

CITY OF FOREST CITY, IOWA

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

JUNE 30, 2009

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641)257-4222

CITY OF FOREST CITY, IOWA

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CITY OF FOREST CITY, IOWA

OFFICIALS

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



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiainet.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Forest City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated December 11, 2009 on my consideration of the City of Forest City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



December 11, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Forest City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 21.0%, or approximately \$1,302,000 from fiscal 2008 to fiscal 2009. Property tax and capital grants, contributions and restricted interest increased approximately \$169,000 and \$702,000, respectively. Unrestricted interest on investments and note proceeds, net decreased approximately \$122,000 and \$2,040,000, respectively.

Disbursements of the City's governmental activities decreased 16.9%, or approximately \$1,095,000, in fiscal 2009 from fiscal 2008. Public works and debt service disbursements increased approximately \$860,000 and \$82,000, respectively, while community and economic development and capital projects disbursements decreased approximately \$83,000 and \$2,003,000, respectively.

The City's total cash basis net assets decreased 6.1%, or approximately \$721,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$122,000 and the assets of the business type activities decreased by approximately \$599,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$4,055,000 to approximately \$3,933,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

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

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receipts:		
Program receipts:		
Charges for service	\$ 547	\$ 552
Operating grants, contributions and restricted interest	527	589
Capital grants, contributions and restricted interest	839	137
General receipts:		
Property tax	2,002	1,833
Local option sales tax	373	292
Unrestricted interest on investments	162	284
Note proceeds, net	-	2,040
Other general receipts	458	483
Total receipts	<u>\$4,908</u>	<u>\$ 6,210</u>
Disbursements:		
Public safety	\$1,051	\$ 990
Public works	1,829	969
Health and social services	21	17
Culture and recreation	607	622
Community and economic development	360	443
General government	210	211
Debt service	571	489
Capital projects	749	2,752
Total disbursements	<u>\$5,398</u>	<u>\$ 6,493</u>
Change in cash basis net assets before transfers	\$ (490)	\$ (283)
Transfers, net	<u>368</u>	<u>328</u>
Change in cash basis net assets	\$ (122)	\$ 45
Cash basis net assets beginning of year	<u>4,055</u>	<u>4,010</u>
Cash basis net assets end of year	<u>\$3,933</u>	<u>\$ 4,055</u>

The City's total receipts for governmental activities decreased 21.0%, or approximately \$1,302,000. The total cost of all programs and services decreased by approximately \$1,095,000, or 16.9%, with no new programs added this year. The significant decrease in receipts and disbursements was primarily the result of note proceeds received last year for the completion of the Aquatic Center.

The cost of all governmental activities this year was \$5,397,657 compared to \$6,493,614 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$3,484,499 because some of the cost was paid by those directly benefited from the programs (\$547,446) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$1,365,712). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,001,776 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 389	\$ 399
Sewer	562	583
Electric	4,354	4,115
Other	138	138
Operating grants, contributions and restricted interest	70	-
General receipts:		
Unrestricted interest on investments	177	229
Note proceeds, net	-	1,527
Other general receipts	37	42
Total receipts	\$ 5,727	\$ 7,033
Disbursements:		
Water	\$ 416	\$ 404
Sewer	722	567
Electric	4,406	5,985
Other	415	189
Total disbursements	\$ 5,959	\$ 7,145
Change in cash basis net assets before transfers	\$ (232)	\$ (112)
Transfers, net	(368)	(328)
Change in cash basis net assets	\$ (600)	\$ (440)
Cash basis net assets beginning of year	7,818	8,258
Cash basis net assets end of year	\$ 7,218	\$ 7,818

Total business type activities receipts for the fiscal year were approximately \$5,727,000 compared to approximately \$7,033,000 last year. This significant decrease was due primarily to the receipt of \$1,527,000 in sewer revenue note proceeds last year. The cash balance decreased by approximately \$600,000 from the prior year due to disbursements with the approved sewer and storm sewer construction projects. Total disbursements for the fiscal year decreased by 16.6% to a total of approximately \$5,959,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$3,868,097, a decrease of \$116,617 from last year's total of \$3,984,714. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$1,543 from the prior year to \$1,884,657. This minor increase was due to a capital grant offsetting the airport project during the year.

The Debt Service Fund cash balance increased \$59,942 to \$83,339 during the fiscal year. This increase was due to an increase in property tax. Bond principal and interest payments increased \$82,384 in fiscal 2009.

The Capital Projects, Street Improvement Fund cash balance decreased \$456,080 from the prior year to \$1,596,478. This decrease was due to scheduled construction during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$31,594 from the prior year to \$1,015,620. This decrease was attributable to capital projects during the year.

The Sewer Rental Fund cash balance decreased by \$150,994 to \$1,324,395, due primarily to capital projects and debt service payments during the year.

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

The Electric Fund cash balance decreased by \$194,841 to \$420,864 due to an increase in operating disbursements.

The Electric Capital Fund cash balance decreased by \$213 to \$2,700,000 due to a transfer out.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 18, 2009 and resulted in an increase in operating revenue of approximately \$493,000, and an increase in operating disbursements of \$155,000. The City will use the additional revenue for repair projects and economic development activity.

