

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

JUNE 30, 2012

- Prepared By -

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

CITY OF FOREST CITY, IOWA

TABLE OF CONTENTS

		<u>PAGE</u>
<u>OFFICIALS</u>		1
<u>INDEPENDENT AUDITOR'S REPORT</u>		2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>		4-8
 <u>BASIC FINANCIAL STATEMENTS:</u>		
	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	9-12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and		
Changes in Cash Balances	B	13-14
Reconciliation of the Statement of Cash Receipts,		
Disbursements and Changes in Cash Balances to the		
Statement of Activities and Net Assets	C	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and		
Changes in Cash Balances	D	16-17
Reconciliation of the Statement of Cash Receipts,		
Disbursements and Changes in Cash Balances to the		
Statement of Activities and Net Assets	E	18
Notes to Financial Statements		19-28
 <u>OTHER INFORMATION:</u>		
Budgetary Comparison Schedule of Receipts, Disbursements and		
Changes in Balances - Budget and Actual (Cash Basis) - All		
Governmental Funds and Proprietary Funds		29-30
Notes to Other Information - Budgetary Reporting		31
 <u>SUPPLEMENTARY INFORMATION:</u>		
	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in		
Cash Balances - Nonmajor Governmental Funds	1	32-33
Schedule of Cash Receipts, Disbursements and Changes in		
Cash Balances - Nonmajor Proprietary Funds	2	34-35
Schedule of Indebtedness	3	36-37
Bond and Note Maturities	4	38-39
Schedule of Receipts by Source and Disbursements by		
Function - All Governmental Funds.	5	40-41
 <u>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER</u>		
<u>FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS</u>		
<u>BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN</u>		
<u>ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u>		
		42-43
<u>SCHEDULE OF FINDINGS</u>		44-46

CITY OF FOREST CITY, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2012)		
George Wilson	Mayor	January 2012
Suzanne Murphy	Mayor Pro tem	January 2012
Jerome Clouse	Council Member	January 2012
Rick Skjeie	Council Member	January 2012
Ronald Holland	Council Member	January 2014
Richard Honsey	Council Member	January 2014
Kay Sorensen	Council Member	January 2014
Jon West	Council Member	January 2014
Paul Boock	Clerk/Treasurer	Indefinite
Steve Bakke	Attorney	Indefinite
(After January 2012)		
Rick Skjeie	Mayor	January 2014
Suzanne Murphy	Mayor Pro tem	January 2016
Ronald Holland	Council Member	January 2014
Richard Honsey	Council Member	January 2014
Kay Sorensen	Council Member	January 2014
Jon West	Council Member	January 2014
Jerome Clouse	Council Member	January 2016
Steve Hall	Council Member	January 2016
Paul Boock	Clerk/Treasurer	Indefinite
Steve Bakke	Attorney	Indefinite



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

E-mail: rlp@fi.ai.net

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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Forest City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated November 28, 2012 on my consideration of the City of Forest City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 29 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "Larry Pump". The signature is written in a cursive, flowing style.

November 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Forest City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 1%, or approximately \$36,000 from fiscal year 2011 to fiscal year 2012. Operating grants, contributions and restricted interest decreased approximately \$477,000. Charges for services and other general receipts increased approximately \$24,000 and \$317,000, respectively.

Disbursements of the City's governmental activities decreased 9%, or approximately \$462,000, in fiscal year 2012 from fiscal year 2011. Public safety and public works disbursements increased approximately \$441,000 and \$38,000, respectively, while culture and recreation and community and economic development disbursements decreased approximately \$135,000 and \$698,000, respectively.

The City's total cash basis net assets increased 7%, or approximately \$595,000 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$218,000 and the assets of the business type activities increased by approximately \$377,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1,671,000 to approximately \$1,889,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

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

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service	\$ 652	\$ 628
Operating grants, contributions and restricted interest	553	1,030
Capital grants, contributions and restricted interest	146	170
General receipts:		
Property tax	2,383	2,202
Local option sales tax	358	342
Unrestricted interest on investments	22	23
Other general receipts	534	217
Total receipts	<u>\$ 4,648</u>	<u>\$ 4,612</u>
Disbursements:		
Public safety	\$ 1,527	\$ 1,086
Public works	1,306	1,268
Health and social services	17	18
Culture and recreation	722	857
Community and economic development	371	1,069
General government	226	230
Debt service	629	628
Capital projects	10	114
Total disbursements	<u>\$ 4,808</u>	<u>\$ 5,270</u>
Change in cash basis net assets before transfers	\$ (160)	\$ (658)
Transfers, net	<u>378</u>	<u>326</u>
Change in cash basis net assets	\$ 218	\$ (332)
Cash basis net assets beginning of year	<u>1,671</u>	<u>2,003</u>
Cash basis net assets end of year	<u>\$ 1,889</u>	<u>\$ 1,671</u>

The City's total receipts for governmental activities increased 1%, or approximately \$36,000. The total cost of all programs and services decreased by approximately \$462,000, or 9%, with no new programs added this year. The significant decrease in disbursements was primarily the result of capital projects completed in the prior year.

The cost of all governmental activities this year was \$4,807,959 compared to \$5,269,441 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$3,457,258 because some of the cost was paid by those directly benefited from the programs (\$651,547) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$699,154). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2012 from approximately \$1,828,000 to approximately \$1,351,000 principally due to receiving grant proceeds to complete home rehabilitation contracts in the prior year.

