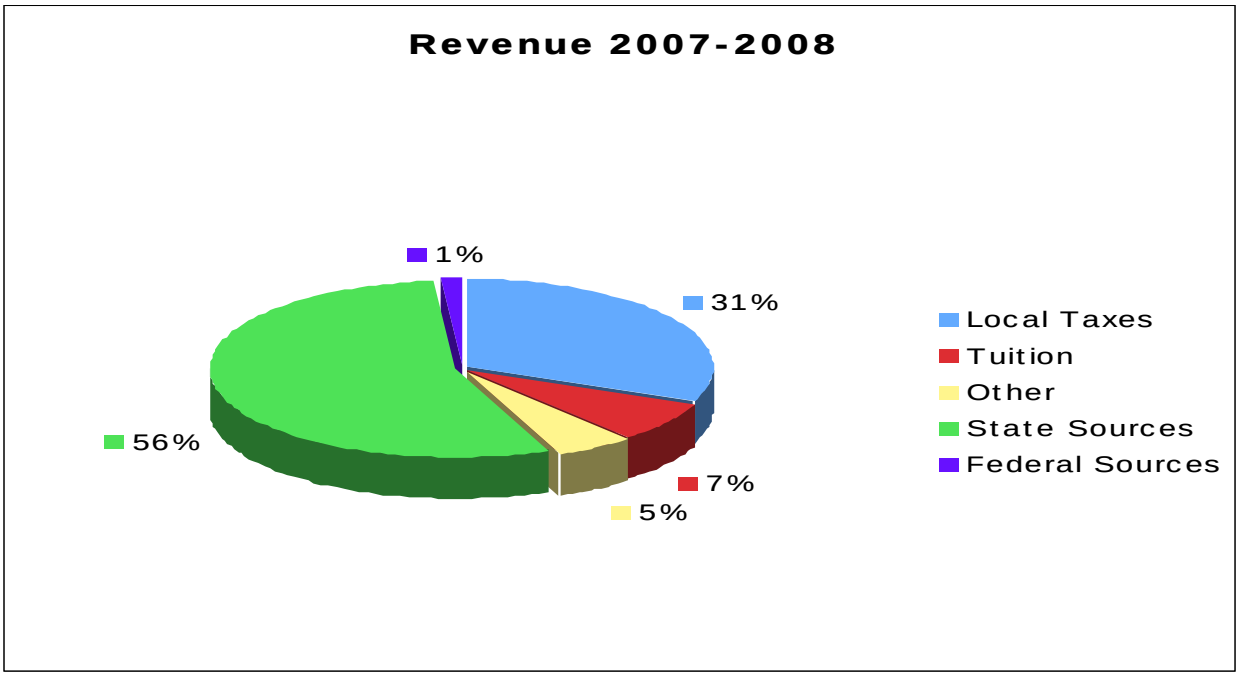

Figure A-6 The following graph presents the total Expenditures for the District's major governmental activities: instruction, student & instructional services, administration & business, operations & maintenance, transportation and AEA flow thru.

