

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

June 30, 2011

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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, 2011, which collectively comprise the District's basic financial statements 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, 2011, 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 13, 2012, 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, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 15 and 42 through 44 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 eight years ended June 30, 2010, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, 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 13, 2012

## **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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **Financial Highlights**

- General Fund revenues for fiscal 2011 were \$13,083,079 while General Fund expenditures were \$12,265,322. This resulted in an increase in the District's General Fund balance from \$606,045 in fiscal 2010 to \$1,423,802 in fiscal 2011, or a \$817,757 increase from the prior year.
- A increase in the General Fund ending balance was attributable to increases for most general revenue sources and small increases in 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 \$550,000. The moneys received may be used for implementation of the District's technology program, including the purchase of computer hardware and software for the start of a 1:1 computer program in the middle and high schools, 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 source of funding will produce approximately \$27,501 for the 2011-2012 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 source of funding will produce approximately \$68,781 for the 2011-2012 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 source of funding will produce approximately \$598,635 for the 2011-2012 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 source of funding will produce approximately \$56,774 for the 2011-2012 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan. Other supplementary information provides detailed information about the nonmajor funds and includes the Schedule of Expenditures of Federal Awards.

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

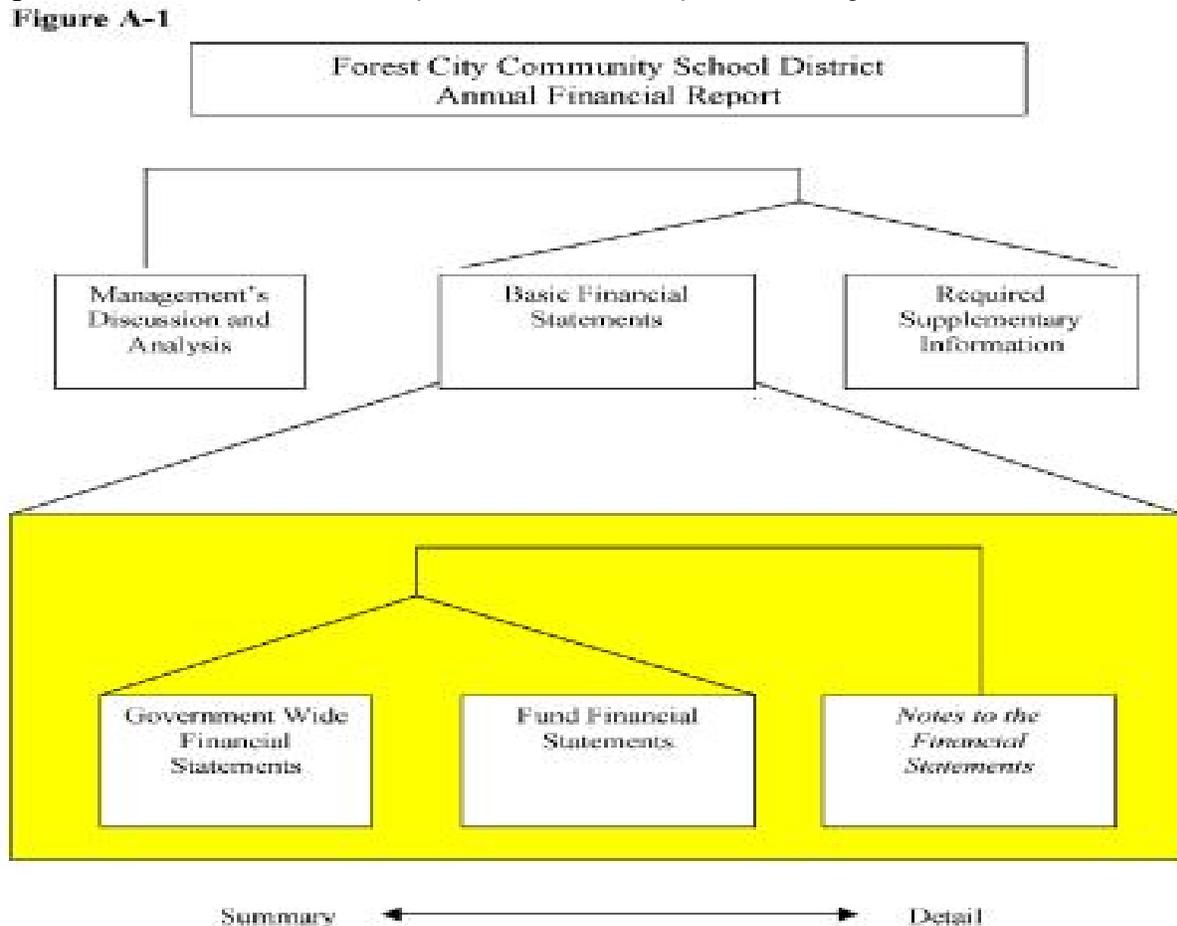


Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

<b>Figure A-2: Major Features of the Government Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of cash flows</li> <li>• Statement of revenues, expenses and changes in net assets</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## Government-wide Financial Statements

The government-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school building and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business type activities*: The District charges fees to help it cover the costs of certain services it provides. The District's food service program would be included here.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
  - The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.
  - The District's *enterprise funds* (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

## Financial Analysis of the District as a Whole

**Net assets.** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 compared to 2011.

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

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2010-2011
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	
Current and other assets	\$7.763	\$8.742	\$.138	\$.142	\$7.901	\$8.884	12.44%
Capital assets	8.216	7.982	.031	.036	8.247	8.018	-2.78%
<b>Total assets</b>	<b>15.979</b>	<b>16.724</b>	<b>.169</b>	<b>.178</b>	<b>16.148</b>	<b>16.902</b>	<b>4.67%</b>
Long-term debt outstanding	2.686	2.441	.008	.012	2.694	2.453	-8.95%
Other liabilities	5.682	5.713	.039	.043	5.721	5.756	0.61%
<b>Total liabilities</b>	<b>8.368</b>	<b>8.154</b>	<b>.047</b>	<b>.055</b>	<b>8.415</b>	<b>8.209</b>	<b>-2.45%</b>
<b>Net assets</b>							
Invested in capital assets, net of related debt	6.156	6.147	.031	.036	6.187	6.183	-0.06%
Restricted	1.035	1.122	0	0	1.035	1.122	8.41%
Unrestricted	.421	1.301	.090	.087	.511	1.388	171.62%
<b>Total net assets</b>	<b>\$7.612</b>	<b>\$8.570</b>	<b>\$.121</b>	<b>\$.123</b>	<b>\$7.733</b>	<b>\$8.693</b>	<b>12.41%</b>

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 increased \$87,000 or 8.41% over the prior year. This increase was caused by the reduction of expenditures of physical plant and equipment property tax levy monies that were received in fiscal year 2011 and used to finance future capital improvements and equipment purchases.

The increase in unrestricted net assets was primarily due to the District's continued work at reducing all fund expenditures that had continued to reduce our Unspent Authorized Budget balance. 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, 2011.