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

	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 411	\$ 405
Sewer	613	627
Electric	5,771	5,685
Storm sewer	142	137
General receipts:		
Unrestricted interest on investments	18	39
Other general receipts	34	48
Total receipts	\$ 6,989	\$ 6,941
Disbursements:		
Water	\$ 387	\$ 465
Sewer	575	647
Electric	5,157	4,881
Storm sewer	113	122
Total disbursements	\$ 6,232	\$ 6,115
Change in cash basis net assets before transfers	\$ 757	\$ 826
Transfers, net	(379)	(326)
Change in cash basis net assets	\$ 378	\$ 500
Cash basis net assets beginning of year	6,757	6,257
Cash basis net assets end of year	\$ 7,135	\$ 6,757

Total business type activities receipts for the fiscal year were approximately \$6,989,000 compared to approximately \$6,941,000 last year. This increase was due primarily to the increase in electric charges during the year. The cash balance increased by approximately \$378,000 from the prior year due to the completion of numerous construction projects in fiscal year 2011. Total disbursements for the fiscal year increased by 2% to a total of approximately \$6,232,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$1,858,304, an increase of \$222,712 from last year's total of \$1,635,592. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$176,481 from the prior year to \$1,487,087. This decrease was due to an increase in public safety disbursements.

The Debt Service Fund cash balance increased \$15,947 to \$214,443 during the fiscal year. This increase was due to an increase in special assessments. Bond principal and interest payments increased \$1,143 in fiscal year 2012.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Rental Fund cash balance decreased by \$25,599 to \$1,124,249, due primarily to decreased operating receipts.

The Enterprise, Electric Fund cash balance increased by \$378,504 to \$3,959,974 due to an increase in charges for service.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2012 and resulted in an increase in operating revenue of approximately \$637,250, and an increase in operating disbursements of \$967,500. The City had sufficient cash balances to absorb these additional costs.

The City exceeded the amount budgeted in the public safety function prior to amendment.

DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$7,870,000 in bonds and notes and other long-term debt outstanding, compared to approximately \$8,664,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2012	2011
General obligation notes	\$ 3,805	\$ 4,275
Revenue bonds and notes	3,930	4,220
Capital leases	45	69
Real estate contract	90	100
Total	<u>\$ 7,870</u>	<u>\$ 8,664</u>

Debt decreased as a result of scheduled debt payments. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,805,000 is significantly below its constitutional debt limit of \$9,665,501.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Forest City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF FOREST CITY, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges For Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 1,526,479	\$ -	\$ 137,613	\$ -
Public works	1,306,080	417,773	399,727	145,814
Health and social services	17,037	-	-	-
Culture and recreation	722,427	80,164	16,000	-
Community and economic development	371,083	-	-	-
General government	225,828	-	-	-
Debt service	628,974	153,610	-	-
Capital projects	10,051	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	\$ 4,807,959	\$ 651,547	\$ 553,340	\$ 145,814
Business type activities:				
Water	\$ 387,251	\$ 410,751	\$ -	\$ -
Sewer	575,117	612,859	-	-
Electric	5,157,298	5,770,681	-	-
Storm sewer	113,053	141,514	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total business type activities	\$ 6,232,719	\$6,935,805	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$11,040,678</u>	<u>\$7,587,352</u>	<u>\$ 553,340</u>	<u>\$ 145,814</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (1,388,866)	\$ -	\$ (1,388,866)
(342,766)	-	(342,766)
(17,037)	-	(17,037)
(626,263)	-	(626,263)
(371,083)	-	(371,083)
(225,828)	-	(225,828)
(475,364)	-	(475,364)
(10,051)	-	(10,051)
<u>\$ (3,457,258)</u>	<u>\$ -</u>	<u>\$ (3,457,258)</u>
\$ -	\$ 23,500	\$ 23,500
-	37,742	37,742
-	613,383	613,383
-	28,461	28,461
<u>\$ -</u>	<u>\$ 703,086</u>	<u>\$ 703,086</u>
<u>\$ (3,457,258)</u>	<u>\$ 703,086</u>	<u>\$ (2,754,172)</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

General Receipts and Transfers:

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

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

 Nonexpendable:

 Cemetery perpetual care

 Library trust

 Expendable:

 Streets

 Debt service

 Other purposes

Assigned for aquatic center

Assigned for street

Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 1,377,168	\$ -	\$ 1,377,168
476,311	-	476,311
529,341	-	529,341
357,795	-	357,795
21,883	18,289	40,172
534,204	34,073	568,277
<u>378,500</u>	<u>(378,500)</u>	<u>-</u>
<u>\$ 3,675,202</u>	<u>\$ (326,138)</u>	<u>\$ 3,349,064</u>
\$ 217,944	\$ 376,948	\$ 594,892
<u>1,670,876</u>	<u>6,757,689</u>	<u>8,428,565</u>
<u>\$ 1,888,820</u>	<u>\$ 7,134,637</u>	<u>\$ 9,023,457</u>
\$ 45,829	\$ -	\$ 45,829
114,064	-	114,064
11,068	-	11,068
214,443	660,000	874,443
286,066	990,000	1,276,066
41,848	-	41,848
2,571	-	2,571
<u>1,172,931</u>	<u>5,484,637</u>	<u>6,657,568</u>
<u>\$ 1,888,820</u>	<u>\$ 7,134,637</u>	<u>\$ 9,023,457</u>