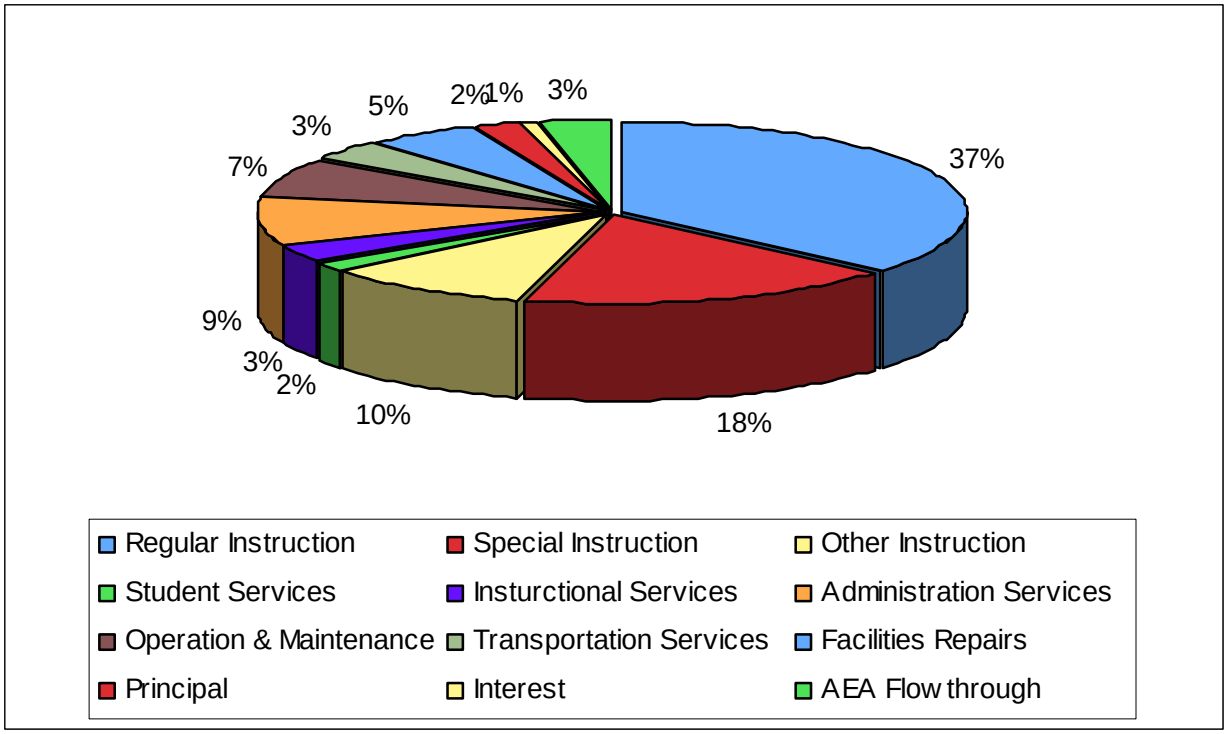

Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental 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
	2007	2008	2007-2008	2007	2008	2007-2008
Instruction	$8.295	$8.488	2.08%	$ 6.202	$ 6.127	-1.21%
Pupil & Instructional Services	.566	.687	21.38%:	.566	.687	21.38%
Administrative & Business	1.166	1.163	-0.26%	1.166	1.163	-0.25%
Maintenance & operations	.992	.981	-1.11%	.988	.976	-1.21%
Transportation	.492	.499	1.42%	.485	.493	1.65%
Other	1.008	1.179	16.96%	.476	.737	54.83%
Total	**$12.519**	**$12.997**	**3.82%**	**$ 9.883**	**$10.183**	**3.04%**

Note: totals may not add due to rounding.

- The cost of all governmental activities this year was $12,997,402.
- Some of the cost was financed by the users of District programs in the amount of $1,422,874.
- The federal and state governments subsidized certain programs with grants and contributions $1,391,669.
- Most of the District's costs $10,182,859 however was financed by District and state taxpayers.
- This portion of governmental activities was financed with $3,124,035 million in property taxes, $174,830 of income surtax and $735,296 of sales tax $5,923,074 million of unrestricted state aid based on the statewide finance formula, and 152,209 other revenues and investment earnings.

Business Type Activities

Revenues from the District's business-type activities included charges for services in the amount of $330,788 and $300,096 from operating grants, contributions and restricted interest. Expenses from the District's business type activities amounted to $619,087. The Hot Lunch program was the only Business Type Activity for the District during the 2008 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 $472,031 below last year's ending fund balances of $861,297. The primary reason for the decrease in the total governmental funds is the expenditure of funds in the Capital Projects Fund.

Governmental Fund Highlights

- The District's stabilizing General Fund financial position is the product of many factors. During the year property tax proceeds, open enrollment, interest income, replacement taxes and federal programs stayed consistent with budgeted amounts and expenditures were in line with projections.

- The General Fund balance decreased from $240,314 to $58,810 due mainly to continued salary negotiations and other costs increasing more than allowable growth that is allowed by the state legislature which continues to under fund all school districts.

- The Physical Plant and Equipment Levy (PPEL) Fund balance stayed consistent at $2,727 in fiscal 2007 to $2,427 in fiscal 2008. Revenues were spent on capital projects for the 2007-2008 school year.

- The Capital Projects Fund balance decreased $162,354 due to the completion of the projects and contracts that were completed during the 2007-2008 school year. Fiscal 2008 ended with a balance of $252,517 consisting of unexpended local option sales taxes.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $37,121 at June 30, 2007 to $49,092 representing an increase of approximately $11,971 dollars. An increase in student and adult meal receipts helped to keep the ending balance on a steady increase.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 $572,644 more that budgeted receipts, a variance of a little over 4.23 percent. The most significant change was from local sources and teacher quality funds that were not projected in the 2007-2008 budget.

During the year, Forest City Community School District amended its budget one time, increasing budgeted expenditures by $500,000 to reflect the additional expenditures for the teacher quality program.

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 support services and non-instructional programs 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 2008 the District had invested $18.688 million, in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Figure A-8) (More detailed information about capital assets can be found in Note 6 to the financial statements.) Total depreciation expense for the year exceeded $531,047.

Approximately $394,682 was spent in fiscal year 2008 to complete various projects.