The City exceeded the amount budgeted in the health and social services function for the year ended June 30, 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$9,942,000 in bonds and notes and other long-term debt outstanding, compared to approximately \$10,520,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2009	2008
General obligation notes	\$ 5,170	\$ 5,535
Revenue bonds and notes	4,765	4,955
Capital leases	7	30
Total	<u>\$ 9,942</u>	<u>\$10,520</u>

Debt decreased as a result of scheduled debt payments. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,170,000 is significantly below its constitutional debt limit of \$9,550,626.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Forest City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF FOREST CITY, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges For Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 1,050,912	\$ 12,742	\$ 126,835	\$ -
Public works	1,829,324	384,759	364,735	838,506
Health and social services	20,614	-	-	-
Culture and recreation	606,672	70,779	20,786	-
Community and economic development	359,948	-	-	-
General government	209,832	35,662	14,850	-
Debt service	571,188	43,504	-	-
Capital projects	749,167	-	-	-
Total governmental activities	<u>\$ 5,397,657</u>	<u>\$ 547,446</u>	<u>\$ 527,206</u>	<u>\$ 838,506</u>
Business type activities:				
Water	\$ 415,918	\$ 389,468	\$ -	\$ -
Sewer	721,521	562,217	13,955	-
Electric	4,406,405	4,353,772	-	-
Other	415,282	137,880	56,205	-
Total business type activities	<u>\$ 5,959,126</u>	<u>\$5,443,337</u>	<u>\$ 70,160</u>	<u>\$ -</u>
Total	<u>\$11,356,783</u>	<u>\$5,990,783</u>	<u>\$ 597,366</u>	<u>\$ 838,506</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (911,335)	\$ -	\$ (911,335)
(241,324)	-	(241,324)
(20,614)	-	(20,614)
(515,107)	-	(515,107)
(359,948)	-	(359,948)
(159,320)	-	(159,320)
(527,684)	-	(527,684)
<u>(749,167)</u>	<u>-</u>	<u>(749,167)</u>
<u>\$ (3,484,499)</u>	<u>\$ -</u>	<u>\$ (3,484,499)</u>
\$ -	\$ (26,450)	\$ (26,450)
-	(145,349)	(145,349)
-	(52,633)	(52,633)
<u>-</u>	<u>(221,197)</u>	<u>(221,197)</u>
<u>\$ -</u>	<u>\$ (445,629)</u>	<u>\$ (445,629)</u>
<u>\$ (3,484,499)</u>	<u>\$ (445,629)</u>	<u>\$ (3,930,128)</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

General Receipts:

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

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 1,202,357	\$ -	\$ 1,202,357
572,625	-	572,625
226,794	-	226,794
372,707	-	372,707
161,715	177,214	338,929
458,298	37,064	495,362
<u>368,000</u>	<u>(368,000)</u>	<u>-</u>
<u>\$ 3,362,496</u>	<u>\$ (153,722)</u>	<u>\$ 3,208,774</u>
\$ (122,003)	\$ (599,351)	\$ (721,354)
<u>4,054,512</u>	<u>7,817,911</u>	<u>11,872,423</u>
<u>\$ 3,932,509</u>	<u>\$ 7,218,560</u>	<u>\$11,151,069</u>
\$ 39,713	\$ -	\$ 39,713
20,998	-	20,998
83,339	-	83,339
2,300,689	4,350,000	6,650,689
<u>1,487,770</u>	<u>2,868,560</u>	<u>4,356,330</u>
<u>\$ 3,932,509</u>	<u>\$ 7,218,560</u>	<u>\$11,151,069</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects Street Improvement</u>
RECEIPTS:			
Property tax	\$ 881,313	\$ 572,625	\$ -
Tax increment financing	-	-	-
Other city tax	-	-	-
Licenses and permits	8,221	-	-
Use of money and property	132,889	-	30,109
Intergovernmental	1,000,977	-	-
Charges for service	444,825	-	-
Special assessments	-	43,505	-
Miscellaneous	162,122	-	52,052
Total receipts	<u>\$ 2,630,347</u>	<u>\$ 616,130</u>	<u>\$ 82,161</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 1,048,450	\$ -	\$ -
Public works	1,828,065	-	-
Health and social services	20,614	-	-
Culture and recreation	596,127	-	-
Community and economic development	181,170	-	-
General government	209,378	-	-
Debt service	-	571,188	-
Capital projects	-	-	538,241
Total disbursements	<u>\$ 3,883,804</u>	<u>\$ 571,188</u>	<u>\$ 538,241</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$(1,253,457)</u>	<u>\$ 44,942</u>	<u>\$ (456,080)</u>
Other financing sources (uses):			
Operating transfers in	\$ 1,255,000	\$ 15,000	\$ -
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>\$ 1,255,000</u>	<u>\$ 15,000</u>	<u>\$ -</u>
Net change in cash balances	\$ 1,543	\$ 59,942	\$ (456,080)
Cash balances beginning of year	<u>1,883,114</u>	<u>23,397</u>	<u>2,052,558</u>
Cash balances end of year	<u>\$ 1,884,657</u>	<u>\$ 83,339</u>	<u>\$ 1,596,478</u>
Cash Basis Fund Balances:			
Reserved for debt service	\$ -	\$ 83,339	\$ -
Unreserved:			
General fund	1,884,657	-	-
Special revenue funds	-	-	-
Capital projects funds	-	-	1,596,478
Permanent funds	-	-	-
Total cash basis fund balances	<u>\$ 1,884,657</u>	<u>\$ 83,339</u>	<u>\$ 1,596,478</u>

See Notes to Financial Statements.