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Debt Service</u>
RECEIPTS:		
Property tax	\$ 1,050,919	\$ 476,311
Tax increment financing	-	-
Other city tax	-	-
Licenses and permits	7,670	-
Use of money and property	23,053	-
Intergovernmental	305,427	-
Charges for service	497,937	-
Special assessments	-	153,610
Miscellaneous	480,817	-
Total receipts	<u>\$ 2,365,823</u>	<u>\$ 629,921</u>
DISBURSEMENTS:		
Operating:		
Public safety	\$ 1,526,479	\$ -
Public works	1,306,080	-
Health and social services	17,037	-
Culture and recreation	706,383	-
Community and economic development	103,997	-
General government	225,828	-
Debt service	-	628,974
Capital projects	-	-
Total disbursements	<u>\$ 3,885,804</u>	<u>\$ 628,974</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$(1,519,981)</u>	<u>\$ 947</u>
Other financing sources (uses):		
Operating transfers in	\$ 1,343,500	\$ 15,000
Operating transfers out	-	-
Total other financing sources (uses)	<u>\$ 1,343,500</u>	<u>\$ 15,000</u>
Net change in cash balances	\$ (176,481)	\$ 15,947
Cash balances beginning of year	<u>1,663,568</u>	<u>198,496</u>
Cash balances end of year	<u>\$ 1,487,087</u>	<u>\$ 214,443</u>
Cash Basis Fund Balances:		
Nonspendable	\$ -	\$ -
Restricted for:		
Urban renewal purposes	-	-
Debt service	-	214,443
Streets	-	-
Other purposes	-	-
Assigned for aquatic center	-	-
Assigned for streets	-	-
Unassigned	<u>1,487,087</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 1,487,087</u>	<u>\$ 214,443</u>

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total</u>
\$ 326,249	\$ 1,853,479
529,341	529,341
400,659	400,659
-	7,670
206	23,259
394,984	700,411
-	497,937
-	153,610
4,988	485,805
<u>\$ 1,656,427</u>	<u>\$ 4,652,171</u>
\$ -	\$ 1,526,479
-	1,306,080
-	17,037
16,044	722,427
267,086	371,083
-	225,828
-	628,974
10,051	10,051
<u>\$ 293,181</u>	<u>\$ 4,807,959</u>
<u>\$ 1,363,246</u>	<u>\$ (155,788)</u>
\$ 5,000	\$ 1,363,500
(985,000)	(985,000)
<u>\$ (980,000)</u>	<u>\$ 378,500</u>
\$ 383,246	\$ 222,712
(226,472)	1,635,592
<u>\$ 156,774</u>	<u>\$ 1,858,304</u>
\$ 143,829	\$ 143,829
84,285	84,285
-	214,443
11,068	11,068
201,781	201,781
41,848	41,848
2,571	2,571
(328,608)	1,158,479
<u>\$ 156,774</u>	<u>\$ 1,858,304</u>

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Total governmental funds cash balances (page 14) \$ 1,858,304

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

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

30,516

Cash basis net assets of governmental activities (page 12) \$ 1,888,820

Net change in cash balances (page 14) \$ 222,712

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

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

(4,768)

Change in cash balance of governmental activities (page 12) \$ 217,944

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise	
	Sewer Rental	Electric
Operating receipts:		
Charges for service	\$ 612,859	\$ 5,770,681
Miscellaneous	-	-
Total operating receipts	\$ 612,859	\$ 5,770,681
Operating disbursements:		
Business type activities	456,827	4,889,306
Excess of operating receipts over operating disbursements	\$ 156,032	\$ 881,375
Non-operating receipts (disbursements):		
Interest on investments	\$ 5,159	\$ 10,269
Miscellaneous	-	29,852
Debt service	(118,290)	(267,992)
Net non-operating receipts (disbursements)	\$ (113,131)	\$ (227,871)
Excess (deficiency) of receipts over (under) disbursements	\$ 42,901	\$ 653,504
Other financing uses:		
Operating transfers out	(68,500)	(275,000)
Net change in cash balances	\$ (25,599)	\$ 378,504
Cash balances beginning of year	1,149,848	3,581,470
Cash balances end of year	\$1,124,249	\$ 3,959,974
Cash Basis Fund Balances:		
Restricted for debt service	\$ -	\$ -
Committed for:		
Water improvement	-	-
Sewer	-	-
Electric	-	-
Storm sewer	-	-
Unrestricted	1,124,249	3,959,974
Total cash basis fund balances	\$1,124,249	\$ 3,959,974

See Notes to Financial Statements.

		<u>Internal Service</u>		
<u>Nonmajor</u>	<u>Total</u>	<u>Clearing</u>	<u>Payroll Clearing</u>	<u>Total</u>
\$ 548,030	\$ 6,931,570	\$ -	\$ -	\$ -
4,235	4,235	-	3,067,009	3,067,009
<u>\$ 552,265</u>	<u>\$ 6,935,805</u>	<u>\$ -</u>	<u>\$ 3,067,009</u>	<u>\$ 3,067,009</u>
 413,356	 5,759,489	 -	 -	 -
 \$ 138,909	 \$ 1,176,316	 \$ -	 \$ 3,067,009	 \$ 3,067,009
\$ 2,861	\$ 18,289	\$ -	\$ -	\$ -
7,144	36,996	5,646	(3,080,346)	(3,074,700)
(86,948)	(473,230)	-	-	-
<u>\$ (76,943)</u>	<u>\$ (417,945)</u>	<u>\$ 5,646</u>	<u>\$ (3,080,346)</u>	<u>\$ (3,074,700)</u>
\$ 61,966	\$ 758,371	\$ 5,646	\$ (13,337)	\$ (7,691)
(35,000)	(378,500)	-	-	-
\$ 26,966	\$ 379,871	\$ 5,646	\$ (13,337)	\$ (7,691)
2,004,745	6,736,063	-	56,910	56,910
<u>\$ 2,031,711</u>	<u>\$ 7,115,934</u>	<u>\$ 5,646</u>	<u>\$ 43,573</u>	<u>\$ 49,219</u>
\$ 660,000	\$ 660,000	\$ -	\$ -	\$ -
50,000	50,000	-	-	-
350,000	350,000	-	-	-
500,000	500,000	-	-	-
90,000	90,000	-	-	-
381,711	5,465,934	5,646	43,573	49,219
<u>\$ 2,031,711</u>	<u>\$ 7,115,934</u>	<u>\$ 5,646</u>	<u>\$ 43,573</u>	<u>\$ 49,219</u>

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Total enterprise funds cash balances (page 17) \$7,115,934

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

The Internal Service Fund is used by management to charge costs to individual funds. A portion of the assets of the Internal Service Fund are included in business type activities in the Statement of Activities and Net Assets.