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

	Governmental Activities		Business Type Activities		Total School District		Total Percentage Change
	2007	2008	2007	2008	2007	2008	2007-2008
Land	$ .225	$ .225	$ 0	$ 0	$ .225	$ .225	0.00%
Construction in progress	.000	.000	0	0	.000	.000	0.00%
Buildings	7.223	7.220			7.223	7.220	-0.01%
Improvements	.598	.654	0	0	.598	.654	9.36%
Equipment & Furniture	.848	.780	.041	.036	.889	.816	-8.21%
	$ 8.894	**$ 8.879**	**$ .041**	**$ .036**	**$ 8.935**	**$ 8.915**	**-0.22%**

Note: totals may not add due to rounding.

Long-Term Debt
At year-end, the District had $2,807,809 in general obligation bonds and other long-term debt outstanding. This represents a decrease of 8.85% 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
	2007	2008	2007-2008
General obligation bonds & notes (financed with property taxes)	$ 2,705	$ 2,495	-7.76%
Other general obligation debt	.375	.313	-16.53%
Total	**$ 3.080**	**$ 2.808**	**-8.85%**

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 decreased in fiscal year 2006-2007 by 37.9 students, and for the 2007-2008 school year decreased by 19.8 students and for the 2008-2009 decreased by 18.0 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 district has implemented an early retirement policy for the 2008-2009 and 2009-2010 school year. The district received thirteen (13) applications and all were accepted. No positions will be replaced unless absolutely necessary for future staffing. Currently the board is looking at replacing only three or four positions.

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

Exhibit A

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
	$	$	$
Assets			
Cash and cash equivalents:			
ISCAP	2,313,704	-	2,313,704
Other	1,493,617	34,850	1,528,467
Receivables:			
Property tax:			
Delinquent	84,103	-	84,103
Succeeding year	3,422,262	-	3,422,262
Accounts	10,547	-	10,547
Accrued interest - ISCAP	6,542	-	6,542
Due from other governments	526,361	-	526,361
Inventories	24,141	20,876	45,017
Prepaid expenses	12,273	-	12,273
Capital assets, net of accumulated depreciation	8,879,262	36,449	8,915,711
Total assets	16,772,812	92,175	16,864,987
Liabilities			
Accounts payable	207,146	-	207,146
Salaries and benefits payable	1,193,091	42,984	1,236,075
Accrued interest payable	7,096	-	7,096
Deferred revenue:			
Succeeding year property tax	3,422,262	-	3,422,262
Other	-	99	99
ISCAP warrants payable	2,295,000	-	2,295,000
ISCAP accrued interest payable	880	-	880
ISCAP premium	39,359	-	39,359
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	215,000	-	215,000
Notes payable	74,539	-	74,539
Termination benefits	27,031	-	27,031
Portion due after one year:			
General obligation bonds payable	2,280,000	-	2,280,000
Notes payable	117,626	-	117,626
Termination benefits	93,613	-	93,613
Total liabilities	9,972,643	43,083	10,015,726

See notes to financial statements.

Exhibit A

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
	$	$	$
Net assets			
Invested in capital assets, net of related debt	6,192,097	36,449	6,228,546
Restricted for:			
State categorical aid	19,580	-	19,580
Physical plant and equipment levy	2,427	-	2,427
Other special revenue purposes	63,626	-	63,626
Local option sales tax capital projects	252,517	-	252,517
Unrestricted	269,922	12,643	282,565
Total net assets	6,800,169	49,092	6,849,261

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2008

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	$	$	$	$
Governmental activities:				
Instruction:				
Regular	4,851,493	629,935	774,179	-
Special	2,338,779	417,496	66,205	-
Other	1,297,799	364,692	108,984	-
	8,488,071	1,412,123	949,368	-
Support services:				
Student	238,398	-	-	-
Instructional staff	448,357	-	-	-
Administration	1,162,685	-	-	-
Operation and maintenance of plant	981,012	4,065	-	-
Transportation services	499,358	6,686	-	-
	3,329,810	10,751	-	-
Other expenditures:				
Facilities acquisition	209,444	-	-	-
Long-term debt interest	102,019	-	595	-
AEA flowthrough	441,706	-	441,706	-
Depreciation (unallocated)*	426,352	-	-	-
	1,179,521	-	442,301	-
Total governmental activities	12,997,402	1,422,874	1,391,669	-
Business type activities:				
Non-instructional programs:				
Food service operations	619,087	330,788	300,096	-
Total	13,616,489	1,753,662	1,691,765	-
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.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
$	$	$
(3,447,379)	-	(3,447,379)
(1,855,078)	-	(1,855,078)
(824,123)	-	(824,123)
(6,126,580)	-	(6,126,580)
(238,398)	-	(238,398)
(448,357)	-	(448,357)
(1,162,685)	-	(1,162,685)
(976,947)	-	(976,947)
(492,672)	-	(492,672)
(3,319,059)	-	(3,319,059)
(209,444)	-	(209,444)
(101,424)	-	(101,424)
-	-	-
(426,352)	-	(426,352)
(737,220)	-	(737,220)
(10,182,859)	-	(10,182,859)
-	11,797	11,797
(10,182,859)	11,797	(10,171,062)
3,050,314	-	3,050,314
1,078	-	1,078
72,643	-	72,643
174,830	-	174,830
735,296	-	735,296
5,923,074	-	5,923,074
138,890	174	139,064
13,319	-	13,319
10,109,444	174	10,109,618
(73,415)	11,971	(61,444)
6,873,584	37,121	6,910,705
6,800,169	49,092	6,849,261

