FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2012

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FOREST CITY COMMUNITY SCHOOL DISTRICT

Officials

Name	Title	Term Expires
	Board of Education	
	(Before September 2011 Election)	
Dave Bartlett	President	2011
Cindy Carter	Vice President	2013
Gary Ludwig	Board Member	2013
Keila Buffington	Board Member	2011
Sandra Lillquist	Board Member	2013
Eric Kingland	Board Member	2011
Bruce Mielke	Board Member	2011
	(After September 2011 Election)	
Dave Bartlett	President	2015
Cindy Carter	Vice President	2013
Gary Ludwig	Board Member	2013
Keila Buffington	Board Member	2015
Sandra Lillquist	Board Member	2013
Eric Kingland	Board Member	2015
Bruce Mielke	Board Member	2015
	School Officials	
Darwin Lehmann	Superintendent	
Steven Rollefson	District Secretary/Treasurer and Business Manager	

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

Gary E. Horton CPA

902 Central Ave. E.-PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

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, 2012, 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, 2012, 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 April 25, 2013, 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 nine years ended June 30, 2011, (which are not presented herein) and expressed unqualified opinions on those financial statements. The 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 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 our 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 our opinion, the supplementary information 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

April 25, 2013

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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for fiscal 2012 were $12,725,223 while General Fund expenditures were $12,534,692. This resulted in an increase in the District's General Fund balance from $1,423,802 in fiscal 2011 to $1,841,325 in fiscal 2012, or an $417,523 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 my 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 new source of funding will produce approximately $25,285 for the 2012-2013 school year.

- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Hancock County on April 1, 2003 that passed with an 80% yes vote and was effective as of July 1, 2003. This new source of funding will produce approximately $61,352 for the 2012-2013 school year.

- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Winnebago County on January 20, 2004 that passed with a 75% yes vote and will be effective as of July 1, 2004. This new source of funding will produce approximately $696,455 for the 2012-2013 school year.

- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Worth County on April 1, 2004 that passed with an 80% yes vote and will be effective as of July 1, 2004. This new source of funding will produce approximately $53,248 for the 2012-2013 school year.

Overview of the Financial Statements

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

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

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

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

Figure A-1

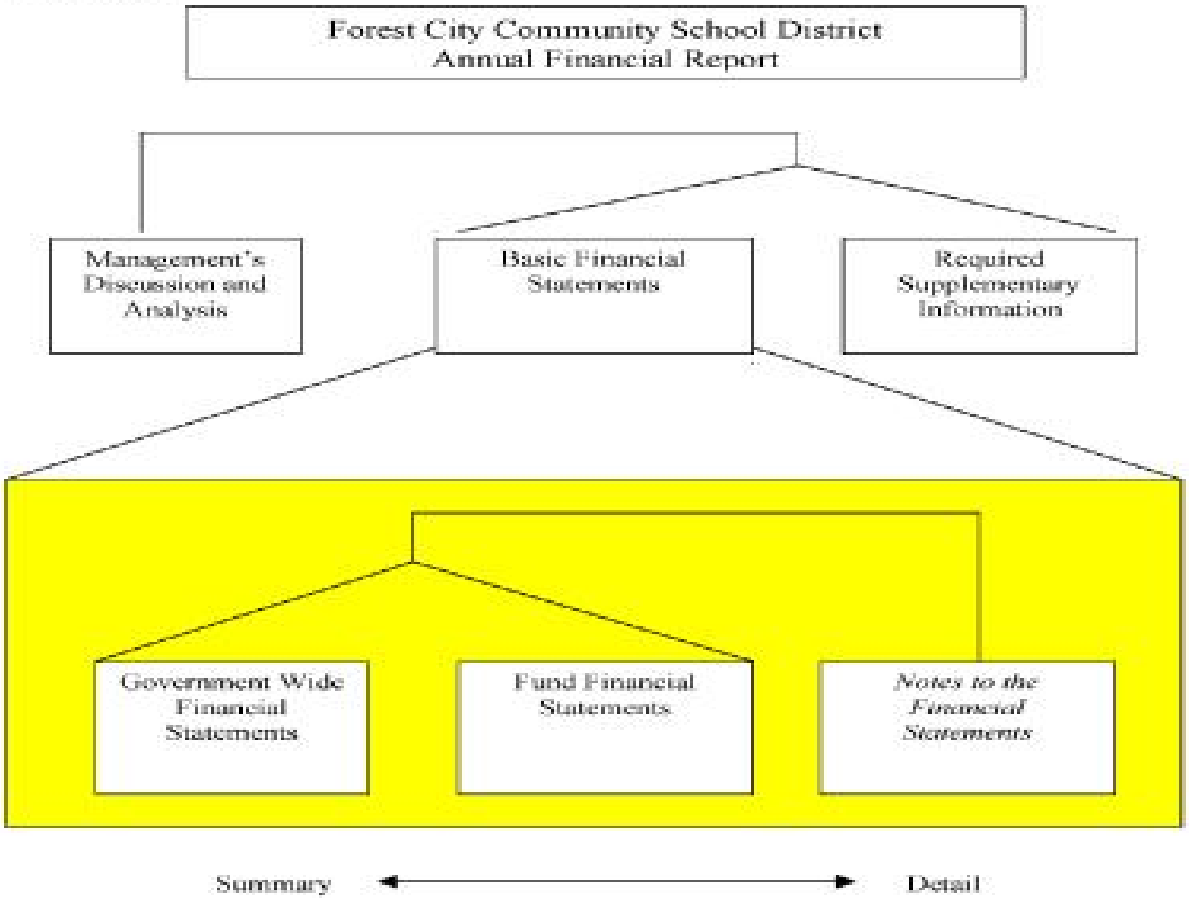

Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

Figure A-2:
Major Features of the Government Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net assets • Statement of cash flows • Statement of revenues, expenses and changes in net assets	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of

the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

  The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

  The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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, 2011 compared to 2012.

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

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2011	2012	2011	2012	2011	2012	2011-2012
Current and other assets	$8.742	$9.151	$.142	$.169	$8.884	$9.320	4.91%
Capital assets	7.982	9.274	.036	.028	8.018	9.302	16.01%
Total assets	**16.724**	**18.425**	**.178**	**.197**	**16.902**	**18.622**	**10.18%**
Long-term debt outstanding	2.441	2.308	.012	.008	2.453	2.316	-5.58%
Other liabilities	5.713	6.025	.043	.049	5.756	6.074	5.52%
Total liabilities	**8.154**	**8.333**	**.055**	**.057**	**8.209**	**8.390**	**-2.20%**
Net assets							
Invested in capital assets, net of related debt	6.147	7.442	.036	.028	6.183	7.470	20.82%
Restricted	1.122	999	0	0	1.122	999	-10.96%
Unrestricted	1.301	1.652	.087	.111	1.388	1.763	27.02%
Total net assets	**$8.570**	**$10.093**	**$.123**	**$.139**	**$8.693**	**$10.232**	**17.70%**

Note: totals may not add due to rounding.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased $123,000 or 10.96% over the prior year. This decrease was caused by the expenditures of local sales tax monies that

were received in fiscal year 2011 and were spent on capital improvements and equipment purchases during fiscal year 2012.