18,703

Cash basis net assets of business type activities (page 12) \$7,134,637

Net change in cash balances (page 17) \$ 379,871

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

The Internal Service Fund is used by management to charge costs to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

(2,923)

Change in cash basis net assets of business type activities (page 12) \$ 376,948

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

The Enterprise, Sewer Rental Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

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

The City also reports the following additional proprietary funds:

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

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

C. Measurement Focus and Basis of Accounting

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

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

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent 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 City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the public safety function prior to amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(2) Cash and Pooled Investments - continued

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

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

(3) Bonds and Notes Payable

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

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Bonds and Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 485,000	\$ 142,376	\$ 295,000	\$ 170,086	\$ 780,000	\$ 312,462
2014	505,000	126,211	315,000	158,057	820,000	284,268
2015	525,000	108,913	320,000	145,043	845,000	253,956
2016	400,000	90,266	335,000	131,681	735,000	221,947
2017	415,000	75,866	355,000	117,529	770,000	193,395
2018-2022	905,000	209,198	1,585,000	353,740	2,490,000	562,938
2023-2026	570,000	63,102	725,000	66,670	1,295,000	129,772
Total	<u>\$3,805,000</u>	<u>\$ 815,932</u>	<u>\$ 3,930,000</u>	<u>\$1,142,806</u>	<u>\$ 7,735,000</u>	<u>\$ 1,958,738</u>

Revenue Bonds and Notes

The City has pledged future electric customer receipts, net of specified operating disbursement, to repay \$3,500,000 in electric revenue bonds issued in May 2005. Proceeds from the bonds provided financing for constructing improvements to the municipal electric plant. The bonds are payable solely from electric customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,445,270. For the current year, principal and interest paid and total customer net receipts were \$267,492 and \$881,375, respectively.

The City has pledged future storm sewer customer receipts, net of specified operating disbursement, to repay \$900,000 in storm sewer revenue bonds issued in May 2006. Proceeds from the bonds provided financing for constructing improvements and extensions to the municipal storm sewer utility. The bonds are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$690,814. For the current year, principal and interest paid and total customer net receipts were \$86,448 and \$115,409, respectively.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(3) Bonds and Notes Payable - continued

The City has pledged future sewer customer receipts, net of specified operating disbursement, to repay \$1,030,000 in sewer revenue notes issued in May 2008. Proceeds from the notes provided financing for constructing improvements and extensions to the municipal sewer utility. The notes are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$936,722. For the current year, principal and interest paid and total customer net receipts were \$117,790 and \$156,032, respectively.

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

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

**CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(3) Bonds and Notes Payable - continued

Real Estate Contract

On February 11, 2011, the City of Forest City acquired the local 18 hole golf course known as Bear Creek Run Golf Club for \$250,000. The terms of the purchase were \$150,000 down payment with the balance of \$100,000 payable in annual installments of \$10,000 per annum. These payments are then assigned to Bear Creek Run Golf Club, Inc. for purposes of management of the golf course. The golf course contract is non-interest bearing with the final payment due February 11, 2021. The contract balance at June 30, 2012 was \$90,000.

(4) Capital Leases

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

<u>Year ended June 30,</u>	
2013	\$ 27,998
2014	<u>20,769</u>
Total minimum lease payments	\$ 48,767
Amounts representing interest	<u>4,030</u>
Present value of net minimum lease payments	 <u>\$ 44,737</u>

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$187,133, \$162,815 and \$155,154, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits and dental insurance for employees and retirees and their spouses. There are 41 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(6) Other Postemployment Benefits (OPEB) - continued

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$710 for single coverage and \$1,286 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$397,971 and plan members eligible for benefits contributed \$43,559 to the plan.

(7) Industrial Development Revenue Bonds

The City has issued a total of \$851,865 of Health Care Facility Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were paid off at June 30, 2012.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp and personal leave hours for subsequent use or for payment upon termination, retirement or death at rates dependent on years of service. However, sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for unrecognized accrued employee benefits at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$116,951
Compensatory time	35,535
Personal	5,117
Total	<u>\$157,603</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(9) Risk Management

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

(10) Economic Development

On October 6, 2008, the City loaned \$15,000 to Cabin Coffee. The loan proceeds were used to start up and operate a business in Forest City. The loan is a non-interest bearing loan. Cabin Coffee is obligated to repay the City in annual installments of \$3,000 beginning July 1, 2009. The loan balance at June 30, 2012 was \$3,500.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(10) Economic Development - continued

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

On July 1, 2009, the City loaned \$15,000 to Nu 2 U Consignment. The loan proceeds were used to start up and operate a consignment business in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2010 and 2011. Nu 2 U Consignment is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. The loan balance at June 30, 2012 was \$12,177.

On July 1, 2009, the City loaned \$15,000 to Hansen Hardware. The loan proceeds were used to operate a hardware business in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2010 and 2012. Hansen Hardware is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. The loan balance at June 30, 2012 was \$11,937.

On July 1, 2009, the City loaned \$15,000 to Tora Buffington. The loan proceeds were used to start up and operate a book store in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2010 and 2011. Tora Buffington is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. The loan balance at June 30, 2012 was \$12,536.

On May 1, 2010, the City loaned \$15,000 to Standard Exchange. The loan proceeds were used to start up and operate a business in Forest City. The loan bears interest at 3%. Interest only payments are required on May 1, 2011 and 2012. Standard Exchange is obligated to repay the City in monthly installments of \$270 beginning July 1, 2012. The loan balance at June 30, 2012 was \$15,000.