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2008

	General	Nonmajor Governmental Funds	Total
	$	$	$
Assets			
Cash and pooled investments:			
ISCAP	2,313,704	-	2,313,704
Other	1,252,631	240,986	1,493,617
Receivables:			
Property tax:			
Delinquent	75,950	8,153	84,103
Succeeding year	3,046,257	376,005	3,422,262
Accounts	10,547	-	10,547
Accrued interest - ISCAP	6,542	-	6,542
Interfund receivable	-	25,000	25,000
Due from other governments	319,317	207,044	526,361
Inventories	24,141	-	24,141
Prepaid expenses	12,273	-	12,273
Total assets	7,061,362	857,188	7,918,550
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	172,770	34,376	207,146
Salaries and benefits payable	1,193,091	-	1,193,091
Interfund payable	25,000	-	25,000
ISCAP warrants payable	2,295,000	-	2,295,000
ISCAP accrued interest payable	880	-	880
ISCAP premium	39,359	-	39,359
Matured long-term notes payable	-	33,586	33,586
Deferred revenue:			
Succeeding year property tax	3,046,257	376,005	3,422,262
Other	230,195	-	230,195
Total liabilities	7,002,552	443,967	7,446,519
Fund balances:			
Reserved for:			
State categorical aid	19,580	-	19,580
Unreserved reported in:			
General fund	39,230	-	39,230
Debt service fund	-	(25,737)	(25,737)
Special revenue funds	-	186,441	186,441
Capital projects funds	-	252,517	252,517
	58,810	413,221	472,031
Total liabilities and fund balances	7,061,362	857,188	7,918,550

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

	$
Total fund balances of governmental funds (Exhibit C)	472,031
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,879,262
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	230,195
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.	(7,096)
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.	(2,774,223)
Net assets of governmental activities (Exhibit A)	6,800,169

See notes to financial statements.

Exhibit E

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	General	Nonmajor Governmental Funds	Total
	$	$	$
Revenues:			
Local sources:			
Local tax	3,044,569	1,011,688	4,056,257
Tuition	916,426	-	916,426
Other	308,555	368,697	677,252
State sources	7,064,870	345	7,065,215
Federal sources	184,775	-	184,775
Total revenues	11,519,195	1,380,730	12,899,925
Expenditures:			
Current:			
Instruction:			
Regular	4,804,426	46,621	4,851,047
Special	2,338,779	-	2,338,779
Other	927,813	360,391	1,288,204
	8,071,018	407,012	8,478,030
Support services:			
Student	238,398	-	238,398
Instructional staff	441,907	-	441,907
Administration	1,158,243	-	1,158,243
Operation and maintenance of plant	820,908	127,292	948,200
Transportation	457,783	-	457,783
	3,117,239	127,292	3,244,531
Other expenditures:			
Facilities acquisition	-	719,273	719,273
Long-term debt:			
Principal paid	-	269,565	269,565
Matured principal not paid	-	33,586	33,586
Interest and fiscal charges	-	102,500	102,500
AEA flowthrough	441,706	-	441,706
	441,706	1,124,924	1,566,630
Total expenditures	11,629,963	1,659,228	13,289,191
Excess (deficiency) of revenues over (under) expenditures	(110,768)	(278,498)	(389,266)
Other financing sources (uses):			
Operating transfers in	-	326,401	326,401
Operating transfers out	(70,736)	(255,665)	(326,401)
Total other financing sources (uses)	(70,736)	70,736	-
Net change in fund balances	(181,504)	(207,762)	(389,266)
Fund balances beginning of year	240,314	620,983	861,297
Fund balances end of year	58,810	413,221	472,031

See notes to financial statements.

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, 2008

	$	$
Net change in fund balances - total governmental funds (Exhibit E)		(389,266)
Amounts reported for governmental activities in the Statement of Activities are different because:		
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. Depreciation expense exceeded capital outlay expenditures in the current year as follows:		
Expenditures for capital assets	509,829	
Depreciation expense	(524,784)	(14,955)
Income surtaxes and other receivables 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.		24,062
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.		303,151
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.		481
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		3,112
Changes in net assets of governmental activities (Exhibit B)		(73,415)

See notes to financial statements.