<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 269,791	\$ 1,723,729
226,794	226,794
423,960	423,960
-	8,221
4,757	167,755
364,735	1,365,712
-	444,825
-	43,505
288,979	503,153
<u>\$ 1,579,016</u>	<u>\$ 4,907,654</u>
\$ -	\$ 1,048,450
-	1,828,065
-	20,614
9,334	605,461
178,778	359,948
-	209,378
-	571,188
210,926	749,167
<u>\$ 399,038</u>	<u>\$ 5,392,271</u>
<u>\$ 1,179,978</u>	<u>\$ (484,617)</u>
\$ -	\$ 1,270,000
(902,000)	(902,000)
<u>\$ (902,000)</u>	<u>\$ 368,000</u>
\$ 277,978	\$ (116,617)
<u>25,645</u>	<u>3,984,714</u>
<u>\$ 303,623</u>	<u>\$ 3,868,097</u>
\$ -	\$ 83,339
-	1,884,657
86,526	86,526
41,344	1,637,822
<u>175,753</u>	<u>175,753</u>
<u>\$ 303,623</u>	<u>\$ 3,868,097</u>

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Total governmental funds cash balances (page 14)	\$ 3,868,097
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Fund is used by management to charge costs to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>64,412</u>
Cash basis net assets of governmental activities (page 12)	<u>\$ 3,932,509</u>
Net change in cash balances (page 14)	\$ (116,617)
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
The Internal Service Fund is used by management to charge costs to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.	<u>(5,386)</u>
Change in cash balance of governmental activities (page 12)	<u>\$ (122,003)</u>

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Enterprise</u>			
	<u>Water</u>	<u>Sewer Rental</u>	<u>Sewer Reserve</u>	<u>Electric</u>
Operating receipts:				
Charges for service	\$ 384,000	\$ 560,531	\$ -	\$ 4,341,526
Miscellaneous	5,468	1,686	-	12,246
Total operating receipts	\$ 389,468	\$ 562,217	\$ -	\$ 4,353,772
Operating disbursements:				
Business type activities	305,532	387,941	-	4,004,623
Excess of operating receipts over operating disbursements	\$ 83,936	\$ 174,276	\$ -	\$ 349,149
Non-operating receipts (disbursements):				
Intergovernmental	\$ -	\$ 13,955	\$ -	\$ -
Interest on investments	18,917	62,577	-	91,232
Miscellaneous	5,939	278	-	30,847
Debt service	-	(40,598)	-	(276,424)
Capital projects	(110,386)	(292,982)	-	(125,358)
Net non-operating receipts (disbursements)	\$ (85,530)	\$ (256,770)	\$ -	\$ (279,703)
Excess (deficiency) of receipts over (under) disbursements	\$ (1,594)	\$ (82,494)	\$ -	\$ 69,446
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ 213
Operating transfers out	(30,000)	(68,500)	-	(264,500)
Total other financing sources (uses)	\$ (30,000)	\$ (68,500)	\$ -	\$ (264,287)
Net change in cash balances	\$ (31,594)	\$ (150,994)	\$ -	\$ (194,841)
Cash balances beginning of year	1,047,214	1,475,389	1,000,000	615,705
Cash balances end of year	<u>\$1,015,620</u>	<u>\$1,324,395</u>	<u>\$1,000,000</u>	<u>\$ 420,864</u>
Cash Basis Fund Balances:				
Reserved for other	\$ -	\$ -	\$1,000,000	\$ -
Unreserved	1,015,620	1,324,395	-	420,864
Total cash basis fund balances	<u>\$1,015,620</u>	<u>\$1,324,395</u>	<u>\$1,000,000</u>	<u>\$ 420,864</u>

See Notes to Financial Statements.

Funds			Internal Service Funds		
Electric Capital	Nonmajor Enterprise Funds	Total	Clearing	Payroll Clearing	Total
\$ -	\$ 137,880	\$ 5,423,937	\$ -	\$ -	\$ -
-	-	19,400	-	2,643,678	2,643,678
\$ -	\$ 137,880	\$ 5,443,337	\$ -	\$ 2,643,678	\$ 2,643,678
-	89,056	4,787,152	-	-	-
\$ -	\$ 48,824	\$ 656,185	\$ -	\$ 2,643,678	\$ 2,643,678
\$ -	\$ 56,205	\$ 70,160	\$ -	\$ -	\$ -
-	4,488	177,214	-	-	-
-	-	37,064	-	(2,649,064)	(2,649,064)
-	(88,395)	(405,417)	-	-	-
-	(237,831)	(766,557)	-	-	-
\$ -	\$ (265,533)	\$ (887,536)	\$ -	\$ (2,649,064)	\$ (2,649,064)
\$ -	\$ (216,709)	\$ (231,351)	\$ -	\$ (5,386)	\$ (5,386)
\$ -	\$ -	\$ 213	\$ -	\$ -	\$ -
(213)	(5,000)	(368,213)	-	-	-
\$ (213)	\$ (5,000)	\$ (368,000)	\$ -	\$ -	\$ -
\$ (213)	\$ (221,709)	\$ (599,351)	\$ -	\$ (5,386)	\$ (5,386)
2,700,213	979,390	7,817,911	83,325	(13,527)	69,798
<u>\$2,700,000</u>	<u>\$ 757,681</u>	<u>\$ 7,218,560</u>	<u>\$ 83,325</u>	<u>\$ (18,913)</u>	<u>\$ 64,412</u>
\$2,700,000	\$ 650,000	\$ 4,350,000	\$ -	\$ -	\$ -
-	107,681	2,868,560	83,325	(18,913)	64,412
<u>\$2,700,000</u>	<u>\$ 757,681</u>	<u>\$ 7,218,560</u>	<u>\$ 83,325</u>	<u>\$ (18,913)</u>	<u>\$ 64,412</u>

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

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

The City reports the following major proprietary funds:

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

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

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

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

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

The City also reports the following additional proprietary funds:

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) Summary of Significant Accounting Policies - continued

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the health and social services function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,831,992 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(2) **Cash and Pooled Investments** - continued

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

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

(3) **Bonds and Notes Payable**

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

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Bonds and Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 440,000	\$ 184,352	\$ 265,000	\$ 203,117	\$ 705,000	\$ 387,469
2011	455,000	171,482	280,000	192,798	735,000	364,280
2012	470,000	157,474	290,000	181,730	760,000	339,204
2013	485,000	142,376	295,000	170,086	780,000	312,462
2014	505,000	126,211	315,000	158,057	820,000	284,268
2015-2019	1,885,000	379,821	1,760,000	583,189	3,645,000	963,010
2020-2024	635,000	148,016	1,305,000	219,948	1,940,000	367,964
2025-2026	295,000	19,508	255,000	11,526	550,000	31,034
Total	\$5,170,000	\$1,329,240	\$4,765,000	\$1,720,451	\$ 9,935,000	\$ 3,049,691

Revenue Bonds and Notes

The City has pledged future electric customer receipts, net of specified operating disbursement, to repay \$3,500,000 in electric revenue bonds issued in May 2005. Proceeds from the bonds provided financing for constructing improvements to the municipal electric plant. The bonds are payable solely from electric customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,251,504. For the current year, principal and interest paid and total customer net receipts were \$276,024 and \$349,149, respectively.

The City has pledged future storm sewer customer receipts, net of specified operating disbursement, to repay \$900,000 in storm sewer revenue bonds issued in May 2006. Proceeds from the bonds provided financing for constructing improvements and extensions to the municipal storm sewer utility. The bonds are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$951,955. For the current year, principal and interest paid and total customer net receipts were \$87,995 and \$48,824, respectively.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(3) Bonds and Notes Payable - continued

The City has pledged future sewer customer receipts, net of specified operating disbursement, to repay \$1,030,000 in sewer revenue notes issued in May 2008. Proceeds from the notes provided financing for constructing improvements and extensions to the municipal sewer utility. The notes are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,281,992. For the current year, principal and interest paid and total customer net receipts were \$40,397 and \$174,276, respectively.

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

- a) At the option of the City, electric revenue bonds maturing after June 1, 2015 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- b) At the option of the City, storm sewer revenue bonds maturing after June 1, 2013 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- c) At the option of the City, sewer revenue notes maturing after June 1, 2017 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- d) The bonds and notes will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- e) Sufficient monthly transfers shall be made to separate electric and storm sewer and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- f) A transfer shall be made from the bond proceeds to the electric revenue bond reserve account, the storm sewer revenue bond reserve account and the sewer revenue reserve account in an amount equal to the principal and interest payments for the fiscal year. The reserve accounts are restricted for the purpose of paying principal and interest due on the revenue bonds when insufficient money is available in the revenue bond sinking account.
- g) Additional monthly transfers shall be made to an electric revenue improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other funds might be unable to make.

CITY OF FOREST CITY, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

(4) **Capital Lease**

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

<u>Year ended June 30,</u>	
2010	\$ 8,220
Total minimum lease payments	\$ 8,220
Amounts representing interest	<u>724</u>
Present value of net minimum lease payments	<u>\$ 7,496</u>

(5) **Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$134,598, \$124,393 and \$118,160, respectively, equal to the required contributions for each year.

(6) **Other Postemployment Benefits (OPEB)**

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits and dental insurance for retirees and their spouses. There are 44 active and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$363 for single coverage and \$977 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, the City contributed \$269,980 and plan members eligible for benefits contributed \$29,504 to the plan.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(7) **Industrial Development Revenue Bonds**

The City has issued a total of \$851,865 of Health Care Facility Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds outstanding at June 30, 2009 were \$469,066.

(8) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death at rates dependent on years of service. However, sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for unrecognized accrued employee benefits at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$101,727
Compensatory time	56,759
Total	<u>\$158,486</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(9) **Risk Management**

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

(10) **Economic Development**

On April 20, 2005, the City loaned \$15,000 to Progressive Image. The loan proceeds were used to start up and operate a hairstyling center in Forest City. The loan is a non-interest bearing loan. Progressive Image is obligated to repay the City in monthly installments of \$250 beginning May 1, 2005. The loan balance at June 30, 2009 was \$3,250.

On April 12, 1999, the City loaned \$10,000 to Primerica Financial. The loan proceeds were used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. Primerica Financial is obligated to repay the City in annual installments of \$2,000 beginning November 1, 2000. The loan balance at June 30, 2009 was \$2,000.

On March 12, 2008, the City loaned \$15,000 to The Club at Bear Creek. The loan proceeds were used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. The Club at Bear Creek is obligated to repay the City in monthly installments of \$500 beginning May 1, 2008. The loan balance at June 30, 2009 was \$11,000.

**CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(10) Economic Development - continued

On October 6, 2008, the City loaned \$15,000 to Cabin Coffee. The loan proceeds were used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. Cabin Coffee is obligated to repay the City in annual installments of \$3,000 beginning July 1, 2009. The loan balance at June 30, 2009 was \$12,000.

On February 13, 2009, the City loaned \$15,000 to Pilates by Ginnie. The loan proceeds were used to start up and operate a business in Forest City. The loan bears interest at 3%. Interest only payments are required on February 1, 2010 and 2011. Pilates by Ginnie is obligated to repay the City in annual installments of \$3,000 plus interest beginning February 1, 2012. The loan balance at June 30, 2009 was \$15,000. The City also loaned Pilates by Ginnie \$3,000. This amount is forgivable at a rate of 20% per year for every complete year the promissor is in business. The balance at June 30, 2009 was \$3,000.