The increase in unrestricted net assets was primarily due to the Districts 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, 2012.

Figure A-4

Changes in Net Assets from Operating Results (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2011	2012	2011	2012	2011	2012	2011-2012
Revenues							
Program revenues							
Charges for services	$1.517	$1.900	$.292	$.305	$1.809	$2.205	21.89%
Operating Grants & Contributions	2.362	1.701	.292	.312	2.654	2.013	-24.15%
Capital Grants & Contributions	.000	1.282	0	0	.000	1.282	100.00%
General revenues							
Property Taxes & Other Local Taxes	5.336	5.574	0	0	5.336	5.574	4.46%
Unrestricted State Aid	5.386	5.438	0	0	5.386	5.438	0.96%
Other	.021	.004	0	0	.021	.004	-80.95%
Total revenues	**14.622**	**15.899**	**.584**	**.617**	**15.206**	**16.516**	**8.62%**
Expenses							
Instruction	9.124	9.347	0	0	9.124	9.347	2.44%
Pupil & Instructional Services	.501	.587	0	0	.501	.587	17.17%
Administrative & Business	1.157	1.231	0	0	1.157	1.231	6.40%
Maintenance & operations	1.053	1.076	0	0	1.053	1.076	2.18%
Transportation	.514	.467	0	0	.514	.467	-9.14%
Other	1.315	1.668	.583	.600	1.898	2.268	19.49%
Total expenses	**13.664**	**14.376**	**.583**	**.600**	**14.247**	**14.976**	**5.12%**
Increase (decrease) in net assets	**$.958**	**$1,523**	**$ .001**	**$ .017**	**$.959**	**$1.540**	**60.58%**

Note: totals may not add due to rounding.

Property tax, income surtax, sales taxes and state foundation aid account for 67 percent of the total revenue. The District's expenses primarily relate to instruction and support services that account for 85 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were $15,898,453 and expenses were $14,375,604. 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.

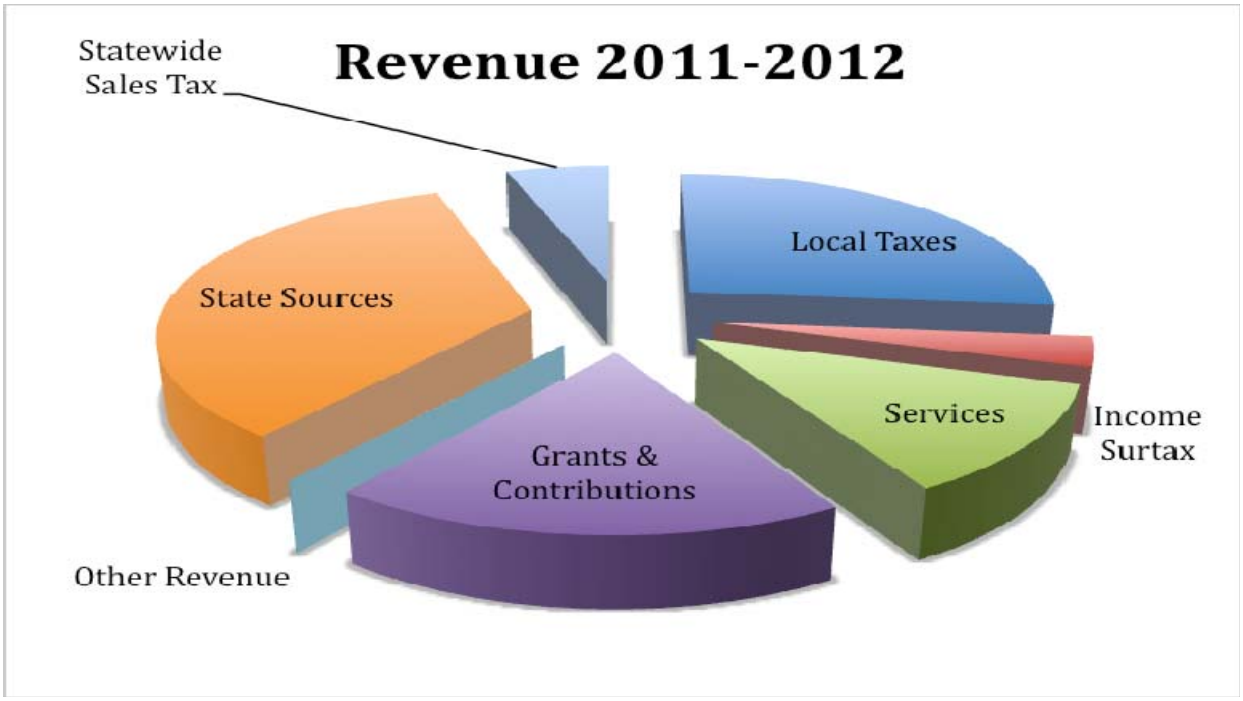

Figure A-6 The following graph presents the total Expenditures for the District's major governmental activities: instruction, student & instructional services, administration & business, operations & maintenance, transportation and AEA flow thru.