Exhibit G

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2008

	Nonmajor School Nutrition
	$
Assets	
Cash and cash equivalents	34,850
Inventories	20,876
Capital assets, net of accumulated depreciation	36,449
Total assets	92,175
Liabilities	
Salaries and benefits payable	42,984
Deferred revenue	99
Total liabilities	43,083
Net assets	
Invested in capital assets, net of related debt	36,449
Unrestricted	12,643
Total net assets	49,092

See notes to financial statements

Exhibit H

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	Nonmajor School Nutrition
	$
Operating revenue:	
Local sources:	
Charges for service	330,788
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	201,845
Benefits	93,613
Purchased services	3,073
Supplies	314,293
Depreciation	6,263
Total operating expenses	619,087
Operating loss	(288,299)
Non-operating revenues:	
State sources	7,011
Federal sources	293,085
Interest income	174
Total non-operating revenues	300,270
Change in net assets	11,971
Net assets beginning of year	37,121
Net assets end of year	49,092

See notes to financial statements.

Exhibit I

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2008

	Nonmajor School Nutrition
	$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	332,924
Cash payments to employees for services	(299,619)
Cash payments to suppliers for goods or services	(264,546)
Net cash used by operating activities	(231,241)
Cash flows from non-capital financing activities:	
State grants received	7,011
Federal grants received	238,697
Net cash provided by non-capital financing activities	245,708
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,345)
Cash flows from investing activities:	
Interest on investments	174
Net increase (decrease) in cash and cash equivalents	13,296
Cash and cash equivalents at beginning of year	21,554
Cash and cash equivalents at end of year	34,850
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain (loss)	(288,299)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	54,388
Depreciation	6,263
Decrease (increase) in inventories	(1,568)
Decrease (increase) in accounts receivable	2,037
(Decrease) increase in salaries and benefits payable	(4,161)
(Decrease) increase in deferred revenue	99
Net cash used by operating activities	(231,241)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received $54,388 of federal commodities.

See notes to financial statements.

Exhibit J

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2008

	Private Purpose Trust Scholarship
	$
Assets	
Cash and pooled investments	10,000
Liabilities	-
Net Assets	
Reserved for scholarships	10,000

See notes to financial statements.

Exhibit K

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2008

	Private Purpose Trust Scholarship
	$
Additions:	
Local sources:	
Transfer from Student Activity Fund	10,000
Deductions	-
Change in net assets	10,000
Net assets beginning of year	-
Net assets end of year	10,000

See notes to financial statements.

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 attributable 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 not meeting 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 instructional, support and other costs.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

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 the 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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.

Asset Class	Amount
	$
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:

Asset Class	Estimated Useful Lives
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, 2008, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

2. Cash and Pooled Investments

The District'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 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, 2008 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, 2008 is as follows:

Transfer To	Transfer From	Amount
		$
Nonmajor Governmental Funds: Debt Service	General	70,736
Nonmajor Governmental Funds: Debt Service	Nonmajor Governmental Funds: Capital Projects	255,665

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, 2008, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			$	$	$	$
2007-08A	06/27/07	06/27/08	-	5,665	-	-
2008-09A	06/26/08	06/25/09	2,313,704	877	2,295,000	880
Total			2,313,704	6,542	2,295,000	880

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 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, 2008, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
$	$	$	$
-	600,000	600,000	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2007-08A	4.500	5.455
2008-09A	3.500	3.469

6. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	$	$	$	$
Governmental activities:				
Capital assets not being depreciated:				
Land	225,000	-	-	225,000
Capital assets being depreciated:				
Buildings	14,472,700	391,657	-	14,864,357
Improvements other than buildings	668,754	87,007	-	755,761
Furniture and equipment	2,637,420	31,165	-	2,668,585
Total capital assets being depreciated	17,778,874	509,829	-	18,288,703
Less accumulated depreciation for:				
Buildings	7,249,614	394,682	-	7,644,296
Improvements other than buildings	70,284	31,670	-	101,954
Furniture and equipment	1,789,759	98,432	-	1,888,191
Total accumulated depreciation	9,109,657	524,784	-	9,634,441
Total capital assets being depreciated, net	8,669,217	(14,955)	-	8,654,262
Governmental activities capital assets, net	8,894,217	(14,955)	-	8,879,262
Business type activities:				
Furniture and equipment	172,499	1,345	-	173,844
Less accumulated depreciation	131,132	6,263	-	137,395
Business type activities capital assets, net	41,367	(4,918)	-	36,449

Depreciation expense was charged to the following programs:

	$
Governmental activities:	
Instruction:	
Regular	3,558
Other	9,595
Support services:	
Instructional staff support	6,450
Administration	4,442
Operation and maintenance of plant	32,812
Transportation	41,575
	98,432

Unallocated depreciation	426,352
Total governmental activities depreciation expense	524,784
Business type activities:	
Food service operations	6,263

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	$	$	$	$	$
General obligation bonds	2,705,000	-	210,000	2,495,000	215,000
Energy management notes	53,995	-	20,409	33,586	33,586
Energy management notes	197,735	-	39,156	158,579	40,953
Termination benefits	123,756	36,049	39,161	120,644	27,031
Total	3,080,486	36,049	308,726	2,807,809	316,570

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, 2008, the District has obligations to eight participants with a total liability of $120,644. Actual early retirement expenditures for the year ended June 30, 2008 totaled $39,161.