On July 1, 2009, the City loaned \$15,000 to Scoopy Doos Ice Cream and More. The loan proceeds were used to start up and operate an ice cream business in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2011 and 2012. Scoopy Doos Ice Cream and More is obligated to repay the City in monthly installments of \$270 beginning July 1, 2012. The loan balance at June 30, 2012 was \$15,000.

On September 15, 2010, the City loaned \$15,000 to Digitallic. The loan proceeds were used to start up and operate a photo processing and sales store in Forest City. The loan bears interest at 3%. Interest only payments are required on September 15, 2011 and 2012. Digitallic is obligated to repay the City in monthly installments of \$270 beginning October 1, 2012. The loan balance at June 30, 2012 was \$15,000.

On February 23, 2011, the City loaned \$15,000 to Rockledge Holdings. The loan proceeds were used to improve a downtown commercial building in Forest City. The loan bears interest at 3%. Interest only payments are required on February 23, 2012 and 2013. Rockledge Holdings is obligated to repay the City in monthly installments of \$270 beginning July 1, 2013. The loan balance at June 30, 2012 was \$15,000.

**CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(10) Economic Development - continued

On November 20, 2002, the City loaned \$200,000 to CDI, Inc. The loan proceeds were used to start up and operate a painting facility in Forest City. The loan bears interest at 5%. CDI, Inc. is obligated to repay the City in monthly installments of \$2,121 beginning January 1, 2004. The loan balance at June 30, 2012 was \$14,605.

(11) Forgivable Loans

The City entered into an economic development agreement with CDI, Inc. on November 20, 2002. The City loaned the corporation \$100,000 to start up and operate a painting facility in Forest City. CDI, Inc. is obligated to pay interest only on the loan at 5%. The City has agreed to forgive the loan in \$50,000 increments in 2007 and 2013 provided that CDI, Inc. is in compliance with the agreement. The remaining balance was forgiven during the year ended June 30, 2012.

On August 31, 2004, the City loaned \$52,000 to CDI, Inc. The loan proceeds were used to operate a painting facility in Forest City. The amount loaned by the City is forgivable and had a balance of \$52,000 at June 30, 2012.

(12) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 420,000
	Employee Benefits	320,000
	Local Option Sales Tax	185,000
	Hotel Motel Tax	55,000
		<u>\$ 980,000</u>
General	Enterprise:	
	Water	\$ 15,000
	Sewer Rental	68,500
	Electric	275,000
	Storm Sewer	5,000
		<u>\$ 363,500</u>
Debt Service	Enterprise:	
	Water	\$ 15,000
Capital Projects:	Special Revenue:	
Street Improvement	Road Use Tax	\$ 5,000
Total		<u><u>\$1,363,500</u></u>

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

(13) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,257 during the year ended June 30, 2012.

CITY OF FOREST CITY, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(14) **Deficit Balances**

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$328,608 at June 30, 2012. The deficit will be eliminated upon receipt of property taxes and other receipts.

(15) **Golf Course Management Agreement**

On February 11, 2011, the City entered into a management agreement with Bear Creek Run Golf Club, Inc. (Manager) for the purpose of managing the City owned 18 hole golf course. This ten year agreement that runs through March 31, 2021 stipulates that the Manager has the exclusive privilege and obligation to operate the Golf Course, including, but not limited to, maintenance, memberships, cart rentals, restaurant and banquet facilities, merchandise and special events. The City receives no payment for this agreement.

(16) **Commitments**

At June 30, 2012, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Runway Displacement	\$ 124,740	\$ 111,269
2011 Street Resurfacing	115,358	105,852
Airport Taxiway	122,898	-
Total	<u>\$ 362,996</u>	<u>\$ 217,121</u>

(17) **Litigation**

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

(18) **Subsequent Events**

On July 27, 2012, the City awarded the 2011 Sanitary Sewer Expansion Project in the amount of \$895,590.

The City awarded the 2012 Downtown Street Improvement contract on August 6, 2012 in the amount of \$241,829. Also, the City approved the purchase of radio equipment for the public works department in the amount of \$17,664.

On August 20, 2012, the City approved the purchase of a dump truck in the amount of \$12,000.