On November 20, 2002, the City loaned \$200,000 to CDI, Inc. The loan proceeds were used to start up and operate a painting facility in Forest City. The loan bears interest at 5%. CDI, Inc. is obligated to repay the City in monthly installments of \$2,121 beginning January 1, 2004. The loan balance at June 30, 2009 was \$78,620.

On August 31, 2004, the City loaned \$102,000 to CDI, Inc. The loan proceeds were used to operate a painting facility in Forest City. One half of the amount loaned bears interest at 0% and CDI, Inc. is obligated to repay the City in monthly installments of \$875 beginning December 1, 2004. The other half of the amount loaned by the City is forgivable and had a balance of \$52,000 at June 30, 2009. The repayable loan balance at June 30, 2009 was \$4,375.

(11) Forgivable Loan

The City entered into an economic development agreement with CDI, Inc. on November 20, 2002. The City loaned the corporation \$100,000 to start up and operate a painting facility in Forest City. CDI, Inc. is obligated to pay interest only on the loan at 5%. The City has agreed to forgive the loan in \$50,000 increments in 2007 and 2013 provided that CDI, Inc. is in compliance with the agreement. The remaining balance at June 30, 2009 is \$50,000.

(12) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 362,000
	Employee Benefits	260,000
	Local Option Sales Tax	280,000
		<u>\$ 902,000</u>
	Enterprise:	
	Water	\$ 15,000
	Sewer Rental	68,500
	Storm Sewer	5,000
	Electric	264,500
		<u>\$ 353,000</u>
		<u>\$1,255,000</u>

CITY OF FOREST CITY, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

(12) **Interfund Transfers** - continued

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Enterprise: Water	15,000
Enterprise: Electric	Enterprise: Electric Capital	<u>213</u>
Total		<u><u>\$1,270,213</u></u>

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

(13) **Related Party Transactions**

The City had business transactions between the City and the City officials totaling \$2,777 during the year ended June 30, 2009.

(14) **Deficit Balances**

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$392,068 at June 30, 2009. The deficit will be eliminated upon receipt of property taxes and other receipts.

The Special Revenue, CDBG Fund had a deficit balance of \$4,819 at June 30, 2009. The deficit will be eliminated upon future receipts.

The Internal Service, Payroll Clearing Fund had a deficit balance of \$18,913 at June 30, 2009. The deficit will be eliminated upon future receipts.

(15) **Commitments**

At June 30, 2009, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
2008 Sanitary Sewer Lining	\$ 173,884	\$ 153,683
2009 Wastewater Treatment	351,306	-
2009 Sanitary Sewer	915,575	115,720
2009 Membrane Roof	79,900	-
2009 Street Project	<u>1,792,178</u>	<u>-</u>
Total	<u><u>\$3,312,843</u></u>	<u><u>\$ 269,403</u></u>

(16) **Litigation**

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

(17) **Subsequent Events**

On October 5, 2009, the City approved the 4th Street Storm Sewer Project for \$37,240.

On October 19, 2009, the City approved the Public Works Facility Project for \$945,948.

Required Supplementary Information

CITY OF FOREST CITY, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 1,723,729	\$ -	\$ -
Tax increment financing	226,794	-	-
Other city tax	423,960	-	-
Licenses and permits	8,221	-	-
Use of money and property	167,755	177,214	-
Intergovernmental	1,365,712	70,160	-
Charges for service	444,825	5,423,937	-
Special assessments	43,505	-	-
Miscellaneous	503,153	2,700,142	2,643,678
Total receipts	<u>\$ 4,907,654</u>	<u>\$ 8,371,453</u>	<u>\$ 2,643,678</u>
DISBURSEMENTS:			
Public safety	\$ 1,048,450	\$ -	\$ -
Public works	1,828,065	-	-
Health and social services	20,614	-	-
Culture and recreation	605,461	-	-
Community and economic development	359,948	-	-
General government	209,378	-	-
Debt service	571,188	-	-
Capital projects	749,167	-	-
Business type activities	-	8,608,190	2,649,064
Total disbursements	<u>\$ 5,392,271</u>	<u>\$ 8,608,190</u>	<u>\$ 2,649,064</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (484,617)	\$ (236,737)	\$ (5,386)
Other financing sources, net	<u>368,000</u>	<u>(368,000)</u>	<u>-</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	\$ (116,617)	\$ (604,737)	\$ (5,386)
Balances beginning of year	<u>3,984,714</u>	<u>7,887,709</u>	<u>69,798</u>
Balances end of year	<u>\$ 3,868,097</u>	<u>\$ 7,282,972</u>	<u>\$ 64,412</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 1,723,729	\$ 1,699,776	\$ 1,699,776	\$ 23,953
226,794	262,920	262,920	(36,126)
423,960	354,786	379,786	44,174
8,221	8,175	8,175	46
344,969	205,486	249,286	95,683
1,435,872	1,702,800	1,791,300	(355,428)
5,868,762	8,114,667	8,155,867	(2,287,105)
43,505	20,000	40,000	3,505
559,617	86,505	361,105	198,512
<u>\$10,635,429</u>	<u>\$12,455,115</u>	<u>\$12,948,215</u>	<u>\$(2,312,786)</u>
\$ 1,048,450	\$ 1,113,685	\$ 1,133,685	\$ 85,235
1,828,065	2,992,956	2,992,956	1,164,891
20,614	20,000	20,000	(614)
605,461	603,510	658,510	53,049
359,948	503,944	573,944	213,996
209,378	222,460	232,460	23,082
571,188	577,159	577,159	5,971
749,167	1,588,000	1,588,000	838,833
5,959,126	8,087,199	8,087,199	2,128,073
<u>\$11,351,397</u>	<u>\$15,708,913</u>	<u>\$15,863,913</u>	<u>\$ 4,512,516</u>
\$ (715,968)	\$ (3,253,798)	\$ (2,915,698)	\$ 2,199,730
<u> -</u>	<u> 2,365,000</u>	<u> 2,365,000</u>	<u> (2,365,000)</u>
\$ (715,968)	\$ (888,798)	\$ (550,698)	\$ (165,270)
<u>11,802,625</u>	<u>11,802,625</u>	<u>11,802,625</u>	<u> -</u>
<u>\$11,086,657</u>	<u>\$10,913,827</u>	<u>\$11,251,927</u>	<u>\$ (165,270)</u>