General Obligation Bonds Payable

Details of the District's June 30, 2008, general obligation bonded indebtedness are as follows:

		June 1, 2003 Issue		
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	$	$	$
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	3.30	245,000	56,827	301,827
2014-2018	3.40-3.75	1,355,000	152,612	1,507,612
Total		2,495,000	509,429	3,004,429

Energy Management Notes

The District has two energy management notes at June 30, 2008.

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 matured June 17, 2008. The June 30, 2008 matured note balance of $33,586 which was not paid when due was reclassified as a fund liability at June 30, 2008.

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, 2008 is $158,579.

The second Energy management note payments are due as follows:

Year Ended June 30,	Principal	Interest	Total
	$	$	$
2009	40,953	9,375	50,328
2010	117,626	3,107	120,733
	158,579	12,482	171,061

During the year ended June 30, 2008 the District made principal and interest payments totaling $70,737 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 3.90% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were $446,206, $415,660, and $403,479 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 $441,706 for the year ended June 30, 2008, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Lease Commitment

The District entered into a five year contract to lease copy machines in 2008. The payments the District will make over the next five years are as follows:

Year Ended June 30	Lease Payment
	$
2009	23,436
2010	23,436
2011	23,436
2012	23,436
2013	5,859

12. Deficit Fund Balances

At June 30, 2008 the District had a $25,737 deficit unreserved fund balance in the Debt Service Fund.

REQUIRED SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances-
Budget and Actual-All Govermental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	$	$	$	$	$	$
Revenues:						
Local sources	5,649,935	330,962	5,980,897	5,710,919	5,710,919	269,978
State sources	7,065,215	7,011	7,072,226	6,896,420	6,896,420	175,806
Federal sources	184,775	293,085	477,860	351,000	351,000	126,860
Total revenues	12,899,925	631,058	13,530,983	12,958,339	12,958,339	572,644
Expenditures/Expenses:						
Instruction	8,478,030	-	8,478,030	8,087,809	8,587,809	109,779
Support services	3,244,531	-	3,244,531	3,164,373	3,164,373	(80,158)
Non-instructional programs	-	619,087	619,087	575,100	575,100	(43,987)
Other expenditures	1,566,630	-	1,566,630	1,959,313	1,959,313	392,683
Total expenditures/expenses	13,289,191	619,087	13,908,278	13,786,595	14,286,595	378,317
Excess (deficiency) of revenues over (under) expenditures/expenses	(389,266)	11,971	(377,295)	(828,256)	(1,328,256)	950,961
Other financing sources, net	-	-	-	500,930	500,930	(500,930)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(389,266)	11,971	(377,295)	(327,326)	(827,326)	450,031
Balance beginning of year	861,297	37,121	898,418	1,254,875	1,254,875	(356,457)
Balance end of year	472,031	49,092	521,123	927,549	427,549	93,574

See accompanying independent auditor's report

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2008

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. During the year, the District adopted one budget amendment increasing budgeted expenditures by $500,000.

During the year ended June 30, 2008, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2008

	Special Revenue Funds					
Assets	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects Fund	Debt Service	Total
	$	$	$	$	$	$
Cash and pooled investments	90,167	63,626	573	79,849	6,771	240,986
Receivables:						
Property tax:						
Delinquent	5,221	-	1,854	-	1,078	8,153
Succeeding year	200,000	-	75,850	-	100,155	376,005
Interfund receivable	25,000	-	-	-	-	25,000
Due from other governments	-	-	-	207,044	-	207,044
Total assets	320,388	63,626	78,277	286,893	108,004	857,188
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	-	-	34,376	-	34,376
Matured long-term notes payable	-	-	-	-	33,586	33,586
Deferred revenue:						
Succeeding year property tax	200,000	-	75,850	-	100,155	376,005
Total liabilities	200,000	-	75,850	34,376	133,741	443,967
Fund balances:						
Unreserved reported in:						
Debt service fund	-	-	-	-	(25,737)	(25,737)
Special revenue funds	120,388	63,626	2,427	-	-	186,441
Capital projects funds	-	-	-	252,517	-	252,517
Total fund equity	120,388	63,626	2,427	252,517	(25,737)	413,221
Total liabilities and fund balances	320,388	63,626	78,277	286,893	108,004	857,188