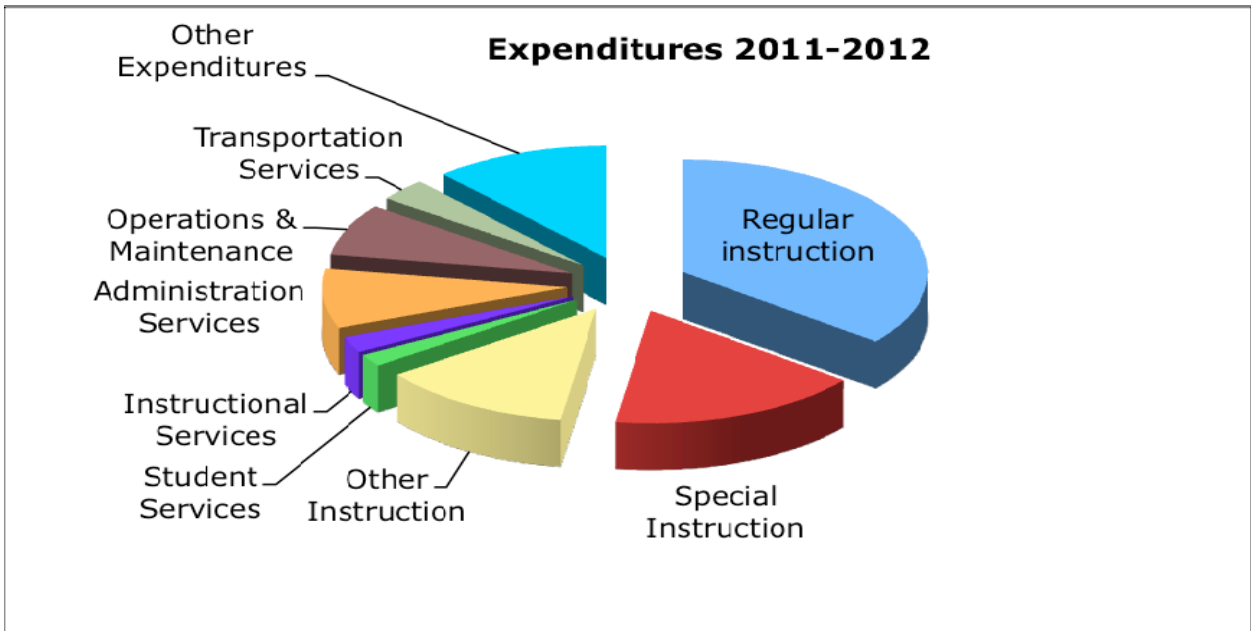

Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental 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)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2011	**2012**	**2011-2012**	**2011**	**2012**	**2011-2012**
Instruction	$9.124	$9.347	2.44%	$ 5.787	$ 6.242	7.86%
Pupil & Instructional Services	.501	.587	17.16%	.501	.587	17.16%
Administrative & Business	1.157	1.231	6.40%	1.157	1.231	6.40%
Maintenance & operations	1.054	1.076	2.09%	1.049	1.060	1.05%
Transportation	.514	.467	-9.14%	.508	.460	-9.45%
Other	1.315	1.668	26.84%	.784	-.088	-111.22%
Total	**$13.665**	**$14.376**	**5.20%**	**$9.786**	**$9.492**	**-3.00%**

Note: totals may not add due to rounding.

- The cost of all governmental activities this year was $14,375,604
- Some of the costs were financed by the users of District programs in the amount of $1,899,881.
- The federal and state governments subsidized certain programs with grants and contributions $2,983,241.
- Most of the District's costs $11,015,331 however was financed by District and state taxpayers.
- This portion of governmental activities was financed with $4,211,768 million in property taxes, $519,812 of income surtax and $841,796 of sales tax $5,437,908 million of unrestricted state aid based on the statewide finance formula, and 4,047 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 $305,144 and $312,153 from operating grants, contributions and restricted interest. Expenses from the District's business type activities amounted to $600,581. The Hot Lunch program was the only Business Type Activity for the District during the 2012 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 $2,668,939 above last year's ending fund balances of $2,501,509. 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 $1,423,802 to $1,841,325 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 along with the whole grade sharing agreement with Woden-Crystal Lake.

- 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 tacked separately in the accounting records, but are combined into one Capital Projects fund for financial reporting.

    - The Physical Plant and Equipment Levy (PPEL) account balance decreased from $91,268 in fiscal 2011 to $68,889 in fiscal 2012. This was the result of purchasing two school buses for the 2011-2012 school year.

    - The Sales Tax account balance decreased $282,741 due to the completion of the projects and contracts that were completed during the 2011-2012 school year. Fiscal 2012 ended with a balance of $362,086 consisting of unexpended local option sales taxes.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $122,761 at June 30, 2011 to $139,569 representing an increase of approximately $16,808 dollars. Student and adult meal prices were held steady (lunch sale receipts increased slightly when 2012 is compared to 2011) The increase in federal funding help the district hold the line on the ending balance.

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 $1,267,691 more than budgeted receipts, a variance of a little over 8.28 percent. This was due to very aggressive budgeting plans.

Total expenditures were -$113,914 more 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.

The certified budget was exceeded in the support services and other expenditure categories due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

Capital Asset and Debt Administration

Capital Assets

By the end of 2012 the District had invested $21.099 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 $621,040.

At June 30, 2012 the District had completed construction on various project on the grounds and lighting projects. Approximately $575,499 was spent in fiscal year 2012 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
	2011	2012	2011	2012	2011	2012	2011-2012
Land	$ .225	$ .235	$ 0	$ 0	$.225	$ .235	4.44%
Construction in progress	.076	.566	0	0	.076	.566	644.74%
Buildings	6.385	6.234			6.385	6.234	- 2.36%
Improvements	.567	1.505	0	0	.567	1.505	165.43%
Equipment & Furniture	.729	.734	.036	.028	.765	.762	-0.39%
	$ 7.982	**$ 9.274**	**$ .036**	**$ .028**	**$8.018**	**$ 9.302**	**16.01%**

Note: totals may not add due to rounding.

Long-Term Debt

At year-end, the District had $2,316,915 in general obligation bonds and other long-term debt outstanding. This represents a decrease of 5.54% from the previous fiscal year as can be seen in Figure A-9 below. During fiscal year 2002-2003, the District sold $3.5 million in general obligation bonds, approved by voters on March 25, 2003, to help finance a two-year, $3.5 million plan of facilities improvements throughout the district

Figure A-9

Outstanding Long-Term Debt (in millions of dollars)

	Total School District 2011	Total School District 2012	Total Percentage Change 2011-2012
General obligation bonds (financed with property taxes)	$ 1,835	$ 1,600	-12.81%
Other general obligation debt	.618	.717	16.02%
Total	**$ 2.453**	**$ 2.317**	**-5.54%**

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 increase production and continues to add 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 2010-2011 by 117.9 students, and for the 2011-2012 school year decreased by 25.37 students and for the 2012-2013 decreased by 52.3 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. No positions will be replaced unless absolutely necessary for future staffing. Currently the board is looking at replacing only two of these positions.

- Beginning with the 2013-2014 school year the Forest City Community School District will be consolidated with the Woden-Crystal Lake Community School District. This consolidation with Woden-Crystal Lake Community School District will result in additional supplemental weighting of 99.94 times the regular program district cost per pupil for the next four years.

- During the 2013-2014 school years the Forest City Community School District will continue a sharing agreement with the Garner-Hayfield Community School District for Transportation Director.