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

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>		<b>Percentage</b>
	<b>Activities</b>		<b>Activities</b>		<b>School District</b>		
	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010-2011</b>
<b>Revenues</b>							
<b>Program revenues</b>							
Charges for services	\$1.403	\$1.517	\$.292	\$.292	\$1.695	\$1.809	6.73%
Operating Grants & Contributions	2.706	2.362	.282	.292	2.988	2.654	-11.18%
Capital Grants & Contributions	.000	.000	0	0	.000	.000	0.00%
<b>General revenues</b>							
Property Taxes & Other Local Taxes	4.883	5.336	0	0	4.883	5.336	9.28%
Unrestricted State Aid	5.023	5.386	0	0	5.023	5.386	7.23%
Other	.034	.021	0	0	.034	.021	-38.24%
<b>Total revenues</b>	<b>14.049</b>	<b>14.622</b>	<b>.574</b>	<b>.584</b>	<b>14.623</b>	<b>15.206</b>	<b>3.99%</b>
<b>Expenses</b>							
Instruction	9.234	9.124	0	0	9.234	9.124	-1.19%
Pupil & Instructional Services	.606	.501	0	0	.606	.501	-17.33%
Administrative & Business	1.071	1.157	0	0	1.071	1.157	8.03%
Maintenance & operations	.996	1.053	0	0	.996	1.053	5.72%
Transportation	.416	.514	0	0	.416	.514	23.56%
Other	1.104	1.315	.565	.583	1.669	1.898	13.72%
<b>Total expenses</b>	<b>13.427</b>	<b>13.664</b>	<b>.565</b>	<b>.583</b>	<b>13.992</b>	<b>14.247</b>	<b>1.82%</b>
<b>Increase (decrease) in net assets</b>	<b>\$.622</b>	<b>\$.958</b>	<b>\$.009</b>	<b>\$.001</b>	<b>\$.632</b>	<b>\$.959</b>	<b>51.74%</b>

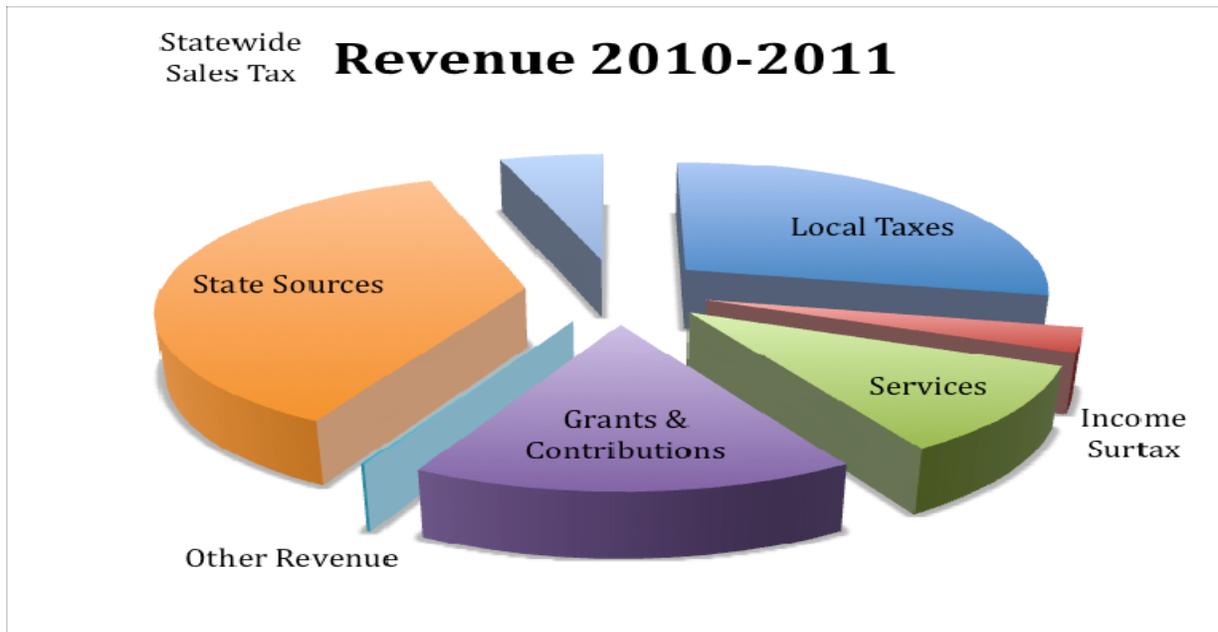
Note: totals may not add due to rounding.

Property tax, income surtax, sales taxes and state foundation aid account for 71 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 \$14,622,461 and expenses were \$13,664,519. In what was a good budget year, the District was able to maximize revenues and balance the budget by trimming expenses to match available revenues.

**Figure A-5** The following graph presents the total Revenue for the District's major governmental activities: state aid, federal and state grants, property taxes, charges for services and other incomes.



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

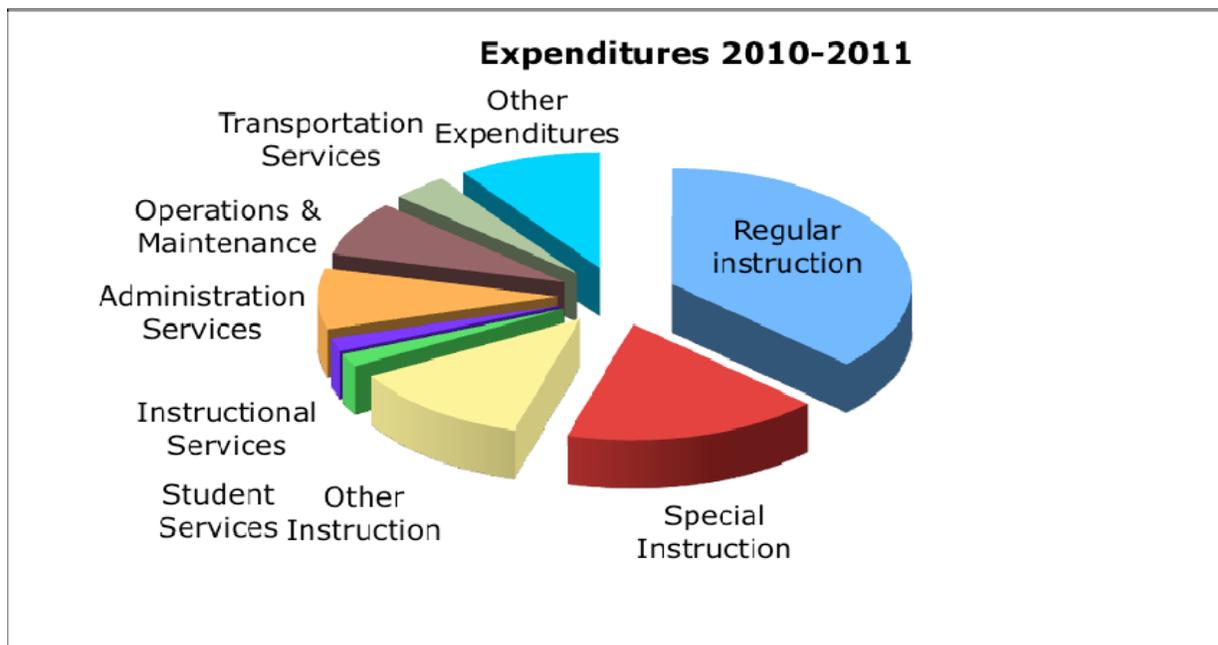


Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

**Figure A-7  
Net Cost of Governmental Activities (in millions of dollars)**

	<b>Total Cost of Services</b>		<b>Percentage Change</b>	<b>Net Cost of Services</b>		<b>Percentage Change</b>
	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010-2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010-2011</u></b>
Instruction	\$9.234	\$9.124	-1.19%	\$ 5.674	\$ 5.787	1.99%
Pupil & Instructional Services	.606	.501	-17.33%	.606	.501	-17.33%
Administrative & Business	1.071	1.157	8.03%	1.071	1.157	8.03%
Maintenance & operations	.996	1.054	5.62%	.992	1.049	5.75%
Transportation	.416	.514	23.56%	.409	.508	24.21%
Other	1.104	1.315	19.11%	.566	.784	38.52%
<b>Total</b>	<b>\$13.427</b>	<b>\$13.665</b>	<b>1.77%</b>	<b>\$9.318</b>	<b>\$9.786</b>	<b>5.02%</b>

Note: totals may not add due to rounding.