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	Special Revenue Funds					
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
	$	$	$	$	$	$
Revenues:						
Local sources:						
Local tax	202,671	-	72,643	735,296	1,078	1,011,688
Other	2,496	361,350	960	3,296	595	368,697
State sources	256	-	89	-	-	345
Total revenues	205,423	361,350	73,692	738,592	1,673	1,380,730
Expenditures:						
Current:						
Instruction:						
Regular	46,621	-	-	-	-	46,621
Other	-	360,391	-	-	-	360,391
Support services:						
Plant operation and maintenance	127,292	-	-	-	-	127,292
Other expenditures:						
Facilities acquisition	-	-	73,992	645,281	-	719,273
Long-term debt:						
Principal paid	-	-	-	-	269,565	269,565
Matured principal not paid	-	-	-	-	33,586	33,586
Interest and fiscal charges	-	-	-	-	102,500	102,500
Total expenditures	173,913	360,391	73,992	645,281	405,651	1,659,228
Excess (deficiency) of revenues over (under) expenditures	31,510	959	(300)	93,311	(403,978)	(278,498)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	326,401	326,401
Operating transfers out	-	-	-	(255,665)	-	(255,665)
Total other financing sources (uses)	-	-	-	(255,665)	326,401	70,736
Net change in fund balances	31,510	959	(300)	(162,354)	(77,577)	(207,762)
Fund balances beginning of year	88,878	62,667	2,727	414,871	51,840	620,983
Fund balances end of year	120,388	63,626	2,427	252,517	(25,737)	413,221

See accompanying independent auditor's report.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2008

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	$	$	$	$	$
Interest	2,046	672	-	(2,000)	718
Athletics and cheerleading	(4,980)	151,411	152,806	2,000	(4,375)
Sp. Ed. wind suit	414	229	527	-	116
TATU	-	172	187	-	(15)
Elementary activities	10,923	36,866	24,469	-	23,320
Elementary juice	4,576	100	-	-	4,676
Elementary student council	1,714	-	-	-	1,714
Elementary book fair	1,306	-	-	-	1,306
FFA	3,174	30,121	26,519	-	6,776
HS activities	129	1,002	1,174	-	(43)
HS band	-	7,103	7,103	-	-
HS home ec. awards	1	-	-	-	1
HS TSA club	144	-	-	-	144
HS color guard	-	1,291	1,291	-	-
HS music	-	8,698	7,064	-	1,634
HS marketing	1,066	11,190	12,233	-	23
HS student council	2,506	5,330	6,058	-	1,778
Student insurance	-	40	40	-	-
Junior class(Class of 2008)	(120)	-	-	120	-
Class of 2012	-	320	200	(120)	-
MS activities	5,626	21,779	21,819	-	5,586
MS band and chorus	-	3,512	3,498	-	14
MS history club	243	34,169	33,496	-	916
MS industrial arts	2,054	-	1,239	-	815
MS memory book	1,563	2,115	3,068	-	610
MS scholarship	1,692	29	1,692	-	29
MS student council	3,307	2,979	4,771	-	1,515
Masonic scholarship	10,001	-	10,001	-	-
Health - CPR	110	-	-	-	110
Student services	2,945	-	2,945	-	-
Spanish club	599	-	-	-	599
Special needs	750	895	-	-	1,645
Speech and drama	1,013	10,504	7,654	-	3,863
Rotary corner funds	3,123	5,120	5,595	-	2,648
Pep-C team	720	-	-	-	720
Yearbook	669	12,593	11,521	-	1,741
Fall musical	-	1,000	-	-	1,000
Spring play	-	500	-	-	500
Class of 2011	-	398	-	-	398
Horticulture	99	-	-	-	99
Class of 2010	432	358	-	-	790
Student activity tickets	320	8,675	8,995	-	-
Class of 2009	1,352	1,134	1,426	-	1,060
Baseball field improvement	2,961	1,045	3,000	-	1,006
HS pepsi	1	-	-	-	1
Electric car	188	-	-	-	188
Total	62,667	361,350	360,391	-	63,626

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			
	2008	2007	2006	2005
	$	$	$	$
Revenues:				
Local sources:				
Local tax	4,056,257	3,959,689	3,954,579	3,787,667
Tuition	916,426	838,885	777,886	769,041
Other	677,252	704,043	583,879	487,027
State sources	7,065,215	6,837,949	6,841,188	6,442,267
Federal sources	184,775	323,564	223,498	323,357
Total revenues	12,899,925	12,664,130	12,381,030	11,809,359
Expenditures:				
Instruction:				
Regular	4,851,047	4,872,995	4,638,900	4,340,606
Special	2,338,779	2,247,424	2,121,876	2,346,828
Other	1,288,204	1,199,493	1,145,501	807,658
Support services:				
Student	238,398	232,767	227,634	237,857
Instructional staff	441,907	345,894	410,126	452,861
Administration	1,158,243	1,157,573	1,072,482	926,806
Operation and maintenance of plant	948,200	959,939	891,072	880,312
Transportation	457,783	508,876	488,992	459,071
Non-instructional programs				
Other expenditures:				
Facilities acquisition	719,273	757,699	392,877	1,481,485
Long-term debt:				
Principal	303,151	266,510	248,718	261,458
Interest and other charges	102,500	111,063	116,066	123,345
AEA flowthrough	441,706	432,789	423,738	404,063
Total expenditures	13,289,191	13,093,022	12,177,982	12,722,350