CITY OF FOREST CITY, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$155,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the health and social services function.

Other Supplementary Information

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Special</u>				
	<u>Road Use</u>	<u>Employee</u>	<u>Local</u>	<u>Low-Moderate</u>	<u>ED/RLF</u>
	<u>Tax</u>	<u>Benefits</u>	<u>Option</u>	<u>Income</u>	<u>ED/RLF</u>
			<u>Sales Tax</u>		
RECEIPTS:					
Property tax	\$ -	\$ 269,791	\$ -	\$ -	\$ -
Tax increment financing	-	-	-	13,259	-
Other city tax	-	-	372,707	-	-
Use of money and property	-	-	-	-	-
Intergovernmental	364,735	-	-	-	-
Miscellaneous	-	-	-	-	10,500
Total receipts	<u>\$ 364,735</u>	<u>\$ 269,791</u>	<u>\$ 372,707</u>	<u>\$ 13,259</u>	<u>\$ 10,500</u>
DISBURSEMENTS:					
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -
Community and economic development	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 364,735	\$ 269,791	\$ 372,707	\$ 13,259	\$ 10,500
Operating transfers out	(362,000)	(260,000)	(280,000)	-	-
Net change in cash balances	\$ 2,735	\$ 9,791	\$ 92,707	\$ 13,259	\$ 10,500
Cash balances beginning of year	36,978	6,308	233,137	7,739	37,625
Cash balances end of year	<u>\$ 39,713</u>	<u>\$ 16,099</u>	<u>\$ 325,844</u>	<u>\$ 20,998</u>	<u>\$ 48,125</u>
Cash Basis Fund Balances:					
Unreserved:					
Special revenue funds	\$ 39,713	\$ 16,099	\$ 325,844	\$ 20,998	\$ 48,125
Capital projects fund	-	-	-	-	-
Permanent funds	-	-	-	-	-
Total cash basis fund balances	<u>\$ 39,713</u>	<u>\$ 16,099</u>	<u>\$ 325,844</u>	<u>\$ 20,998</u>	<u>\$ 48,125</u>

(Continued)

Revenue			Capital Projects
CDBG	Hotel Motel Tax	Tax Increment Financing	Aquatic Center
\$ -	\$ -	\$ -	\$ -
-	-	213,535	-
-	51,253	-	-
-	-	-	-
-	-	-	-
6,402	-	27,956	240,914
<u>\$ 6,402</u>	<u>\$ 51,253</u>	<u>\$ 241,491</u>	<u>\$ 240,914</u>
\$ -	\$ -	\$ -	\$ -
11,911	39,549	127,318	-
-	-	-	210,926
<u>\$ 11,911</u>	<u>\$ 39,549</u>	<u>\$ 127,318</u>	<u>\$ 210,926</u>
\$ (5,509)	\$ 11,704	\$ 114,173	\$ 29,988
-	-	-	-
\$ (5,509)	\$ 11,704	\$ 114,173	\$ 29,988
690	20,930	(506,241)	11,356
<u>\$ (4,819)</u>	<u>\$ 32,634</u>	<u>\$ (392,068)</u>	<u>\$ 41,344</u>
\$ (4,819)	\$ 32,634	\$ (392,068)	\$ -
-	-	-	41,344
-	-	-	-
<u>\$ (4,819)</u>	<u>\$ 32,634</u>	<u>\$ (392,068)</u>	<u>\$ 41,344</u>

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Permanent</u>		<u>Total</u>
	<u>Cemetery Perpetual Care</u>	<u>Library Trust</u>	
RECEIPTS:			
Property tax	\$ -	\$ -	\$ 269,791
Tax increment financing	-	-	226,794
Other city tax	-	-	423,960
Use of money and property	-	4,757	4,757
Intergovernmental	-	-	364,735
Miscellaneous	150	3,057	288,979
Total receipts	<u>\$ 150</u>	<u>\$ 7,814</u>	<u>\$1,579,016</u>
DISBURSEMENTS:			
Culture and recreation	\$ -	\$ 9,334	\$ 9,334
Community and economic development	-	-	178,778
Capital projects	-	-	210,926
Total disbursements	<u>\$ -</u>	<u>\$ 9,334</u>	<u>\$ 399,038</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 150	\$ (1,520)	\$1,179,978
Operating transfers out	-	-	(902,000)
Net change in cash balances	\$ 150	\$ (1,520)	\$ 277,978
Cash balances beginning of year	45,029	132,094	25,645
Cash balances end of year	<u>\$ 45,179</u>	<u>\$ 130,574</u>	<u>\$ 303,623</u>
Cash Basis Fund Balances:			
Unreserved:			
Special revenue funds	\$ -	\$ -	\$ 86,526
Capital projects fund	-	-	41,344
Permanent funds	45,179	130,574	175,753
Total cash basis fund balances	<u>\$ 45,179</u>	<u>\$ 130,574</u>	<u>\$ 303,623</u>

See Accompanying Independent Auditor's Report.