Contacting the District's Financial Management

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

BASIC FINANCIAL STATEMENTS

Exhibit A

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
	$	$	$
Assets			
Cash and cash equivalents	3,779,416	132,293	3,911,709
Receivables:			
Property tax:			
Delinquent	58,077	-	58,077
Succeeding year	4,233,195	-	4,233,195
Accounts	1,423	-	1,423
Due from other governments	1,052,668	13,709	1,066,377
Inventories	26,648	22,627	49,275
Capital assets, net of accumulated depreciation	9,273,995	27,850	9,301,845
Total assets	18,425,422	196,479	18,621,901
Liabilities			
Accounts payable	126,808	4,177	130,985
Salaries and benefits payable	1,655,981	39,959	1,695,940
Accrued interest payable	8,219	-	8,219
Deferred revenue:			
Succeeding year property tax	4,233,195	-	4,233,195
Other	-	4,419	4,419
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	245,000	-	245,000
Notes payable	116,108	-	116,108
Termination benefits	86,345	-	86,345
Portion due after one year:			
General obligation bonds payable	1,355,000	-	1,355,000
Notes payable	116,109	-	116,109
Termination benefits	227,516	-	227,516
Net OPEB liability	162,482	8,355	170,837
Total liabilities	8,332,763	56,910	8,389,673

See notes to financial statements.

Exhibit A

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
	$	$	$
Net assets			
Invested in capital assets, net of related debt	7,441,778	27,850	7,469,628
Restricted for:			
Categorical funding	387,551	-	387,551
Physical plant and equipment levy	68,889	-	68,889
Student activities	180,222	-	180,222
School infrastructure	362,086	-	362,086
Unrestricted	1,652,133	111,719	1,763,852
Total net assets	10,092,659	139,569	10,232,228

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	$	$	$	$
Governmental activities:				
Instruction:				
Regular	5,118,595	857,027	1,026,705	-
Special	2,403,688	536,977	54,597	-
Other	1,824,667	483,994	145,749	-
	9,346,950	1,877,998	1,227,051	-
Support services:				
Student	256,069	-	-	-
Instructional staff	330,431	-	-	-
Administration	1,230,989	-	-	-
Operation and maintenance of plant	1,076,323	15,363	-	-
Transportation services	466,611	6,520	-	-
	3,360,423	21,883	-	-
Other expenditures:				
Facilities acquisition	617,317	-	-	1,281,981
Long-term debt interest	73,037	-	149	-
AEA flowthrough	474,060	-	474,060	-
Depreciation (unallocated)*	503,817	-	-	-
	1,668,231	-	474,209	1,281,981
Total governmental activities	14,375,604	1,899,881	1,701,260	1,281,981
Business type activities:				
Non-instructional programs:				
Food service operations	600,581	305,144	312,153	-
Total	14,976,185	2,205,025	2,013,413	1,281,981
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Statewide sales, services and use tax				
Unrestricted state grants				
Unrestricted investment earnings				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

*This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
$	$	$
(3,234,863)	-	(3,234,863)
(1,812,114)	-	(1,812,114)
(1,194,924)	-	(1,194,924)
(6,241,901)	-	(6,241,901)
(256,069)	-	(256,069)
(330,431)	-	(330,431)
(1,230,989)	-	(1,230,989)
(1,060,960)	-	(1,060,960)
(460,091)	-	(460,091)
(3,338,540)	-	(3,338,540)
664,664	-	664,664
(72,888)	-	(72,888)
-	-	-
(503,817)	-	(503,817)
87,959	-	87,959
(9,492,482)	-	(9,492,482)
-	16,716	16,716
(9,492,482)	16,716	(9,475,766)
3,828,405	-	3,828,405
293,634	-	293,634
89,729	-	89,729
519,812	-	519,812
841,796	-	841,796
5,437,908	-	5,437,908
4,047	92	4,139
11,015,331	92	11,015,423
1,522,849	16,808	1,539,657
8,569,810	122,761	8,692,571
10,092,659	139,569	10,232,228

See notes to financial statements.

Exhibit C

FOREST CITY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	$	$	$	$
Assets				
Cash and pooled investments	2,846,185	543,460	389,771	3,779,416
Receivables:				
Property tax:				
Delinquent	49,395	1,183	7,499	58,077
Succeeding year	3,535,417	95,950	601,828	4,233,195
Accounts	1,423	-	-	1,423
Interfund receivable	5,000	-	16,235	21,235
Due from other governments	833,157	219,511	-	1,052,668
Inventories	26,648	-	-	26,648
Total assets	7,297,225	860,104	1,015,333	9,172,662
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	114,942	-	11,866	126,808
Salaries and benefits payable	1,322,802	333,179	-	1,655,981
Interfund payable	16,235	-	5,000	21,235
Deferred revenue:				
Succeeding year property tax	3,535,417	95,950	601,828	4,233,195
Income surtax	466,504	-	-	466,504
Total liabilities	5,455,900	429,129	618,694	6,503,723
Fund balances:				
Nonspendable:				
Inventories	26,648	-	-	26,648
Restricted for:				
Categorical funding	387,551	-	-	387,551
Debt service	-	-	710	710
Management levy	-	-	215,707	215,707
Student activities	-	-	180,222	180,222
School infrastructure	-	362,086	-	362,086
Physical plant and equipment	-	68,889	-	68,889
Unassigned	1,427,126	-	-	1,427,126
Total fund balances	1,841,325	430,975	396,639	2,668,939
Total liabilities and fund balances	7,297,225	860,104	1,015,333	9,172,662

See notes to financial statements.

Exhibit D

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

June 30, 2012

	$
Total fund balances of governmental funds (Exhibit C)	2,668,939
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,273,995
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	466,504
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.	(8,219)
Long-term liabilities, including bonds payable, notes 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.	(2,308,560)
Net assets of governmental activities (Exhibit A)	10,092,659

See notes to financial statements.