Other Information

CITY OF FOREST CITY, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 OTHER INFORMATION
 YEAR ENDED JUNE 30, 2012

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 1,853,479	\$ -	\$ -
Tax increment financing	529,341	-	-
Other city tax	400,659	-	-
Licenses and permits	7,670	-	-
Use of money and property	23,259	18,289	-
Intergovernmental	700,411	-	-
Charges for service	497,937	6,935,805	-
Special assessments	153,610	-	-
Miscellaneous	485,805	3,109,651	3,072,655
Total receipts	<u>\$ 4,652,171</u>	<u>\$10,063,745</u>	<u>\$ 3,072,655</u>
DISBURSEMENTS:			
Public safety	\$ 1,526,479	\$ -	\$ -
Public works	1,306,080	-	-
Health and social services	17,037	-	-
Culture and recreation	722,427	-	-
Community and economic development	371,083	-	-
General government	225,828	-	-
Debt service	628,974	-	-
Capital projects	10,051	-	-
Business type activities	-	9,313,065	3,080,346
Total disbursements	<u>\$ 4,807,959</u>	<u>\$ 9,313,065</u>	<u>\$ 3,080,346</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (155,788)	\$ 750,680	\$ (7,691)
Other financing sources, net	<u>378,500</u>	<u>(378,500)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 222,712	\$ 372,180	\$ (7,691)
Balances beginning of year	<u>1,635,592</u>	<u>6,792,973</u>	<u>56,910</u>
Balances end of year	<u>\$ 1,858,304</u>	<u>\$ 7,165,153</u>	<u>\$ 49,219</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 1,853,479	\$ 1,802,138	\$ 1,802,138	\$ 51,341
529,341	448,467	550,467	(21,126)
400,659	353,866	438,866	(38,207)
7,670	6,275	6,275	1,395
41,548	54,000	54,000	(12,452)
700,411	855,700	859,000	(158,589)
7,433,742	7,060,117	7,060,117	373,625
153,610	60,000	141,000	12,610
522,801	296,920	662,870	(140,069)
<u>\$11,643,261</u>	<u>\$ 10,937,483</u>	<u>\$11,574,733</u>	<u>\$ 68,528</u>
\$ 1,526,479	\$ 1,243,155	\$ 1,873,155	\$ 346,676
1,306,080	1,567,050	1,607,050	300,970
17,037	17,500	17,500	463
722,427	673,841	773,841	51,414
371,083	797,646	862,646	491,563
225,828	242,945	262,945	37,117
628,974	628,674	629,174	200
10,051	-	12,000	1,949
6,232,719	6,659,672	6,759,672	526,953
<u>\$11,040,678</u>	<u>\$11,830,483</u>	<u>\$12,797,983</u>	<u>\$ 1,757,305</u>
\$ 602,583	\$ (893,000)	\$(1,223,250)	\$ 1,825,833
<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
\$ 602,583	\$ (893,000)	\$(1,223,250)	\$ 1,825,833
<u>8,371,655</u>	<u>5,775,013</u>	<u>10,657,026</u>	<u>(2,285,371)</u>
<u>\$ 8,974,238</u>	<u>\$ 4,882,013</u>	<u>\$ 9,433,776</u>	<u>\$ (459,538)</u>

CITY OF FOREST CITY, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$967,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in public safety function prior to amendment.

Supplementary Information

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Special				
	Tax Increment Financing	Road Use Tax	Employee Benefits	Local Option Sales Tax	Hotel Motel Tax
RECEIPTS:					
Property tax	\$ -	\$ -	\$ 303,416	\$ -	\$ -
Tax increment financing	529,341	-	-	-	-
Other city tax	-	-	-	357,795	42,864
Use of money and property	-	-	-	-	-
Intergovernmental	-	393,727	-	-	-
Miscellaneous	-	-	-	-	-
Total receipts	<u>\$ 529,341</u>	<u>\$ 393,727</u>	<u>\$ 303,416</u>	<u>\$ 357,795</u>	<u>\$ 42,864</u>
DISBURSEMENTS:					
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -
Community and economic development	238,868	-	-	-	28,218
Capital projects	-	-	-	-	-
Total disbursements	<u>\$ 238,868</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,218</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 290,473</u>	<u>\$ 393,727</u>	<u>\$ 303,416</u>	<u>\$ 357,795</u>	<u>\$ 14,646</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Operating transfers out	-	(425,000)	(320,000)	(185,000)	(55,000)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (425,000)</u>	<u>\$ (320,000)</u>	<u>\$ (185,000)</u>	<u>\$ (55,000)</u>
Net change in cash balances	\$ 290,473	\$ (31,273)	\$ (16,584)	\$ 172,795	\$ (40,354)
Cash balances beginning of year	(619,081)	42,341	27,107	(62,319)	42,161
Cash balances end of year	<u>\$(328,608)</u>	<u>\$ 11,068</u>	<u>\$ 10,523</u>	<u>\$ 110,476</u>	<u>\$ 1,807</u>
Cash Basis Fund Balances:					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for other purpose	-	11,068	10,523	110,476	1,807
Assigned for aquatic center	-	-	-	-	-
Assigned for street	-	-	-	-	-
Unassigned	(328,608)	-	-	-	-
Total cash basis fund balances	<u><u>\$(328,608)</u></u>	<u><u>\$ 11,068</u></u>	<u><u>\$ 10,523</u></u>	<u><u>\$ 110,476</u></u>	<u><u>\$ 1,807</u></u>

See Accompanying Independent Auditor's Report.

Revenue			Capital Projects		Permanent		Total
Low-Moderate Income	ED/RLF	CDBG	Street Improvement	Aquatic Center	Cemetery Perpetual Care	Library Trust	
\$ 22,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 326,249
-	-	-	-	-	-	-	529,341
-	-	-	-	-	-	-	400,659
-	-	-	-	-	-	206	206
-	-	-	-	-	-	1,257	394,984
-	-	-	-	-	150	4,838	4,988
<u>\$ 22,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ 6,301</u>	<u>\$ 1,656,427</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,044	\$ 16,044
-	-	-	-	-	-	-	267,086
-	-	-	-	10,051	-	-	10,051
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,051</u>	<u>\$ -</u>	<u>\$ 16,044</u>	<u>\$ 293,181</u>
<u>\$ 22,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,051)</u>	<u>\$ 150</u>	<u>\$ (9,743)</u>	<u>\$ 1,363,246</u>
\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
-	-	-	-	-	-	-	(985,000)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (980,000)</u>
\$ 22,833	\$ -	\$ -	\$ 5,000	\$ (10,051)	\$ 150	\$ (9,743)	\$ 383,246
61,452	52,500	10,411	(2,429)	51,899	45,679	123,807	(226,472)
<u>\$ 84,285</u>	<u>\$ 52,500</u>	<u>\$ 10,411</u>	<u>\$ 2,571</u>	<u>\$ 41,848</u>	<u>\$ 45,829</u>	<u>\$ 114,064</u>	<u>\$ 156,774</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,829	\$ 98,000	\$ 143,829
84,285	52,500	10,411	-	-	-	16,064	297,134
-	-	-	-	41,848	-	-	41,848
-	-	-	2,571	-	-	-	2,571
-	-	-	-	-	-	-	(328,608)
<u>\$ 84,285</u>	<u>\$ 52,500</u>	<u>\$ 10,411</u>	<u>\$ 2,571</u>	<u>\$ 41,848</u>	<u>\$ 45,829</u>	<u>\$ 114,064</u>	<u>\$ 156,774</u>