- The cost of all governmental activities this year was \$13,664,519
- Some of the costs were financed by the users of District programs in the amount of \$1,516,604.)
- The federal and state governments subsidized certain programs with grants and contributions \$2,362,366.
- Most of the District's costs \$10,743,491 however was financed by District and state taxpayers.
- This portion of governmental activities was financed with \$4,541,255 million in property taxes, \$425,394 of income surtax and \$795,330 of sales tax \$5,385,776 million of unrestricted state aid based on the statewide finance formula, and 21,130 of investment earnings and other revenues.

### Business Type Activities

Revenues from the District's business-type activities included charges for services in the amount of \$291,751 and \$291,786 from operating grants, contributions and restricted interest. Expenses from the District's business type activities amounted to \$582,360. The Hot Lunch program was the only Business Type Activity for the District during the 2011 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 \$2,501,509 above last year's ending fund balances of \$1,617,817. The primary reason for the increase in the total property taxes received during the current fiscal year and a reduction in the number of professional staff.

### 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 increased from \$606,045 to \$1,423,802 due mainly to continued reduction in costs for salaries and benefits due mainly to reduction in staff and the continued energy efficient lighting and heating systems that are continuing to be replaced.
- The Capital Project Fund includes revenues from sales tax and from the physical plant and equipment property tax levy. These two revenue streams and the related expenditures are tracked separately in the District's accounting records, but are combined into one Capital Projects Fund for financial reporting.
  - The Physical Plant and Equipment Levy (PPEL) account balance increased from \$6,773 in fiscal 2010 to \$91,268 in fiscal 2011. Revenues were carried over for the 2011-2012 school year.
  - The Sales Tax account balance decreased \$43,168 due to the completion of the projects and contracts that were completed during the 2010-2011 school year. Fiscal 2011 ended with a balance of \$644,827.

### Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$121,474 at June 30, 2010 to \$122,761 representing an increase of approximately \$1,287 dollars. Student and adult meal prices were held steady (lunch sale receipts went down when 2011 is compared to 2010) The reduction in labor costs helped to keep the ending balance on a steady line.

## Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison.

## Legal Budgetary Highlights

The District's total actual receipts were approximately \$442,755 less than budgeted receipts, a variance of a little over -2.84 percent. This was due to very aggressive budgeting plans.

Total expenditures were \$401,556 less than budgeted due primarily to the District's budget for General Fund and Capitol Projects. It is the District's practice to budget expenditures at the same amount as budgeted revenues in all funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

## Capital Asset and Debt Administration

### Capital Assets

By the end of 2011 the District had invested \$19.199 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 \$576,960. (included depreciation expense on business type capital assets)

At June 30, 2011 the District had completed construction on various project on the grounds and lighting projects. Approximately \$275,652 was spent in fiscal year 2011 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
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010-2011</u>
Land	\$ .225	\$ .225	\$ 0	\$ 0	\$ .225	\$ .225	0.00%
Construction in progress	.150	.076	0	0	.150	.076	-49.33%
Buildings	6.448	6.385			6.448	6.385	- 0.98%
Improvements	.599	.567	0	0	.599	.567	-5.34%
Equipment & Furniture	.794	.729	.031	.036	.825	.765	-7.27%
	<b>\$ 8.216</b>	<b>\$ 7.982</b>	<b>\$ .031</b>	<b>\$ .036</b>	<b>8.247</b>	<b>\$ 8.018</b>	<b>-2.78%</b>

Note: totals may not add due to rounding.

## Long-Term Debt

At year-end, the District had \$1,835,000 in general obligation bonds and other long-term debt outstanding. This represents a decrease of 9.12% 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

The District's general obligation bonds are not rated.

The constitution of the State of Iowa limits the amount of debt school districts can issue to 5% of the assessed value of all taxable property within the district. The District's outstanding bonded and note indebtedness is significantly below its constitutional debt limit of over \$14 million

**Figure A-9**  
**Outstanding Long-Term Debt (in millions of dollars)**

	<b>Total School District</b>		<b>Total Percentage Change</b>
	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010-2011</u></b>
General obligation bonds (financed with property taxes)	\$ 2,060	\$ 1,835	-10.92%
Other general obligation debt	.634	.618	-2.52%
<b>Total</b>	<b>\$ 2.694</b>	<b>\$ 2.453</b>	<b>-8.95%</b>

## 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:

- For fiscal year 2006-2007 there are three new housing developments in the city of Forest City along with the completion of an eighteen hole golf course.
- The largest employer in the District, Winnebago Industries continues to limit production and keep as many employees as it can.
- The college in the District has just completed the process of changing from a private church school to a public for profit institution.
- 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 2009-2010 by 18.0 students, and for the 2010-2011 school year decreased by 117.90 students and for the 2011-2012 decreased by 25.37 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 open enrollment applications and all were accepted. No positions will be replaced unless absolutely necessary for future staffing.
- Beginning with the 2012-2013 school year the Forest City Community School District will be continuing a whole grade-sharing program with the Woden-Crystal Lake Community School District. This sharing agreement will include all 2nd through 12<sup>th</sup> grade students from the Woden-Crystal Lake Community School District attending the Forest City Community School District.
- During the 2012-2013 school years the Forest City Community School District will continue a sharing agreement with the Woden-Crystal Lake Community School District for Business manager and the Garner-Hayfield Community School District for Transportation Director.
- During the 2012-2013 school years the Forest City Community School District will enter a sharing agreement with the Woden-Crystal Lake Community School District for Superintendent and Elementary Principal.
- During the 2012-2013 school year it is planned to have a reorganizational election in September of 2012 between the Forest City Community School District and the Woden-Crystal Lake Community School District.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steven J. Rollefson, Board Secretary/Business Manager, Forest City Community School District, 810 West K. Street Forest City, Iowa 50436