FOREST CITY COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Grantor/Program	CFDA Number	Grant Number	Expenditures $
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
National School Lunch Program (noncash)	10.555	FY08	54,388
National School Lunch Program	10.555	FY08	164,220
School Breakfast Program	10.553	FY08	27,099
			245,707
Fresh Fruit and Vegetable Program	10.582	FY08	47,378
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Education Agencies	84.010	2295-G-08	97,235
Improving Teacher Quality State Grants	84.367	FY08	46,158
Grants for State Assessments and Related Activities	84.369	FY08	9,310
State Grants for Innovative Programs	84.298	FY08	2,245
Safe & Drug Free Schools and Communities - State Grant	84.186	FY08	2,840
Northern Trails Area Education Agency:			
Title IIIB Vocational Education Basic Grants to States	84.048	FY08	6,940
Special Education Grants to States	84.027	FY08	66,205
Total			524,018

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.

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

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Forest City Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 19, 2009. 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 08-II-A and 08-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, 2008 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

March 19, 2009

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

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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, 2008. 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, 2008.

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 08-III-A and 08-III-B 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 items 08-III-A and 08-III-B to be material weaknesses.

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

March 19, 2009

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

(a) Unqualified opinions were issued on the financial statements.

(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 material weaknesses.

(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
		Clustered Programs:
• CFDA Number	10.553	School Breakfast Program
• CFDA Number	10.555	National School Lunch Program

(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, 2008

Part II: Findings Related to the Financial Statements:

Significant deficiencies:

08-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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

08-II-B Financial Reporting: During the audit, we identified material amounts of capital assets additions not recorded in the District's depreciation schedule and accounts payable that were understated. Adjustments were subsequently made by the District to properly revise the financial statements.

Recommendation: The District should implement procedures to review expenditures after the year for unposted accounts payable and to ensure all capital assets additions are identified and included in the District's depreciation schedule.

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

Conclusion: Response accepted.

08-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.

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

08-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, 2008

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: 2008
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Education Agencies
Federal Award Year: 2008
U.S. Department of Education
Passed through the Iowa Department of Education

08-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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

CFDA Number 84.010: Title I Grants to Local Education Agencies
Federal Award Year: 2008
U.S. Department of Education
Passed through the Iowa Department of Education

08-III-B 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.

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.

Part IV: Other Findings Related to Statutory Reporting:

08-IV-A Certified Budget: Expenditures for the year ended June 30, 2008, exceeded the amounts budgeted in the support services and non-instructional programs 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: We did amend out budget, but year-end expenditures were more than anticipated.

Conclusion: Response accepted.

08-IV-B Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

08-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.

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

08-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.

08-IV-F Board Minutes: During our testing we noted that the minutes for January through April 2008 were not published until July 2008. Other minutes during the year were also published late.

Recommendation: All board of education minutes should be published within two weeks of the date of the meeting.

District Response: Future minutes will be published within the required time frame.

Conclusion: Response accepted.

08-IV-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for October 2007, was understated by seven students. Also, the calculations for supplemental weighting included seven open enrollment in students.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

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

08-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.

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

08-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.

08-IV-K Deficit Balances: The District has an unreserved deficit fund balance in the Debt Service Fund of $25,737at June 30, 2008.

Recommendation: The District should investigate alternatives to eliminate these deficits.

District Response: This deficit was created when a long-term energy management note payable that matured in June 2008 was not paid by June 30, 2008. GAAP required that the long-term debt be reclassified as a fund liability. The District has since transferred monies to the Debt Service Fund to pay the note.

Conclusion: Response accepted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Summary Schedule of Prior Federal Audit Findings

June 30, 2008

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action of other explanation
07-III-A	Segregation of Duties	Not corrected	Duties have been segregated to the extent possible with limited personnel available
07-III-B	Suspension or Debarment	Corrected	
07-III-C	Davis Bacon	Corrected	
07-III-D	Project Bids	Corrected	
07-III-E	Title I Salary Expenditures	Not corrected	The corrective action plan was documented in our response to the auditor's comment

FOREST CITY COMMUNITY SCHOOL DISTRICT

Corrective Action Plan

June 30, 2008

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
08-III-A	Segregation of Duties	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Steven Rollefson Business Manager (641)585-2323	Immediately
08-III-B	Title I Salary Documentation	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Steven Rollefson Business Manager (641)585-2323	Immediately