Exhibit E

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	$	$	$	$
Revenues:				
Local sources:				
Local tax	4,117,409	931,525	544,219	5,593,153
Tuition	1,128,876	-	-	1,128,876
Other	294,041	1,282,876	480,265	2,057,182
State sources	6,889,623	53	337	6,890,013
Federal sources	295,274	-	-	295,274
Total revenues	12,725,223	2,214,454	1,024,821	15,964,498
Expenditures:				
Current:				
Instruction:				
Regular	5,132,741	-	86,001	5,218,742
Special	2,416,250	-	-	2,416,250
Other	1,404,828	-	407,305	1,812,133
	8,953,819	-	493,306	9,447,125
Support services:				
Student	257,351	-	-	257,351
Instructional staff	329,797	-	-	329,797
Administration	1,232,361	-	-	1,232,361
Operation and maintenance of plant	867,571	-	176,523	1,044,094
Transportation	419,733	112,303	-	532,036
	3,106,813	112,303	176,523	3,395,639
Other expenditures:				
Facilities acquisition	-	2,407,271	-	2,407,271
Long-term debt:				
Principal paid	-	-	351,108	351,108
Interest and fiscal charges	-	-	70,190	70,190
AEA flowthrough	474,060	-	-	474,060
	474,060	2,407,271	421,298	3,302,629
Total expenditures	12,534,692	2,519,574	1,091,127	16,145,393
Excess (deficiency) of revenues over (under) expenditures	190,531	(305,120)	(66,306)	(180,895)
Other financing sources (uses):				
Operating transfers in	-	-	121,333	121,333
Operating transfers out	(121,333)	-	-	(121,333)
Long-term debt issued	348,325	-	-	348,325
Total other financing sources (uses)	226,992	-	121,333	348,325
Net change in fund balances	417,523	(305,120)	55,027	167,430
Fund balances beginning of year	1,423,802	736,095	341,612	2,501,509
Fund balances end of year	1,841,325	430,975	396,639	2,668,939

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, 2012

	$	$
Net change in fund balances - total governmental funds (Exhibit E)		167,430
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense and capital outlay expenditures in the current year, are as follows:		
Expenditures for capital assets	1,905,075	
Depreciation expense	(613,387)	1,291,688
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.		(66,045)
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.		351,108
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.		(2,847)
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	86,001	
Other postemployment benefits	43,839	129,840
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(348,325)
Changes in net assets of governmental activities (Exhibit B)		1,522,849

See notes to financial statements.

Exhibit G

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2012

	Nonmajor School Nutrition
	$
Assets	
Cash and cash equivalents	132,293
Due from other governments	13,709
Inventories	22,627
Capital assets, net of accumulated depreciation	27,850
Total assets	196,479
Liabilities	
Accounts payable	4,177
Salaries and benefits payable	39,959
Deferred revenue	4,419
Net OPEB liability	8,355
Total liabilities	56,910
Net assets	
Invested in capital assets	27,850
Unrestricted	111,719
Total net assets	139,569

See notes to financial statements

Exhibit H

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	Nonmajor School Nutrition
	$
Operating revenue:	
Local sources:	
Charges for service	305,144
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	167,351
Benefits	82,854
Purchased services	4,902
Supplies	337,821
Depreciation	7,653
Total operating expenses	600,581
Operating loss	(295,437)
Non-operating revenues:	
State sources	5,546
Federal sources	306,607
Interest income	92
Total non-operating revenues	312,245
Change in net assets	16,808
Net assets beginning of year	122,761
Net assets end of year	139,569

See notes to financial statements.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2012

	Nonmajor School Nutrition
	$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	305,704
Cash payments to employees for services	(252,627)
Cash payments to suppliers for goods or services	(295,977)
Net cash used by operating activities	(242,900)
Cash flows from non-capital financing activities:	
State grants received	5,546
Federal grants received	245,522
Net cash provided by non-capital financing activities	251,068
Cash flows from capital and related financing activities	-
Cash flows from investing activities:	
Interest on investments	92
Net increase (decrease) in cash and cash equivalents	8,260
Cash and cash equivalents at beginning of year	124,033
Cash and cash equivalents at end of year	132,293
Reconciliation of operating loss to net cash used by operating activities:	
Operating (loss)	(295,437)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	47,376
Depreciation	7,653
Decrease (increase) in inventories	(4,358)
(Decrease) increase in accounts payable	3,728
(Decrease) increase in salaries and benefits payable	1,167
(Decrease) increase in deferred revenue	560
(Decrease) increase in net OPEB liability	(3,589)
Net cash used by operating activities	(242,900)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received $47,376 of federal commodities.

See notes to financial statements.

Exhibit J

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012

	Private Purpose Trust Scholarship
	$
Assets	
Cash and pooled investments	14,873
Liabilities	-
Net Assets	
Reserved for scholarships	14,873

See notes to financial statements.

Exhibit K

FOREST CITY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2012

	Private Purpose Trust Scholarship
	$
Additions:	
Local sources:	
Interest	93
Deductions	
Support services:	
Scholarships awarded	-
Change in net assets	93
Net assets beginning of year	14,780
Net assets end of year	14,873

See notes to financial statements.

1. Summary of Significant Accounting Policies

Forest City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Forest City, Iowa and the predominately agricultural territory in portions of Winnebago, Hancock, Worth and Cerro Gordo counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

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

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. 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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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.

Asset Class	Amount
	$
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:

Asset Class	Estimated Useful Lives
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.

Unassigned – All amounts not included in other classifications.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

2. Cash and Pooled Investments

The District'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.

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.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust. Which are valued at an amortized cost of $66 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAm by Standard & Poor's Financial Services.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
		$
Nonmajor Governmental, Management	General Fund	16,235
General Fund	Nonmajor Governmental, Debt Service	5,000

The interfund receivable/payable between the General and Management Funds is the result or year-end reclassifications of expenditures at year-end. At June 30, 2012 the General Fund loaned the Debt Service money for cash flow.

4. Interfund Transfers

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

Transfer To	Transfer From	Amount
		$
Nonmajor Governmental, Debt Service	General Fund	121,333

This transfer moved 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 Series 2011-2012A included taxable and tax-exempt warrants. The District participated in the issuance of the taxable warrants. The interest rates on the taxable Series 2011-2012A and taxable Series 2011-2012B warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 100 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2012 is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			$	$	$	$
2011-12A	6/23/11	6/23/12	-	37,251	37,251	-

During the year ended June 30, 2012, the District paid $208 of interest on the ISCAP warrants.

6. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	$	$	$	$
Governmental activities:				
Capital assets not being depreciated:				
Land	225,000	10,000	-	235,000
Construction in progress	76,125	565,499	76,125	565,499
Total capital assets not being depreciated	301,125	575,499	76,125	800,499
Capital assets being depreciated:				
Buildings	15,232,707	269,500	-	15,502,207
Improvements other than buildings	764,543	1,021,080	-	1,785,623
Furniture and equipment	2,701,442	115,121	-	2,816,563
Total capital assets being depreciated	18,698,692	1,405,701	-	20,104,393
Less accumulated depreciation for:				
Buildings	8,847,426	420,919	-	9,268,345
Improvements other than buildings	197,491	82,898	-	280,389
Furniture and equipment	1,972,593	109,570	-	2,082,163
Total accumulated depreciation	11,017,510	613,387	-	11,630,897
Total capital assets being depreciated, net	7,681,182	792,314	-	8,473,496
Governmental activities capital assets, net	7,982,307	1,367,813	(76,125)	9,273,995
Business type activities:				
Furniture and equipment	193,639	-	-	193,639
Less accumulated depreciation	158,136	7,653	-	165,789
Business type activities capital assets, net	35,503	(7,653)	-	27,850

Depreciation expense was charged to the following programs:

	$
Governmental activities:	
Instruction:	
Regular	2,518
Other	15,098
Support services:	
Instructional staff support	2,685
Administration	1,704
Operation and maintenance of plant	34,793
Transportation	52,772
	109,570
Unallocated depreciation	503,817
Total governmental activities depreciation expense	613,387
Business type activities:	
Food service operations	7,653

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	$	$	$	$	$
Governmental activities:					
General obligation bonds	1,835,000	-	235,000	1,600,000	245,000
Equipment note payable	-	348,325	116,108	232,217	116,108
Termination benefits	399,862	-	86,001	313,861	86,345
Net OPEB liability	206,321	-	43,839	162,482	-
Total	2,441,183	348,325	480,948	2,308,560	447,453
Business type activities:					
Net OPEB liability	11,944	-	3,589	8,355	-

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, 2012, the District has obligations to sixteen participants with a total liability of $313,861. Actual early retirement expenditures for the year ended June 30, 2012 totaled $86,001.

General Obligation Bonds Payable

Details of the District's June 30, 2012, general obligation bonded indebtedness are as follows:

		June 1, 2003 Issue		
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	$	$	$
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	3.70	280,000	21,422	301,422
2018	3.75	295,000	11,062	306,062
Total		1,600,000	209,440	1,809,440

Equipment Loan Notes

The District borrowed $348,325 during the year ended June 30, 2012 to purchase computers. The notes and the interest will be paid from the General Fund. Details of the equipment loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	$	$	$
2013	3.00	116,108	6,966	123,074
2014	3.00	116,109	3,483	119,592
		232,217	10,449	242,666

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, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	$
Annual required contribution	174,073
Interest on net OPEB obligation	3,744
Adjustment to annual required contribution	(6,980)
Annual OPEB cost	170,837
Contributions made	(79,261)
Actuary adjustment to prior year balance	(139,004)
Increase in net OPEB obligation	(47,428)
Net OPEB obligation beginning of year	218,265
Net OPEB obligation end of year	170,837

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, 2012.

For the year ended June 30, 2012, the District contributed $79,261 to the medical plan. Plan members eligible for benefits contributed $27,267, or 26% 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, 2012 are summarized as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
	$	%	$
2010	89,745	19%	148,876
2011	88,207	21%	218,265
2012	170,837	46%	170,837

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was $1,187,204, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $1,187,204. The covered payroll (annual payroll of active employees covered by the plan) was approximately $6,994,000, and the ratio of the UAAL to covered payroll was 17%. As of June 30, 2012, 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, 2011 actuarial valuation date, the 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 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were $603,286, $507,595, and $504,589 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 $474,060 for the year ended June 30, 2012, 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 year are as follows:

Year Ended June 30	Lease Payment
	$
2013	5,859

13. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

Program	Amount
	$
Teacher salary supplement	67,394
Gifted and talented	18,294
Home school assistance	3,530
Core curriculum	69,245
Preschool	229,088
	387,551

14. Construction Commitment

The District has entered into contracts totaling $838,835 for athletic facility improvements. As of June 30, 2012 costs of $625,324 had been incurred against the contracts. The balances remaining at June 30, 2012 will be paid as work on the project progresses.

15. Subsequent Event

The voters of the Forest City Community School District and the Woden-Crystal Lake Community School District approved a reorganization effective July 1, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	$	$	$	$	$	$
Revenues:						
Local sources	8,779,211	305,236	9,084,447	7,728,210	7,728,210	1,356,237
State sources	6,890,013	5,546	6,895,559	7,060,486	7,060,486	(164,927)
Federal sources	295,274	306,607	601,881	525,500	525,500	76,381
Total revenues	15,964,498	617,389	16,581,887	15,314,196	15,314,196	1,267,691
Expenditures/Expenses:						
Instruction	9,447,125	-	9,447,125	9,425,624	9,725,624	278,499
Support services	3,395,639	-	3,395,639	3,110,000	3,360,000	(35,639)
Non-instructional programs	-	600,581	600,581	725,000	725,000	124,419
Other expenditures	3,302,629	-	3,302,629	1,821,496	2,821,436	(481,193)
Total expenditures/expenses	16,145,393	600,581	16,745,974	15,082,120	16,632,060	(113,914)
Excess (deficiency) of revenues over (under) expenditures/expenses	(180,895)	16,808	(164,087)	232,076	(1,317,864)	1,153,777
Other financing sources, net	348,325	-	348,325	-	-	348,325
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	167,430	16,808	184,238	232,076	(1,317,864)	1,502,102
Balance beginning of year	2,501,509	122,761	2,624,270	2,754,663	2,754,663	(130,393)
Balance end of year	2,668,939	139,569	2,808,508	2,986,739	1,436,799	1,371,709

See accompanying independent auditor's report

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2012

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted ependitures by $1,549,940.

During the year ended June 30, 2012, expenditures in the support services and other expenditures functions exceeded the amounts 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)
		$	$	$	%	$	%
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%
2012	July 1, 2011	-	1,187,204	1,187,204	0.0%	6,994,000	17.0%

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.

SUPPLEMENTARY INFORMATION

FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

	Special Revenue Funds			
Assets	Management Levy	Student Activity	Debt Service	Total
	$	$	$	$
Cash and pooled investments	195,923	192,088	1,760	389,771
Receivables:				
Property tax:				
Delinquent	3,549	-	3,950	7,499
Succeeding year	300,000	-	301,828	601,828
Interfund receivable	16,235	-	-	16,235
Total assets	515,707	192,088	307,538	1,015,333
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	11,866	-	11,866
Interfund payables	-	-	5,000	5,000
Deferred revenue:				
Succeeding year property tax	300,000	-	301,828	601,828
Total liabilities	300,000	11,866	306,828	618,694
Fund balances:				
Restricted for:				
Debt service	-	-	710	710
Management levy	215,707	-	-	215,707
Student activities	-	180,222	-	180,222
Total fund balances	215,707	180,222	710	396,639
Total liabilities and fund balances	515,707	192,088	307,538	1,015,333