## BASIC FINANCIAL STATEMENTS

## FOREST CITY COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	3,144,717	124,033	3,268,750
Receivables:			
Property tax:			
Delinquent	64,139	-	64,139
Succeeding year	4,202,878	-	4,202,878
Accounts	26,293	-	26,293
Due from other governments	1,277,211	-	1,277,211
Inventories	26,648	18,269	44,917
Capital assets, net of accumulated depreciation	7,982,307	35,503	8,017,810
<b>Total assets</b>	<b>16,724,193</b>	<b>177,805</b>	<b>16,901,998</b>
<b>Liabilities</b>			
Accounts payable	125,159	449	125,608
Salaries and benefits payable	1,379,791	38,792	1,418,583
Accrued interest payable	5,372	-	5,372
Deferred revenue:			
Succeeding year property tax	4,202,878	-	4,202,878
Other	-	3,859	3,859
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	235,000	-	235,000
Termination benefits	92,512	-	92,512
Portion due after one year:			
General obligation bonds payable	1,600,000	-	1,600,000
Termination benefits	307,350	-	307,350
Net OPEB liability	206,321	11,944	218,265
<b>Total liabilities</b>	<b>8,154,383</b>	<b>55,044</b>	<b>8,209,427</b>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	6,147,307	35,503	6,182,810
Restricted for:			
Categorical funding	276,245	-	276,245
Physical plant and equipment levy	91,268	-	91,268
Student activities	107,645	-	107,645
School infrastructure	644,827	-	644,827
Debt service	1,340	-	1,340
Unrestricted	<u>1,301,178</u>	<u>87,258</u>	<u>1,388,436</u>
<b>Total net assets</b>	<u><u>8,569,810</u></u>	<u><u>122,761</u></u>	<u><u>8,692,571</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

<b>Functions/Programs</b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	5,064,331	710,611	1,468,454	-
Special	2,373,206	462,294	165,063	-
Other	1,686,330	333,257	197,028	-
	9,123,867	1,506,162	1,830,545	-
Support services:				
Student	248,079	-	-	-
Instructional staff	252,915	-	-	-
Administration	1,156,754	-	-	-
Operation and maintenance of plant	1,053,465	4,480	-	-
Transportation services	514,340	5,962	-	-
	3,225,553	10,442	-	-
Other expenditures:				
Facilities acquisition	266,871	-	-	-
Long-term debt interest	71,515	-	9	-
AEA flowthrough	531,812	-	531,812	-
Depreciation (unallocated)*	444,901	-	-	-
	1,315,099	-	531,821	-
Total governmental activities	13,664,519	1,516,604	2,362,366	-
Business type activities:				
Non-instructional programs:				
Food service operations	582,360	291,751	291,786	-
Total	14,246,879	1,808,355	2,654,152	-
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales, services and use 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
\$	\$	\$
(2,885,266)	-	(2,885,266)
(1,745,849)	-	(1,745,849)
(1,156,045)	-	(1,156,045)
<u>(5,787,160)</u>	<u>-</u>	<u>(5,787,160)</u>
(248,079)	-	(248,079)
(252,915)	-	(252,915)
(1,156,754)	-	(1,156,754)
(1,048,985)	-	(1,048,985)
(508,378)	-	(508,378)
<u>(3,215,111)</u>	<u>-</u>	<u>(3,215,111)</u>
(266,871)	-	(266,871)
(71,506)	-	(71,506)
-	-	-
(444,901)	-	(444,901)
<u>(783,278)</u>	<u>-</u>	<u>(783,278)</u>
(9,785,549)	-	(9,785,549)
<u>-</u>	<u>1,177</u>	<u>1,177</u>
<u>(9,785,549)</u>	<u>1,177</u>	<u>(9,784,372)</u>
4,031,457	-	4,031,457
84,404	-	84,404
425,394	-	425,394
795,330	-	795,330
5,385,776	-	5,385,776
4,606	110	4,716
16,524	-	16,524
<u>10,743,491</u>	<u>110</u>	<u>10,743,601</u>
957,942	1,287	959,229
<u>7,611,868</u>	<u>121,474</u>	<u>7,733,342</u>
<u>8,569,810</u>	<u>122,761</u>	<u>8,692,571</u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2011

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	2,120,756	637,323	386,638	3,144,717
Receivables:				
Property tax:				
Delinquent	58,982	828	4,329	64,139
Succeeding year	3,564,448	88,965	549,465	4,202,878
Accounts	19,293	7,000	-	26,293
Interfund receivable	40,348	-	-	40,348
Due from other governments	1,069,877	207,334	-	1,277,211
Inventories	26,648	-	-	26,648
<b>Total assets</b>	<b>6,900,352</b>	<b>941,450</b>	<b>940,432</b>	<b>8,782,234</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	116,152	-	9,007	125,159
Salaries and benefits payable	1,263,401	116,390	-	1,379,791
Interfund payable	-	-	40,348	40,348
Deferred revenue:				
Succeeding year property tax	3,564,448	88,965	549,465	4,202,878
Income surtax	486,281	-	-	486,281
Other	46,268	-	-	46,268
Total liabilities	5,476,550	205,355	598,820	6,280,725
Fund balances:				
Nonspendable:				
Inventories	26,648	-	-	26,648
Restricted for:				
Categorical funding	276,245	-	-	276,245
Debt service	-	-	6,712	6,712
Management levy	-	-	227,255	227,255
Student activities	-	-	107,645	107,645
School infrastructure	-	644,827	-	644,827
Physical plant and equipment	-	91,268	-	91,268
Assigned	336	-	-	336
Unassigned	1,120,573	-	-	1,120,573
Total fund balances	1,423,802	736,095	341,612	2,501,509
<b>Total liabilities and fund balances</b>	<b>6,900,352</b>	<b>941,450</b>	<b>940,432</b>	<b>8,782,234</b>

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, 2011

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	2,501,509
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,982,307
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	532,549
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.	(5,372)
Long-term liabilities, including bonds payable, termination benefits, and other postemployment benefits are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,441,183)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>8,569,810</u></u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	4,144,505	879,734	249,820	5,274,059
Tuition	885,345	-	-	885,345
Other	305,320	1,490	345,588	652,398
State sources	6,962,833	16	49	6,962,898
Federal sources	785,076	-	-	785,076
Total revenues	<u>13,083,079</u>	<u>881,240</u>	<u>595,457</u>	<u>14,559,776</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,032,125	-	85,506	5,117,631
Special	2,356,980	-	-	2,356,980
Other	1,335,360	-	327,952	1,663,312
	<u>8,724,465</u>	<u>-</u>	<u>413,458</u>	<u>9,137,923</u>
Support services:				
Student	245,663	-	-	245,663
Instructional staff	248,695	-	-	248,695
Administration	1,148,168	-	-	1,148,168
Operation and maintenance of plant	853,382	-	157,391	1,010,773
Transportation	513,137	-	-	513,137
	<u>3,009,045</u>	<u>-</u>	<u>157,391</u>	<u>3,166,436</u>
Other expenditures:				
Facilities acquisition	-	542,798	-	542,798
Long-term debt:				
Principal paid	-	-	225,000	225,000
Interest and fiscal charges	-	-	72,115	72,115
AEA flowthrough	531,812	-	-	531,812
	<u>531,812</u>	<u>542,798</u>	<u>297,115</u>	<u>1,371,725</u>
Total expenditures	<u>12,265,322</u>	<u>542,798</u>	<u>867,964</u>	<u>13,676,084</u>
Excess (deficiency) of revenues over (under) expenditures	<u>817,757</u>	<u>338,442</u>	<u>(272,507)</u>	<u>883,692</u>
Other financing sources (uses):				
Operating transfers in	-	-	297,115	297,115
Operating transfers out	-	(297,115)	-	(297,115)
Total other financing sources (uses)	<u>-</u>	<u>(297,115)</u>	<u>297,115</u>	<u>-</u>
Net change in fund balances	817,757	41,327	24,608	883,692
Fund balances beginning of year, as restated	<u>606,045</u>	<u>694,768</u>	<u>317,004</u>	<u>1,617,817</u>
Fund balances end of year	<u>1,423,802</u>	<u>736,095</u>	<u>341,612</u>	<u>2,501,509</u>