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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

See Accompanying Independent Auditor's Report.

<u>Electric Reserve</u>	<u>Storm Sewer</u>	<u>Storm Sewer Sinking</u>	<u>Storm Sewer Reserve</u>	<u>Total</u>
\$ -	\$ 137,880	\$ -	\$ -	\$ 137,880
-	89,056	-	-	89,056
\$ -	\$ 48,824	\$ -	\$ -	\$ 48,824
\$ -	\$ 56,205	\$ -	\$ -	\$ 56,205
-	4,488	-	-	4,488
-	(88,395)	-	-	(88,395)
-	(237,831)	-	-	(237,831)
<u>\$ -</u>	<u>\$(265,533)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (265,533)</u>
\$ -	\$(216,709)	\$ -	\$ -	\$ (216,709)
-	(5,000)	-	-	(5,000)
\$ -	\$(221,709)	\$ -	\$ -	\$ (221,709)
300,000	329,390	90,000	90,000	979,390
<u>\$ 300,000</u>	<u>\$ 107,681</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 757,681</u>
\$ 300,000	\$ -	\$ 90,000	\$ 90,000	\$ 650,000
-	107,681	-	-	107,681
<u>\$ 300,000</u>	<u>\$ 107,681</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 757,681</u>

CITY OF FOREST CITY, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2009

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

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 850,000	\$ -	\$ 110,000	\$ 740,000	\$ 28,380	\$ -
180,000	-	180,000	-	7,830	-
1,965,000	-	75,000	1,890,000	79,599	-
2,540,000	-	-	2,540,000	88,980	-
<u>\$ 5,535,000</u>	<u>\$ -</u>	<u>\$ 365,000</u>	<u>\$ 5,170,000</u>	<u>\$ 204,789</u>	<u>\$ -</u>
\$ 3,120,000	\$ -	\$ 135,000	\$ 2,985,000	\$ 141,024	\$ -
805,000	-	55,000	750,000	32,995	-
1,030,000	-	-	1,030,000	40,397	-
<u>\$ 4,955,000</u>	<u>\$ -</u>	<u>\$ 190,000</u>	<u>\$ 4,765,000</u>	<u>\$ 214,416</u>	<u>\$ -</u>
\$ 14,333	\$ -	\$ 6,837	\$ 7,496	\$ 1,384	\$ -
15,475	-	15,475	-	785	-
<u>\$ 29,808</u>	<u>\$ -</u>	<u>\$ 22,312</u>	<u>\$ 7,496</u>	<u>\$ 2,169</u>	<u>\$ -</u>
<u>\$10,519,808</u>	<u>\$ -</u>	<u>\$ 577,312</u>	<u>\$ 9,942,496</u>	<u>\$ 421,374</u>	<u>\$ -</u>

CITY OF FOREST CITY, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2009

G E N E R A L

Year Ending June 30,	Essential Corporate Purpose Issued June 1, 2003		Essential Corporate Purpose Issued December 1, 2006	
	Interest Rates	Amount	Interest Rates	Amount
	2010	3.10%	\$ 110,000	3.70%
2011	3.20	115,000	3.75	85,000
2012	3.30	120,000	3.75	85,000
2013	3.50	125,000	3.80	90,000
2014	3.60	130,000	3.85	95,000
2015	3.75	140,000	3.87	95,000
2016		-	3.90	100,000
2017		-	4.00	105,000
2018		-	4.00	110,000
2019		-	4.05	115,000
2020		-	4.10	115,000
2021		-	4.15	120,000
2022		-	4.20	125,000
2023		-	4.25	135,000
2024		-	4.30	140,000
2025		-	4.35	145,000
2026		-	4.40	150,000
Total		<u>\$ 740,000</u>		<u>\$1,890,000</u>

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

Year Ending June 30,	Electric Issued May 24, 2005		Storm Sewer Issued May 1, 2006	
	Interest Rates	Amount	Interest Rates	Amount
	2010	4.52%	\$ 135,000	3.85%
2011	4.52	140,000	3.90	60,000
2012	4.52	145,000	3.95	60,000
2013	4.52	150,000	4.00	60,000
2014	4.52	160,000	4.05	65,000
2015	4.52	165,000	4.10	65,000
2016	4.52	170,000	4.15	70,000
2017	4.52	180,000	4.20	75,000
2018	4.52	185,000	4.25	75,000
2019	4.52	195,000	4.30	80,000
2020	4.52	205,000	4.35	85,000
2021	4.52	210,000		-
2022	4.52	220,000		-
2023	4.52	230,000		-
2024	4.52	240,000		-
2025	4.52	255,000		-
Total		<u>\$2,985,000</u>		<u>\$ 750,000</u>

See Accompanying Independent Auditor's Report

O B L I G A T I O N N O T E S

<u>Essential</u>		
<u>Corporate Purpose</u>		
<u>Issued May 1, 2008</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Total</u>
2.60%	\$ 250,000	\$ 440,000
2.80	255,000	455,000
3.00	265,000	470,000
3.10	270,000	485,000
3.20	280,000	505,000
3.35	290,000	525,000
3.50	300,000	400,000
3.60	310,000	415,000
3.70	320,000	430,000
	-	115,000
	-	115,000
	-	120,000
	-	125,000
	-	135,000
	-	140,000
	-	145,000
	-	150,000
	<u>\$2,540,000</u>	<u>\$5,170,000</u>