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	Special Revenue Funds			
	Management Levy	Student Activity	Debt Service	Total
	$	$	$	$
Revenues:				
Local sources:				
Local tax	250,585	-	293,634	544,219
Other	234	479,882	149	480,265
State sources	157	-	180	337
Total revenues	250,976	479,882	293,963	1,024,821
Expenditures:				
Current:				
Instruction:				
Regular	86,001	-	-	86,001
Other	-	407,305	-	407,305
Support services:				
Operation and maintenance of plant	176,523	-	-	176,523
Other expenditures:				
Long-term debt:				
Principal paid	-	-	351,108	351,108
Interest and fiscal charges	-	-	70,190	70,190
Total expenditures	262,524	407,305	421,298	1,091,127
Excess (deficiency) of revenues over (under) expenditures	(11,548)	72,577	(127,335)	(66,306)
Other financing sources (uses):				
Operating transfers in	-	-	121,333	121,333
Net change in fund balances	(11,548)	72,577	(6,002)	55,027
Fund balances beginning of year	227,255	107,645	6,712	341,612
Fund balances end of year	215,707	180,222	710	396,639

FOREST CITY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Project Accounts

June 30, 2012

	Capital Projects		
Assets	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
	$	$	$
Cash and pooled investments	475,754	67,706	543,460
Receivables:			
Property tax:			
Delinquent	-	1,183	1,183
Succeeding year	-	95,950	95,950
Due from other governments	219,511	-	219,511
Total assets	695,265	164,839	860,104
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	333,179	-	333,179
Deferred revenue:			
Succeeding year property tax	-	95,950	95,950
Total liabilities	333,179	95,950	429,129
Fund balances:			
Restricted for:			
School infrastructure	362,086	-	362,086
Physical plant and equipment	-	68,889	68,889
Total fund balances	362,086	68,889	430,975
Total liabilities and fund balances	695,265	164,839	860,104

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
	$	$	$
Revenues:			
Local sources:			
Local tax	841,796	89,729	931,525
Other	1,282,734	142	1,282,876
State sources	-	53	53
Total revenues	2,124,530	89,924	2,214,454
Expenditures:			
Current:			
Support services:			
Transportation services	-	112,303	112,303
Other expenditures:			
Facilities acquisition	2,407,271	-	2,407,271
Total expenditures	2,407,271	112,303	2,519,574
Net change in fund balance	(282,741)	(22,379)	(305,120)
Fund balances beginning of year	644,827	91,268	736,095
Fund balance end of year	362,086	68,889	430,975

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	$	$	$	$	$
Interest	1,240	120	1	-	1,359
Athletics and cheerleading	12,959	154,851	100,663	(415)	66,732
Boys basketball	1,746	1,600	3,600	254	-
Football	5,540	23,052	24,017	-	4,575
Boys track	197	160	518	161	-
Wrestling	110	-	-	-	110
Girls basketball	6,498	13,141	12,412	-	7,227
Volleyball	-	31,514	22,697	-	8,817
Girls track	905	1,180	2,611	-	(526)
Cheer fundraising	500	3,272	3,325	-	447
Sp. Ed. wind suit	116	-	-	-	116
Elementary activities	24,426	14,377	10,741	7,242	35,304
Elementary juice	4,676	-	-	(4,676)	-
Elementary student council	1,260	-	-	(1,260)	-
Elementary book fair	1,306	-	-	(1,306)	-
FFA	2,545	22,567	23,270	-	1,842
HS activities	3,800	67,025	67,322	-	3,503
HS band	-	8,137	4,534	-	3,603
HS home ec. awards	1	-	-	-	1
HS color guard	1,438	737	-	-	2,175
HS music	3,806	1,826	4,466	-	1,166
HS marketing	632	12,522	12,557	-	597
HS student council	1,576	3,741	3,571	-	1,746
Class of 2012	16	524	1	-	539
MS activities	4,129	18,830	22,959	-	-
MS band and chorus	3,519	5,173	5,325	-	3,367
MS history club	185	31,655	31,664	-	176
MS art club	-	1,500	829	-	671
MS industrial arts	82	-	-	-	82
MS spin program	-	9,774	-	-	9,774
MS memory book	610	1,630	1,653	-	587
MS student council	1,382	720	461	-	1,641
MS musical	211	410	409	-	212
Spanish club	599	-	-	-	599
Special needs	1,645	-	-	-	1,645
Speech and drama	1,093	5,223	5,816	-	500
Rotary corner funds	5,091	5,279	6,358	-	4,012
Yearbook	2,737	11,820	12,664	-	1,893
Fall musical	3,994	8,887	5,542	-	7,339
Spring play	2,500	-	-	-	2,500
Student activity tickets	-	10,200	10,200	-	-

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, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	$	$	$	$	$
Class of 2013	525	650	723	-	452
Class of 2014	270	375	-	-	645
Class of 2015	-	345	-	-	345
WCL booster club	-	1,875	371	-	1,504
Baseball field improvement	3,146	5,190	6,025	-	2,311
Chicago trip	634	-	-	-	634
Total	107,645	479,882	407,305	-	180,222

FOREST CITY COMMUNITY SCHOOL DISTRICT

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

For the Last Ten Years

	Modified Accrual Basis									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
	$	$	$	$	$	$	$	$	$	$
Revenues:										
Local sources:										
Local tax	5,593,153	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	1,128,876	885,345	890,431	998,866	916,426	838,885	777,886	769,041	878,311	796,864
Other	2,057,182	652,398	653,205	720,366	677,252	704,043	583,879	487,027	551,272	586,160
State sources	6,890,013	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	295,274	785,076	1,040,860	235,541	184,775	323,564	223,498	323,357	210,706	190,668
Total revenues	15,964,498	14,559,776	13,830,842	13,482,329	12,899,925	12,664,130	12,381,030	11,809,359	10,916,193	11,282,315
Expenditures:										
Instruction:										
Regular	5,218,742	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	2,416,250	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	1,812,133	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	257,351	245,663	238,955	283,483	238,398	232,767	227,634	237,857	216,622	218,566
Instructional staff	329,797	248,695	360,366	412,992	441,907	345,894	410,126	452,861	384,480	364,394
Administration	1,232,361	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	1,044,094	1,010,773	992,533	943,838	948,200	959,939	891,072	880,312	905,573	783,034
Transportation	532,036	513,137	420,011	432,309	457,783	508,876	488,992	459,071	464,650	415,040
Other expenditures:										
Facilities acquisition	2,407,271	542,798	219,568	314,901	719,273	757,699	392,877	1,481,485	2,797,704	15,191
Long-term debt:										
Principal	351,108	225,000	220,000	373,579	303,151	266,510	248,718	261,458	306,316	544,687
Interest and other charges	70,190	72,115	79,105	92,483	102,500	111,063	116,066	123,345	130,335	44,668
AEA flowthrough	474,060	531,812	537,820	457,736	441,706	432,789	423,738	404,063	398,349	418,813
Total expenditures	16,145,393	13,676,084	12,991,031	13,176,354	13,289,191	13,093,022	12,177,982	12,722,350	13,740,494	10,782,935

See accompanying independent auditor's report.