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, 2011

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		883,692
<b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>		
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	335,223	
Depreciation expense	<u>(569,174)</u>	(233,951)
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.		62,685
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.		225,000
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.		600
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	85,507	
Other postemployment benefits	<u>(65,591)</u>	<u>19,916</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>957,942</u></u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2011

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	124,033
Inventories	18,269
Capital assets, net of accumulated depreciation	<u>35,503</u>
<b>Total assets</b>	<u>177,805</u>
<b>Liabilities</b>	
Accounts payable	449
Salaries and benefits payable	38,792
Deferred revenue	3,859
Net OPEB liability	<u>11,944</u>
<b>Total liabilities</b>	<u>55,044</u>
<b>Net assets</b>	
Invested in capital assets	35,503
Unrestricted	<u>87,258</u>
<b>Total net assets</b>	<u><u>122,761</u></u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>291,751</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	165,258
Benefits	80,116
Purchased services	4,704
Supplies	324,506
Depreciation	7,776
Total operating expenses	<u>582,360</u>
Operating loss	<u>(290,609)</u>
Non-operating revenues:	
State sources	5,449
Federal sources	286,337
Interest income	110
Total non-operating revenues	<u>291,896</u>
Change in net assets	1,287
Net assets beginning of year	<u>121,474</u>
Net assets end of year	<u><u>122,761</u></u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2011

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	293,726
Cash payments to employees for services	(238,276)
Cash payments to suppliers for goods or services	(271,164)
Net cash used by operating activities	<u>(215,714)</u>
Cash flows from non-capital financing activities:	
State grants received	5,449
Federal grants received	242,370
Net cash provided by non-capital financing activities	<u>247,819</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(12,113)</u>
Cash flows from investing activities:	
Interest on investments	<u>110</u>
Net increase (decrease) in cash and cash equivalents	20,102
Cash and cash equivalents at beginning of year	<u>103,931</u>
Cash and cash equivalents at end of year	<u><u>124,033</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating (loss)	(290,609)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	49,426
Depreciation	7,776
Decrease (increase) in inventories	9,890
(Decrease) increase in accounts payable	(1,270)
(Decrease) increase in salaries and benefits payable	3,301
(Decrease) increase in deferred revenue	1,975
(Decrease) increase in net OPEB liability	3,797
Net cash used by operating activities	<u><u>(215,714)</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2011, the District received \$49,426 of federal commodities.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2011

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	14,780
<b>Liabilities</b>	
	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>14,780</u></u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2011

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	173
Deductions	
Support services:	
Scholarships awarded	<u>130</u>
Change in net assets	43
Net assets beginning of year	<u>14,737</u>
Net assets end of year	<u><u>14,780</u></u>

# FOREST CITY COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

Year ended June 30, 2011

### 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. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the district's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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 and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	25,000
Improvements other than buildings	25,000
Intangibles	100,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight line method of over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Intangibles	3-10 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 fund balances are classified as follows:

Non-spendable – Amounts which cannot be spent because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Board of Secretary intends to use for specific purposes.

Unassigned – All amounts not included in other classifications.

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, 2011, expenditures in the instruction function exceeded the amount budgeted.

## 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 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, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Nonmajor Governmental Funds: Management Fund	40,348

The interfund receivable/payable is the result or year-end reclassifications of revenues and expenditures.

**4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor Governmental Funds: Debt Service	Capital Projects	297,115

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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. 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. The interest rate on the Series 2010-11A warrants is 1.2% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the LIBOR rate plus 120 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2011, is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2010-11A	6/23/10	6/28/11	-	600,000	600,000	-
2010-11B	1/26/11	1/25/12	-	-	-	-
			-	600,000	600,000	-

During the year ended June 30, 2011, the District paid \$782 of interest on the ISCAP warrants.

## 6. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	225,000	-	-	225,000
Construction in progress	150,546	275,652	350,073	76,125
Total capital assets not being depreciated	<u>375,546</u>	<u>275,652</u>	<u>350,073</u>	<u>301,125</u>
Capital assets being depreciated:				
Buildings	14,882,359	350,348	-	15,232,707
Improvements other than buildings	764,543	-	-	764,543
Furniture and equipment	2,642,146	59,296	-	2,701,442
Total capital assets being depreciated	<u>18,289,048</u>	<u>409,644</u>	<u>-</u>	<u>18,698,692</u>
Less accumulated depreciation for:				
Buildings	8,434,372	413,054	-	8,847,426
Improvements other than buildings	165,644	31,847	-	197,491
Furniture and equipment	1,848,320	124,273	-	1,972,593
Total accumulated depreciation	<u>10,448,336</u>	<u>569,174</u>	<u>-</u>	<u>11,017,510</u>
Total capital assets being depreciated, net	<u>7,840,712</u>	<u>(159,530)</u>	<u>-</u>	<u>7,681,182</u>
Governmental activities capital assets, net	<u>8,216,258</u>	<u>116,122</u>	<u>350,073</u>	<u>7,982,307</u>
<b>Business type activities:</b>				
Furniture and equipment	181,526	12,113	-	193,639
Less accumulated depreciation	150,360	7,776	-	158,136
Business type activities capital assets, net	<u>31,166</u>	<u>4,337</u>	<u>-</u>	<u>35,503</u>

Depreciation expense was charged to the following programs:

	\$
<b>Governmental activities:</b>	
Instruction:	
Regular	2,518
Other	20,602
Support services:	
Instructional staff support	3,184
Administration	3,408
Operation and maintenance of plant	38,895
Transportation	55,666
	<u>124,273</u>
Unallocated depreciation	444,901
Total governmental activities depreciation expense	<u>569,174</u>
<b>Business type activities:</b>	
Food service operations	<u>7,776</u>

**7. Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	2,060,000	-	225,000	1,835,000	235,000
Termination benefits	485,369	-	85,507	399,862	92,512
Net OPEB liability	140,730	65,591	-	206,321	-
<b>Total</b>	<b>2,686,099</b>	<b>65,591</b>	<b>310,507</b>	<b>2,441,183</b>	<b>327,512</b>
Business type activities:					
Net OPEB liability	8,147	3,797	-	11,944	-

**Termination Benefits**

The District offered a voluntary early retirement plan to its employees during fiscal years 2010, 2009 and 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 \$35,000 of future health insurance premiums.

At June 30, 2011, the District has obligations to sixteen participants with a total liability of \$399,862. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$85,507.

**General Obligation Bonds Payable**

Details of the District's June 30, 2011, general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	June 1, 2003 Issue		
		Principal	Interest	Total
	%	\$	\$	\$
2012	3.25	235,000	64,465	299,465
2013	3.30	245,000	56,827	301,827
2014	3.40	250,000	48,743	298,743
2015	3.50	260,000	40,243	300,243
2016	3.60	270,000	31,143	301,143
2017-2018	3.70-3.75	575,000	32,484	607,484
<b>Total</b>		<b>1,835,000</b>	<b>273,905</b>	<b>2,108,905</b>

**8. Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 166 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan. 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 District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	91,354
Interest on net OPEB obligation	3,722
Adjustment to annual required contribution	<u>(6,869)</u>
Annual OPEB cost	88,207
Contributions made	<u>18,819</u>
Increase in net OPEB obligation	69,338
Net OPEB obligation beginning of year	<u>148,877</u>
Net OPEB obligation end of year	<u>218,265</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$18,819 to the medical plan. Plan members eligible for benefits contributed \$18,819, or 50% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
2009	85,132	11%	76,150
2010	89,745	19%	148,876
2011	88,207	21%	218,265

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$819,518, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$819,518. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$7,161,000, and the ratio of the UAAL to covered payroll was 11.4%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 group annuity mortality table projected to 2000. The UAAL is being amortized over 30 years.