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise			
	Water	Water Sinking	Water Improvement	Sewer Sinking
Operating receipts:				
Charges for service	\$ 406,516	\$ -	\$ -	\$ -
Miscellaneous	4,235	-	-	-
Total operating receipts	<u>\$ 410,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating disbursements:				
Business type activities	<u>387,251</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of operating receipts over operating disbursements	<u>\$ 23,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-operating receipts (disbursements):				
Interest on investments	\$ 1,859	\$ -	\$ -	\$ -
Miscellaneous	7,144	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>\$ 9,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess of receipts over disbursements \$ 32,503	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Other financing uses:				
Operating transfers out	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	<u>\$ 2,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash balances beginning of year	<u>353,341</u>	<u>120,000</u>	<u>50,000</u>	<u>150,000</u>
Cash balances end of year	<u>\$ 355,844</u>	<u>\$ 120,000</u>	<u>\$ 50,000</u>	<u>\$ 150,000</u>
Cash Basis Fund balances:				
Restricted for debt service	\$ -	\$ 120,000	\$ -	\$ 150,000
Committed for:				
Water improvement	-	-	50,000	-
Sewer	-	-	-	-
Electric	-	-	-	-
Storm sewer	-	-	-	-
Unrestricted	<u>355,844</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 355,844</u>	<u>\$ 120,000</u>	<u>\$ 50,000</u>	<u>\$ 150,000</u>

See Accompanying Independent Auditor's Report.

<u>Sewer Reserve</u>	<u>Electric Sinking</u>	<u>Electric Reserve</u>	<u>Electric Capital</u>	<u>Storm Sewer</u>	<u>Storm Sewer Sinking</u>	<u>Storm Sewer Reserve</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 141,514	\$ -	\$ -	\$ 548,030
-	-	-	-	-	-	-	4,235
\$ -	\$ -	\$ -	\$ -	\$ 141,514	\$ -	\$ -	\$ 552,265
-	-	-	-	26,105	-	-	413,356
\$ -	\$ -	\$ -	\$ -	\$ 115,409	\$ -	\$ -	\$ 138,909
\$ -	\$ -	\$ -	\$ -	\$ 1,002	\$ -	\$ -	\$ 2,861
-	-	-	-	-	-	-	7,144
-	-	-	-	(86,948)	-	-	(86,948)
\$ -	\$ -	\$ -	\$ -	\$ (85,946)	\$ -	\$ -	\$ (76,943)
\$ -	\$ -	\$ -	\$ -	\$ 29,463	\$ -	\$ -	\$ 61,966
-	-	-	-	(5,000)	-	-	(35,000)
\$ -	\$ -	\$ -	\$ -	\$ 24,463	\$ -	\$ -	\$ 26,966
350,000	300,000	300,000	200,000	1,404	90,000	90,000	2,004,745
<u>\$ 350,000</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 200,000</u>	<u>\$ 25,867</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$2,031,711</u>
\$ -	\$ 300,000	\$ -	\$ -	\$ -	\$ 90,000	\$ -	\$ 660,000
-	-	-	-	-	-	-	50,000
350,000	-	-	-	-	-	-	350,000
-	-	300,000	200,000	-	-	-	500,000
-	-	-	-	-	-	90,000	90,000
-	-	-	-	25,867	-	-	381,711
<u>\$ 350,000</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 200,000</u>	<u>\$ 25,867</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$2,031,711</u>

CITY OF FOREST CITY, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Essential Corporate Purpose	06-01-03	1.40 - 3.75%	\$1,255,000
Essential Corporate Purpose	12-01-06	3.65 - 4.40	2,000,000
Essential Corporate Purpose	05-01-08	2.60 - 3.70	2,540,000
Revenue Bonds and Notes:			
Electric	05-24-05	4.52%	\$3,500,000
Storm Sewer	05-01-06	3.70 - 4.35	900,000
Sewer	05-01-08	2.80 - 4.10	1,030,000
Capital Leases:			
Dump Truck	10-02-09	4.70%	\$ 93,917
John Deere Lawn Tractor	07-06-10	4.95	18,807
Real Estate Contract:			
Golf Course	02-11-11	0.00%	\$ 100,000
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 515,000	\$ -	\$ 120,000	\$ 395,000	\$ 18,265	\$ -
1,725,000	-	85,000	1,640,000	70,714	-
2,035,000	-	265,000	1,770,000	68,495	-
<u>\$ 4,275,000</u>	<u>\$ -</u>	<u>\$ 470,000</u>	<u>\$ 3,805,000</u>	<u>\$ 157,474</u>	<u>\$ -</u>
\$ 2,710,000	\$ -	\$ 145,000	\$ 2,565,000	\$ 122,492	\$ -
635,000	-	60,000	575,000	26,448	-
875,000	-	85,000	790,000	32,790	-
<u>\$ 4,220,000</u>	<u>\$ -</u>	<u>\$ 290,000</u>	<u>\$ 3,930,000</u>	<u>\$ 181,730</u>	<u>\$ -</u>
\$ 56,375	\$ -	\$ 17,850	\$ 38,525	\$ 2,709	\$ -
12,226	-	6,014	6,212	566	-
<u>\$ 68,601</u>	<u>\$ -</u>	<u>\$ 23,864</u>	<u>\$ 44,737</u>	<u>\$ 3,275</u>	<u>\$ -</u>
\$ 100,000	\$ -	\$ 10,000	\$ 90,000	\$ -	\$ -
<u>\$ 8,663,601</u>	<u>\$ -</u>	<u>\$ 793,864</u>	<u>\$ 7,869,737</u>	<u>\$ 342,479</u>	<u>\$ -</u>