A N D N O T E S

<u>Sewer</u>		
<u>Issued May 1, 2008</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Total</u>
2.80%	\$ 75,000	\$ 265,000
3.00	80,000	280,000
3.20	85,000	290,000
3.35	85,000	295,000
3.50	90,000	315,000
3.60	90,000	320,000
3.75	95,000	335,000
3.90	100,000	355,000
4.00	105,000	365,000
4.05	110,000	385,000
4.10	115,000	405,000
	-	210,000
	-	220,000
	-	230,000
	-	240,000
	-	255,000
	<u>\$ 1,030,000</u>	<u>\$4,765,000</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:			
Property tax	\$1,723,729	\$1,575,368	\$1,354,261
Tax increment financing	226,794	213,873	245,779
Other city tax	423,960	335,532	346,408
Licenses and permits	8,221	9,830	8,190
Use of money and property	167,755	287,930	328,316
Intergovernmental	1,365,712	726,167	1,074,161
Charges for service	444,825	465,544	398,769
Special assessments	43,505	44,453	37,233
Miscellaneous	<u>503,153</u>	<u>491,381</u>	<u>837,448</u>
Total	<u>\$4,907,654</u>	<u>\$4,150,078</u>	<u>\$4,630,565</u>
Disbursements:			
Operating:			
Public safety	\$1,048,450	\$ 959,784	\$ 989,741
Public works	1,828,065	952,563	1,232,196
Health and social services	20,614	17,052	44,693
Culture and recreation	605,461	607,439	879,860
Community and economic development	359,948	443,449	519,873
General government	209,378	205,652	190,579
Debt service	571,188	488,804	325,790
Capital projects	<u>749,167</u>	<u>2,752,128</u>	<u>127,089</u>
Total	<u>\$5,392,271</u>	<u>\$6,426,871</u>	<u>\$4,309,821</u>

See Accompanying Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$1,320,332	\$1,164,388	\$1,117,857
166,442	170,804	124,984
313,419	262,410	271,452
8,840	8,536	7,860
203,483	64,867	31,226
893,940	1,267,374	668,132
386,510	386,845	387,136
49,448	87,770	31,339
<u>338,748</u>	<u>267,145</u>	<u>790,953</u>
<u>\$3,681,162</u>	<u>\$3,680,139</u>	<u>\$3,430,939</u>
\$1,063,005	\$1,413,391	\$ 979,468
948,615	1,264,610	827,126
43,142	39,499	15,627
665,101	522,967	675,261
393,957	472,837	557,578
190,425	193,038	191,471
423,723	389,200	290,188
<u>54,063</u>	<u>637,150</u>	<u>1,365,867</u>
<u>\$3,782,031</u>	<u>\$4,932,692</u>	<u>\$4,902,586</u>

CITY OF FOREST CITY, IOWA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2009

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
Direct:			
U.S. Department of Homeland Security: Disaster Grants-Public Assistance	97.036	189-28380-00	\$ 47,587
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grant Program	14.228	08-HSG-089-07	17,961
U.S. Department of Transportation: Iowa Department of Transportation: Airport Improvement Program	20.106	3-19-0034-08	<u>757,860</u>
Total			<u>\$ 823,408</u>

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

See Accompanying Independent Auditor's Report.



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

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

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated December 11, 2009. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies, including deficiencies I 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 the City of Forest City's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Forest City's financial statements that is more than inconsequential will not be prevented or detected by the City of Forest City's internal control. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings 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 the City of Forest City's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items II-A-09 and II-B-09 are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



December 11, 2009



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

**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 Honorable Mayor and
Members of the City Council:

Compliance

I have audited the compliance of the City of Forest City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. The City of Forest City's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Forest City's management. My responsibility is to express an opinion on the City of Forest City's compliance based on my audit.

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

In my opinion, the City of Forest City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

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

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

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses as defined above.

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

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

December 11, 2009

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2009

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) 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) The audit did not disclose any significant deficiencies in internal control over its major program.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 - A.I.P.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Forest City did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Bank Reconciliations - Reconciliations of book balances to the bank accounts by fund were not prepared during the audit period.

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

Response - We will begin performing monthly reconciliations.

Conclusion - Response accepted.

II-B-09 Checks Without Signature - Checks are prepared and signed by one individual, however, I noted several checks with no signature.

Recommendation - Checks should be prepared and the supporting documentation along with the check should be presented for signature.

Response - We will do this.

Conclusion - Response accepted.

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2009

Part II: Findings Related to the Financial Statements: - continued

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

None

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the health and social services function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - We will do this in the future.

Conclusion - Response accepted.

IV-B-09 Questionable Disbursements - No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-09 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tony Coloff, Cable TV Committee, Owner KIOW Radio Station	Advertising/legal publications	\$ 2,673
Ron Holland, Council Member, Owner Ron Holland House Moving	Services	104

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

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2009

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

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

Response - We will do this.

Conclusion - Response accepted.

IV-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-09 Council Minutes - No transactions were found that we believe should have been approved in the minutes but were not.

IV-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-09 Financial Condition - The Special Revenue, Tax Increment Financing Fund, the Special Revenue, CDBG Fund and the Internal Service, Payroll Clearing Fund had deficit balances of \$392,068, \$4,819 and \$18,913, respectively, at June 30, 2009.

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

Response - These accounts will be monitored in the future.

Conclusion - Response accepted.