## **9. 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 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$507,595, \$504,589, and \$483,431 respectively, equal to the required contributions for each year.

## **10. 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.

## **11. 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 \$531,812 for the year ended June 30, 2011, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## 12. 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 two years are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
	\$
2012	23,436
2013	5,859

## 13. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
Teacher salary supplement	67,394
Core curriculum	51,284
Market factor	7,420
Preschool	150,147
	<u>276,245</u>

## 14. Construction Commitment

The District has entered into contracts totaling \$956,757 for roof repairs and athletic facility improvements. As of June 30, 2011 costs of \$48,600 had been incurred against the contracts. The balances remaining at June 30, 2011 will be paid as work on the projects progresses.

## 15. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund type Definitions, was implemented during the year ended 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
	\$	\$
Balances June 30, 2010, as previously reported	687,995	6,773
Change in fund type classification per implementation of GASB Statement No. 54	<u>6,773</u>	<u>(6,773)</u>
Balances July 1, 2010, as restated	<u>694,768</u>	<u>-</u>

REQUIRED SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	6,811,802	291,861	7,103,663	7,523,797	7,523,797	(420,134)
State sources	6,962,898	5,449	6,968,347	7,632,881	7,632,881	(664,534)
Federal sources	785,076	286,337	1,071,413	429,500	429,500	641,913
Total revenues	<u>14,559,776</u>	<u>583,647</u>	<u>15,143,423</u>	<u>15,586,178</u>	<u>15,586,178</u>	<u>(442,755)</u>
<b>Expenditures/Expenses:</b>						
Instruction	9,137,923	-	9,137,923	8,956,009	8,956,009	(181,914)
Support services	3,166,436	-	3,166,436	3,455,000	3,455,000	288,564
Non-instructional programs	-	582,360	582,360	725,000	725,000	142,640
Other expenditures	1,371,725	-	1,371,725	1,523,991	1,523,991	152,266
Total expenditures/expenses	<u>13,676,084</u>	<u>582,360</u>	<u>14,258,444</u>	<u>14,660,000</u>	<u>14,660,000</u>	<u>401,556</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	883,692	1,287	884,979	926,178	926,178	(41,199)
Balance beginning of year	<u>1,617,817</u>	<u>121,474</u>	<u>1,739,291</u>	<u>1,458,104</u>	<u>1,458,104</u>	<u>281,187</u>
Balance end of year	<u><u>2,501,509</u></u>	<u><u>122,761</u></u>	<u><u>2,624,270</u></u>	<u><u>2,384,282</u></u>	<u><u>2,384,282</u></u>	<u><u>239,988</u></u>

FOREST CITY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

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 did not amend its budget.

During the year ended June 30, 2011, expenditures in the instruction function exceeded the amount budgeted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets ( a ) \$	Actuarial Accrued Liability (AAL) ( b ) \$	Unfunded AAL (UAAL) ( b-a ) \$	Funded Ratio ( a/b ) %	Covered Payroll ( c ) \$	UAAL as a Percentage of Covered Payroll ( (b-a)/c ) %
2009	July 1, 2008	-	827,960	827,960	0.0%	6,525,000	12.7%
2010	July 1, 2008	-	819,518	819,518	0.0%	7,153,000	11.5%
2011	July 1, 2008	-	819,518	819,518	0.0%	7,161,000	11.4%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2011

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity	Debt Service	
	\$	\$	\$	
Cash and pooled investments	263,274	116,652	6,712	386,638
Receivables:				
Property tax:				
Delinquent	4,329	-	-	4,329
Succeeding year	250,001	-	299,464	549,465
<b>Total assets</b>	<b>517,604</b>	<b>116,652</b>	<b>306,176</b>	<b>940,432</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	-	9,007	-	9,007
Interfund payables	40,348	-	-	40,348
Deferred revenue:				
Succeeding year property tax	250,001	-	299,464	549,465
Total liabilities	290,349	9,007	299,464	598,820
Fund balances:				
Restricted for:				
Debt service	-	-	6,712	6,712
Management levy	227,255	-	-	227,255
Student activities	-	107,645	-	107,645
Total fund balances	227,255	107,645	6,712	341,612
<b>Total liabilities and fund balances</b>	<b>517,604</b>	<b>116,652</b>	<b>306,176</b>	<b>940,432</b>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	Special Revenue Funds			Total
	Management	Student	Debt Service	
	Levy	Activity		
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	249,820	-	-	249,820
Other	16,460	329,119	9	345,588
State sources	49	-	-	49
Total revenues	<u>266,329</u>	<u>329,119</u>	<u>9</u>	<u>595,457</u>
Expenditures:				
Current:				
Instruction:				
Regular	85,506	-	-	85,506
Other	-	327,952	-	327,952
Support services:				
Operation and maintenance of plant	157,391	-	-	157,391
Other expenditures:				
Long-term debt:				
Principal paid	-	-	225,000	225,000
Interest and fiscal charges	-	-	72,115	72,115
Total expenditures	<u>242,897</u>	<u>327,952</u>	<u>297,115</u>	<u>867,964</u>
Excess (deficiency) of revenues over (under) expenditures	23,432	1,167	(297,106)	(272,507)
Other financing sources (uses):				
Operating transfers in	-	-	297,115	297,115
Net change in fund balances	23,432	1,167	9	24,608
Fund balances beginning of year, as restated	<u>203,823</u>	<u>106,478</u>	<u>6,703</u>	<u>317,004</u>
Fund balances end of year	<u><u>227,255</u></u>	<u><u>107,645</u></u>	<u><u>6,712</u></u>	<u><u>341,612</u></u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Capital Project Accounts

June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>	\$	\$	\$
Cash and pooled investments	546,883	90,440	637,323
Receivables:			
Property tax:			
Delinquent	-	828	828
Succeeding year	-	88,965	88,965
Accounts	7,000	-	7,000
Due from other governments	207,334	-	207,334
<b>Total assets</b>	<u>761,217</u>	<u>180,233</u>	<u>941,450</u>
<b>Liabilities &amp; Fund Balances</b>			
Liabilities:			
Accounts payable	116,390	-	116,390
Deferred revenue:			
Succeeding year property tax	-	88,965	88,965
Total liabilities	<u>116,390</u>	<u>88,965</u>	<u>205,355</u>
Fund balances:			
Restricted for:			
School infrastructure	644,827	-	644,827
Physical plant and equipment	-	91,268	91,268
Total fund balances	<u>644,827</u>	<u>91,268</u>	<u>736,095</u>
<b>Total liabilities and fund balances</b>	<u>761,217</u>	<u>180,233</u>	<u>941,450</u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Capital Project Accounts