CITY OF FOREST CITY, IOWA
 BOND AND NOTE MATURITIES
 JUNE 30, 2012

G E N E R A L

Year Ending June 30,	Essential Corporate Purpose Issued June 1, 2003		Essential Corporate Purpose Issued December 1, 2006	
	Interest Rates	Amount	Interest Rates	Amount
	2013	3.50%	\$ 125,000	3.80%
2014	3.60	130,000	3.85	95,000
2015	3.75	140,000	3.87	95,000
2016		-	3.90	100,000
2017		-	4.00	105,000
2018		-	4.00	110,000
2019		-	4.05	115,000
2020		-	4.10	115,000
2021		-	4.15	120,000
2022		-	4.20	125,000
2023		-	4.25	135,000
2024		-	4.30	140,000
2025		-	4.35	145,000
2026		-	4.40	150,000
Total		<u>\$ 395,000</u>		<u>\$1,640,000</u>

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

Year Ending June 30,	Electric Issued May 24, 2005		Storm Sewer Issued May 1, 2006	
	Interest Rates	Amount	Interest Rates	Amount
	2013	4.52%	\$ 150,000	4.00%
2014	4.52	160,000	4.05	65,000
2015	4.52	165,000	4.10	65,000
2016	4.52	170,000	4.15	70,000
2017	4.52	180,000	4.20	75,000
2018	4.52	185,000	4.25	75,000
2019	4.52	195,000	4.30	80,000
2020	4.52	205,000	4.35	85,000
2021	4.52	210,000		-
2022	4.52	220,000		-
2023	4.52	230,000		-
2024	4.52	240,000		-
2025	4.52	255,000		-
Total		<u>\$2,565,000</u>		<u>\$ 575,000</u>

See Accompanying Independent Auditor's Report.

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

Essential		
Corporate Purpose		
Issued May 1, 2008		
Interest Rates	Amount	Total
3.10%	\$ 270,000	\$ 485,000
3.20	280,000	505,000
3.35	290,000	525,000
3.50	300,000	400,000
3.60	310,000	415,000
3.70	320,000	430,000
	-	115,000
	-	115,000
	-	120,000
	-	125,000
	-	135,000
	-	140,000
	-	145,000
	-	150,000
	\$ 1,770,000	\$3,805,000

A N D N O T E S

Sewer		
Issued May 1, 2008		
Interest Rates	Amount	Total
3.35%	\$ 85,000	\$ 295,000
3.50	90,000	315,000
3.60	90,000	320,000
3.75	95,000	335,000
3.90	100,000	355,000
4.00	105,000	365,000
4.05	110,000	385,000
4.10	115,000	405,000
	-	210,000
	-	220,000
	-	230,000
	-	240,000
	-	255,000
	\$ 790,000	\$3,930,000

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:				
Property tax	\$1,853,479	\$1,803,228	\$1,805,951	\$1,723,729
Tax increment financing	529,341	354,685	293,081	226,794
Other city tax	400,659	385,194	345,447	423,960
Licenses and permits	7,670	8,122	6,359	8,221
Use of money and property	23,259	32,614	64,016	167,755
Intergovernmental	700,411	1,199,910	998,243	1,365,712
Charges for service	497,937	494,186	459,376	444,825
Special assessments	153,610	99,990	33,748	43,505
Miscellaneous	485,805	233,085	308,069	503,153
Total	<u>\$4,652,171</u>	<u>\$4,611,014</u>	<u>\$4,314,290</u>	<u>\$4,907,654</u>
Disbursements:				
Operating:				
Public safety	\$1,526,479	\$1,076,840	\$1,207,657	\$1,048,450
Public works	1,306,080	1,262,928	1,107,648	1,828,065
Health and social services	17,037	17,622	17,234	20,614
Culture and recreation	722,427	851,228	701,727	605,461
Community and economic development	371,083	1,069,562	1,154,998	359,948
General government	225,828	228,016	236,969	209,378
Debt service	628,974	627,831	625,551	571,188
Capital projects	10,051	114,216	1,552,282	749,167
Total	<u>\$4,807,959</u>	<u>\$5,248,243</u>	<u>\$6,604,066</u>	<u>\$5,392,271</u>

See Accompanying Independent Auditor's Report.

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



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

E-mail: rlp@fi.ai.net

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

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

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated November 28, 2012. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Forest City's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



November 28, 2012

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Post-dated Check - I noted a check that cleared the bank prior to the date the check was issued.

Recommendation - The City should avoid the use of post-dating checks.

Response - We will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

- (B) Petty Cash - The swimming pool petty cash fund did not reconcile to the established balance.

Recommendation - To provide better financial information and control and to assist in locating and correcting errors in a timely manner, the petty cash should be reconciled to the established balance.

Response - We have corrected this.

Conclusion - Response accepted.

- (C) Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as an auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the public safety function prior to amendment. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - We will do this in the future.

Conclusion - Response accepted.

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

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tony Coloff, Cable TV Committee, Owner KIOW Radio Station	Advertising/legal publications	\$2,257

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with Tony Coloff may represent a conflict of interest since the total transaction was over \$1,500 during the fiscal year.

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

Response - We will do this.

Conclusion - Response accepted.

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

- (6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not. However, I noted that the minutes listed disbursements by program, not by fund, as required by Chapter 380.7(3) of the Code of Iowa.

Recommendation - The City should list all disbursements by fund in order to be in compliance with the Code of Iowa.

Response - We will do this.

Conclusion - Response acknowledged.

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2012

Other Findings Related to Required Statutory Reporting: - continued

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

(8) Financial Condition - The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$328,608 at June 30, 2012.

Recommendation - The City should monitor the account and investigate alternatives to eliminate the deficit in order to return it to a sound financial condition.

Response - The account will be monitored in the future.

Conclusion - Response accepted.