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor/Program	CFDA Number	Grant Number	Expenditures $
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	FY12	43,726
National School Lunch Program (non-cash)	10.555	FY12	47,376
National School Lunch Program	10.555	FY12	200,804
Summer Food Service Program for Children	10.559	FY12	14,434
			306,340
Team Nutrition Grant	10.574	FY12	267
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY12	131,826
Safe and Drug Free Schools and Communities - National Programs	84.184	FY12	2,632
Safe and Drug Free Schools and Communities - State Grants	84.186	FY12	279
Improving Teacher Quality State Grants	84.367	FY12	39,220
Grants for State Assessments and Related Activities	84.369	FY12	7,462
Education Jobs Fund	84.410	FY12	3,634
Area Education Agency #267:			
Special Education - Grants to States	84.027	FY12	54,597
Mason City Community School District:			
Career and Technical Education - Basic Grants to States	84.048	FY12	9,356
Total			555,613

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

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

Gary E. Horton CPA

902 Central Ave. E. - PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 25, 2013. 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

The management of Forest City Community School District is responsible for establishing and maintaining effective 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 12-II-A, 12-II-B, 12-II-C and 12-II-D 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 12-II-E 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, 2012 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

April 25, 2013

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

Gary E. Horton CPA

PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

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, 2012. 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, 2012.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and an other deficiency that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as items 12-III-A to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as items 12-III-B and 12-III-C to be significant deficiencies.

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

April 25, 2013

FOREST CITY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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 and a material weakness in internal control over major programs were disclosed by the audit of the financial statements.

(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:

- Child Nutrition Cluster
  - CFDA Number 10.553 – School Breakfast Program
  - CFDA Number 10.555 – National School Lunch Program
  - CFDE Number 10.559 – Summer Food Service Program for Children

(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.

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

12-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.

12-II-B Check Signing: We noted that the District uses 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 printer. 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.

12-II-C Financial Reporting: During the audit, we identified material amounts of accounts payable that were understated, proceeds from a long-term loan that were incorrectly reported as miscellaneous income, and donations that were offset against an expenditure account instead of being recorded as a revenue 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 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.

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

12-II-D Credit Card Expenditures: We reviewed credit card bills totaling $31,882 paid in July 2011 through December 2011. Detailed supporting documentation was not available for approximately $16,000 of the credit card bill purchases. $6,800 of the expenditures missing supporting documentation were from Amazon, the other expenditures missing detailed invoices were for motels, meals, fuel and supplies. Purchase orders had been prepared for some of the transactions that were missing detailed supporting documentation; however, a purchase order only shows that the purchase of goods or services was approved. Only a detailed receipt from the vendor documents that what was purchased matches what was approved.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid. Supporting documentation for travel and meal expenditures must include the business purpose.

District Response: We have implemented new procedures for credit card expenditures. Each employee that has a credit card will receive a copy of the monthly credit card statement for his account and will be personally responsible for providing detailed supporting documentation for every item charged to the account.

Conclusion: Response accepted.

12-II-E 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, 2012

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiencies:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program and
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

12-III-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, 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.

12-III-B Eligibility for Free and Reduced Price Meals: The District uses a computer program (ICAVES) provided by the Iowa Department of Education to determine the status of parent applications for free and reduced price meals. Information from the application including number of people in house hold, income and pay frequency are entered into the program. Based on the information entered the software determines if the family qualifies for free, reduced price or full price meals. We reviewed 15 applications for free and reduced priced meals and discovered one application approved for free status when it should have been approved for reduced price meals. The error occurred because the pay frequency was entered as monthly, when it should have been entered as every two weeks. The District does not have a system to review the data entered into the computer program.

Recommendation: The District should implement a system to review the data entered into the computer program that determines the status of free and reduced price lunch applications.

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

District Response: We will review our current procedures and implement additional controls where possible.

Conclusion: Response accepted.

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2012
U.S. Department of Education
Passed through the Iowa Department of Education

12-III-C 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 2012 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.

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.

Part IV: Other Findings Related to Required Statutory Reporting:

12-IV-A Certified Budget: Expenditures for the year ended June 30, 2012, exceeded the amounts budgeted in the support services and other expenditures functions.

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: We did amend our budget, but year-end expenditures were more than anticipated.

Conclusion: Response accepted.

12-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.

12-IV-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

12-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.

12-IV-F Board Minutes: During our testing we noted that the minutes for the October 2011 meeting were not published and that the board approved bills for August and September 2011 were not published. Many of the other minutes for board meetings held during fiscal year 2012 were published late.

Recommendation: All board of education minutes and lists of board approved bills 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.

12-IV-G Certified Enrollment: The number of resident students reported to the Iowa Department of Education on the Certified Enrollment Certification for October 2011, was overstated by five students. One foreign exchange student was incorrectly counted as a resident student and four other students were incorrectly included as residents.

Recommendation: The District should review its procedures for tracking foreign exchange students and for reviewing and testing the enrollment data prior to certification.

District Response: We have revised our procedures.

Conclusion: Response accepted.

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

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

12-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.

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

12-IV-K Categorical Funding: Except as noted, no instances of categorical funding being used to supplant rather than supplement other funds were noted. We noted that expenditures for the Home School Assistance Program were overstated by $3,530 and that expenditures for the Gifted and Talented Program were overstated by $18,294. The District did not have documentation to support these charges to the programs. The restricted fund balance for the Home School Assistance Program and the Gifted and Talented Program have been increased by these amounts.

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: The District should contact the Iowa Department of Education regarding corrective action required. In the future, the District should post allowable categorical program expenditures to the correct categorical expenditures accounts as the expenditures are incurred.

Response: As recommended, we will contact the Iowa Department of Education to determine the corrective action required. We will revise our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion: Response accepted.

12-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 2012 audit:

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

	$	$
Beginning balance		644,827
Revenues/transfers in:		
Statewide sales, services and use tax revenue	841,796	
Interest	753	
Donations	1,281,981	2,124,530
Expenditures/transfers out:		
School infrastructure construction		2,407,271
Ending balance		362,086

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

12-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.

12-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.

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.