Year ended June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	795,330	84,404	879,734
Other	1,415	75	1,490
State sources	-	16	16
Total revenues	<u>796,745</u>	<u>84,495</u>	<u>881,240</u>
Expenditures:			
Other expenditures:			
Facilities acquisition	<u>542,798</u>	<u>-</u>	<u>542,798</u>
Excess (deficiency) of revenues over (under) expenditures	253,947	84,495	338,442
Other financing sources (uses):			
Operating transfers out	<u>(297,115)</u>	<u>-</u>	<u>(297,115)</u>
Net change in fund balance	(43,168)	84,495	41,327
Fund balances beginning of year, as restated	<u>687,995</u>	<u>6,773</u>	<u>694,768</u>
Fund balance end of year	<u><u>644,827</u></u>	<u><u>91,268</u></u>	<u><u>736,095</u></u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Interest	1,103	137	-	1,240
Athletics and cheerleading	14,836	132,686	134,563	12,959
Boys basketball	1,900	2,100	2,254	1,746
Football	10	8,886	3,356	5,540
Boys track	10	1,590	1,403	197
Wrestling	10	100	-	110
Girls basketball	4,190	8,853	6,545	6,498
Volleyball	10	2,690	2,700	-
Girls track	1,072	1,010	1,177	905
Cheer fundraising	-	500	-	500
Sp. Ed. wind suit	116	-	-	116
Elementary activities	25,906	16,193	17,673	24,426
Elementary juice	4,676	-	-	4,676
Elementary student council	1,260	-	-	1,260
Elementary book fair	1,306	-	-	1,306
FFA	5,957	23,639	27,051	2,545
HS activities	1,185	4,907	2,292	3,800
HS band	1,437	3,542	4,979	-
HS home ec. awards	1	-	-	1
HS color guard	831	1,254	647	1,438
HS music	3,754	2,569	2,517	3,806
HS marketing	1,818	8,311	9,497	632
HS student council	1,339	4,346	4,109	1,576
Class of 2012	563	684	1,231	16
MS activities	7,869	17,906	21,646	4,129
MS band and chorus	1,917	2,904	1,302	3,519
MS history club	14	31,825	31,654	185
MS industrial arts	82	-	-	82
MS memory book	649	1,551	1,590	610
MS student council	979	1,471	1,068	1,382
MS musical	566	359	714	211
Spanish club	599	-	-	599
Special needs	1,645	-	-	1,645
Speech and drama	2,969	4,539	6,415	1,093
Rotary corner funds	4,557	5,478	4,944	5,091
Yearbook	500	12,108	9,871	2,737
Fall musical	3,501	9,383	8,890	3,994
Spring play	2,500	184	184	2,500
Class of 2011	170	334	504	-
Class of 2010	15	-	15	-
Student activity tickets	-	11,020	11,020	-

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, 2011

<u>Account</u>	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
Class of 2013	245	280	-	525
Class of 2014	-	270	-	270
Baseball field improvement	3,777	5,510	6,141	3,146
Chicago trip	634	-	-	634
Total	<u>106,478</u>	<u>329,119</u>	<u>327,952</u>	<u>107,645</u>

## FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Nine Years

	Modified Accrual Basis								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:									
Local sources:									
Local tax	5,274,059	4,655,248	4,368,458	4,056,257	3,959,689	3,954,579	3,787,667	3,221,127	3,355,181
Tuition	885,345	890,431	998,866	916,426	838,885	777,886	769,041	878,311	796,864
Other	652,398	653,205	720,366	677,252	704,043	583,879	487,027	551,272	586,160
State sources	6,962,898	6,591,098	7,159,098	7,065,215	6,837,949	6,841,188	6,442,267	6,054,777	6,353,442
Federal sources	785,076	1,040,860	235,541	184,775	323,564	223,498	323,357	210,706	190,668
Total revenues	<u>14,559,776</u>	<u>13,830,842</u>	<u>13,482,329</u>	<u>12,899,925</u>	<u>12,664,130</u>	<u>12,381,030</u>	<u>11,809,359</u>	<u>10,916,193</u>	<u>11,282,315</u>
Expenditures:									
Instruction:									
Regular	5,117,631	4,819,039	4,772,182	4,851,047	4,872,995	4,638,900	4,340,606	4,166,255	4,000,199
Special	2,356,980	2,436,208	2,459,510	2,338,779	2,247,424	2,121,876	2,346,828	2,276,276	2,265,211
Other	1,663,312	1,594,213	1,537,882	1,288,204	1,199,493	1,145,501	807,658	777,055	807,713
Support services:									
Student	245,663	238,955	283,483	238,398	232,767	227,634	237,857	216,622	218,566
Instructional staff	248,695	360,366	412,992	441,907	345,894	410,126	452,861	384,480	364,394
Administration	1,148,168	1,073,213	1,095,459	1,158,243	1,157,573	1,072,482	926,806	916,879	905,419
Operation and maintenance	1,010,773	992,533	943,838	948,200	959,939	891,072	880,312	905,573	783,034
Transportation	513,137	420,011	432,309	457,783	508,876	488,992	459,071	464,650	415,040
Other expenditures:									
Facilities acquisition	542,798	219,568	314,901	719,273	757,699	392,877	1,481,485	2,797,704	15,191
Long-term debt:									
Principal	225,000	220,000	373,579	303,151	266,510	248,718	261,458	306,316	544,687
Interest and other charges	72,115	79,105	92,483	102,500	111,063	116,066	123,345	130,335	44,668
AEA flowthrough	531,812	537,820	457,736	441,706	432,789	423,738	404,063	398,349	418,813
Total expenditures	<u>13,676,084</u>	<u>12,991,031</u>	<u>13,176,354</u>	<u>13,289,191</u>	<u>13,093,022</u>	<u>12,177,982</u>	<u>12,722,350</u>	<u>13,740,494</u>	<u>10,782,935</u>

See accompanying independent auditor's report.

## FOREST CITY COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY11	40,484
National School Lunch Program (non-cash)	10.555	FY11	49,426
National School Lunch Program	10.555	FY11	194,620
Summer Food Service Program for Children	10.559	FY11	1,807
			<u>286,337</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY11	127,705
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY11	55,560
			<u>183,265</u>
Safe and Drug Free Schools and Communities - National Programs	84.184	FY11	718
Improving Teacher Quality State Grants	84.367	FY11	46,268
Grants for State Assessments and Related Activities	84.369	FY11	7,612
State Fiscal Stabilization Fund Cluster:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY11	69,872
ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	84.397	FY11	57,634
			<u>127,506</u>
Education Jobs Fund	84.410	FY11	245,522
Area Education Agency #267:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY11	58,880
ARRA - Special Education Grants to States, Recovery Act	84.391	FY11	106,183
			<u>165,063</u>
Mason City Community School District:			
Career and Technical Education - Basic Grants to States	84.048	FY11	9,098
Total			<u><u>1,071,389</u></u>

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

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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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 13, 2012. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 11-II-A, 11-II-B and 11-II-C to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 11-II-D to be a significant deficiency.

#### 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, 2011 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, and 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 13, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct  
and Material Effect on 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 Forest City Community School District's compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Forest City Community School District's major federal programs for the year ended June 30, 2011. 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 grants 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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 grants 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 to determine the auditing procedures for the purpose of

expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in Part III of the accompanying Schedule of Findings and Questioned Costs as items 11-III-A and 11-III-B.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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. We did not audit Forest City Community School District's responses and, accordingly, we express no opinion on the responses.

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, and 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 13, 2012

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance 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. No material weaknesses were reported.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Title I Part A Cluster
    - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
    - CFDA Number 84.389 – ARRA – Title I Grants to Local Educational Agencies, Recovery Act
  - Special Education Cluster (IDEA)
    - CFDA Number 84.027 – Special Education – Grants to States
    - CFDA Number 84.391 – ARRA - Special Education Grants to States, Recovery Act
  - CFDA Number 84.410 – Education Jobs Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Forest City Community School District did not qualify as a low-risk auditee.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

11-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, payroll processing, 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.

11-II-B Check Signing: We noted that the District uses its computer software to print the signatures of the Board President and Board Secretary on checks, as the checks are printed by the computer. It is possible for one person to enter invoices, issue the command to print checks and to receive the checks from the computer center. This practice negates the internal control procedure established by requiring two signatures on a check.

Recommendation: We recommend that this practice cease. The Board may designate another person to cosign checks when the Board President is not available.

District Response: We will discuss methods to remain efficient, yet have adequate controls.

Conclusion: Response accepted.

11-II-C Financial Reporting: During the audit, we identified material amounts of prior year audit adjustments that had not been posted to the accounting records, material amounts of revenues and expenditures that were recorded in the incorrect fund, receivables and payables that were understated and scholarship certificates of deposit that are not recorded in the accounting records. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation: The District should implement procedures to ensure all revenues and expenditures are posted to the correct fund and to ensure that certificates of deposit, receivables and payable balances are correctly stated in the District's financial statements.

District Response: We will double check these in the future to avoid misclassifying revenues and expenditures and to avoid misstating balance sheet accounts.

Conclusion: Response accepted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

11-II-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, 2011

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiencies:

CFDA Number 84.010: Title I Grants to Local Educational Agencies  
CFDA Number 84.389: ARRA – Title I Grants to Local Educational Agencies, Recovery Act  
Federal Award Year: 2011  
U.S. Department of Education  
Passed through the Iowa Department of Education

CFDA Number 84.027: Special Education – Grants to States (IDEA, Part B)  
CFDA Number 84.391: ARRA – Special Education Grants to States (IDEA, Part B) Recovery Act  
Federal Award Year: 2011  
U.S. Department of Education  
Passed through Area Education Agency #267

CFDA Number 84.410: Education Jobs Fund  
Federal Award Year: 2011  
U.S. Department of Education  
Passed through the Iowa Department of Education

11-III-A Accounting for Expenditures: Federal program expenditures should be identified as such and should be posted directly to specific federal expenditure accounts when incurred. ARRA – Title I, Special Education Cluster, and Education Jobs Fund program expenditures were not charged directly to specific federal expense accounts as the expenditures were incurred. The expenditures were reclassified to the correct federal expenditure accounts at year-end.

Recommendation: The District should record federal expenditures to specific federal expenditures accounts as the expenditures are incurred.

District Response: We will revise our procedures for recording federal program expenditures.

Conclusion: Response accepted.

CFDA Number 84.010: Title I Grants to Local Educational Agencies  
CFDA Number 84.389: ARRA – Title I Grants to Local Educational Agencies, Recovery Act  
Federal Award Year: 2011  
U.S. Department of Education  
Passed through the Iowa Department of Education

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

11-III-B Federal Grant Reporting: The District receives various federal grants each year. Some of the grants are received annually and others are for only a year or two. However, all of these grants require that the District's accounting records track how each grant was spent and require that any grant expenditure reporting to state or federal officials match the District's accounting records. We noted that the line items for salaries and benefits on the fiscal year 2011 Title I financial report to the Iowa Department of Education did not match the related line items in the District's general ledger accounting records. Total Title I expenditures reported for fiscal year 2011 did match on the accounting records.

Recommendation: Administrators and other employees responsible for grant administration and reporting and the accounting department must work together to ensure that all grant expenses are properly reported in the District's accounting records and amounts included in required reports are correct.

District Response: We will improve our financial reporting for grant expenditures.

Conclusion: Response accepted.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

11-IV-A Certified Budget: Expenditures for the year ended June 30, 2011, exceeded the amount budgeted in the instruction function.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

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

11-IV-C Travel Expenses: We noted a \$712 travel advance to a coach for meals and parking at a tournament. There was no supporting documentation for the meal expenditures or parking.

Recommendation: If activity sponsors purchase meals or incur other expenses at tournaments, they should turn in receipts for reimbursement after the trip or use a district credit card for the purchases.

District Response: We will investigate methods to improve our controls over expenditures for tournaments and student trips.

Conclusion: Response accepted.

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

11-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.

11-IV-F Board Minutes: During our testing we noted that the minutes for most of the board meetings held during fiscal year 2011 were 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.

11-IV-G Certified Enrollment: The number of resident students reported to the Iowa Department of Education on the Certified Enrollment Certification for October 2010, was overstated by one student. A foreign exchange student was incorrectly counted.

Recommendation: The District should review its procedures for tracking foreign exchange students.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting (continued):

District Response: We have revised our procedures for classifying foreign exchange students.

Conclusion: Response accepted.

11-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.

11-IV-I 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.

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

11-IV-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

According to administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

Recommendation: All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

District Response: We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion: Response accepted.

1-IV-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the following information includes the amounts reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit:

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

	\$	\$
Beginning balance		687,995
Revenues/transfers in:		
Statewide sales, services and use tax revenue	795,330	
Interest	1,415	796,745
Expenditures/transfers out:		
School infrastructure construction	542,798	
Transfers to debt service fund	297,115	839,913
Ending balance		644,827

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E of 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
	\$	\$
Debt service Levy	1.1529	297,115

11-IV-M 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 accounts in the Student Activity Fund that may belong more appropriately in other 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.

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

11-IV-N Bank Accounts: All public funds are the legal responsibility of the board, board secretary and board treasurer. All public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, publishing and investing. A bank account not belonging to the school was listed on a bank confirmation.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

Recommendation: The District should implement procedures to ensure compliance with statutory requirements for accounting and reporting public funds. All monies that belong to the District should be included in the District's accounting records and subject to the legal requirements for public funds. Money that does not belong to the District should not be invested using the District's name or the District's federal identification number.

District Response: We have talked to the bank about this issue.

Conclusion: Response accepted.

11-IV-O Fees Charged: A Iowa Department of Education declaratory order limits fees that schools may charge to the following: textbooks, school supplies, eye protective devices, ear protective devices, summer school courses, driver education courses and discretionary transportation. We noted that the District is charging all students in grades 9-11 a prom fee and is charging band and vocal students a band and a vocal fee.

Recommendation: The District should review the fees it charges with its attorney to ensure compliance.

District Response: We will review our fees and make any necessary changes to be in compliance with the Code of Iowa.

Conclusion: Response accepted.

11-IV-P Construction Contract Change Orders: We noted that the Board of Directors did not approve change orders.

Recommendation: All contract changes should be approved by the Board and documented in the minutes.

District Response: All future contract changes will be documented in the minutes.

Conclusion: Response accepted.

10-IV-Q Capital Improvements: The Code of Iowa requires that schools follow Chapters 26.14 when the cost of a capital improvement exceeds \$46,000 but is less than \$100,000. This chapter requires that the District obtain competitive quotes. During fiscal year 2011 the District approved a \$94,500 roof project, but did not maintain any documentation that it obtained competitive quotes for the project.

Recommendation: Documentation of the competitive quotes received and the process for selecting the lowest responsive, responsible quotation should be documented and retained by the District.

District Response: We will do this in the future.

Conclusion: Response accepted.