

**FOREST CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

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Introductory Section

Board of Education and School District Officials

As of June 30, 2013

Name	Title	Term Expires
Board of Education		
David Bartlett	President	June 30, 2013
Cindy Carter	Vice President	June 30, 2013
Keila Buffington	Board Member	June 30, 2013
Eric Kingland	Board Member	June 30, 2013
Sandra Lillquist	Board Member	June 30, 2013
Gary Ludwig	Board Member	June 30, 2013
Bruce Mielke	Board Member	June 30, 2013

All terms expire June 30, 2013 due to reorganization with Woden-Crystal Lake Community School District effective July 1, 2013.

School Officials		
Darwin Lehmann	Superintendent	Indefinite
Steven Rollefson	District Secretary/Treasurer and Business Manager	Indefinite

Financial Section



Independent Auditor's Report

Board of Education
Forest City Community School District
Forest City, Iowa

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 14 and 39 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 auditing standards generally accepted in the United States of America, 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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. The financial statements for the nine years ended June 30, 2012 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unqualified opinions on those financial statements. The supplementary information on pages 41 through 47, including the schedule of expenditures of federal awards required by the 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 12, 2014 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
February 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- General Fund revenue decreased from \$12,725,223 in fiscal year 2012 to \$12,536,678 in fiscal year 2013 while General Fund expenditures decreased from \$12,534,692 in fiscal year 2012 to \$12,477,934 in fiscal year 2013. The District's General Fund balance decreased from \$1,841,325 at the end of fiscal year 2012 to \$1,778,736 at the end of fiscal year 2013, a 3.4% decrease from the prior year.
- The fiscal year 2013 General Fund revenue decrease was primarily attributable to decreases in state grant revenue. The fiscal year 2013 decrease in expenditures was primarily related to an effort made by the District to cut instruction expenditures. The District funded a portion of the current year activity from the carryover fund balance.
- 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 10% of the total regular program cost for the budget year, which will on an annual basis raise approximately \$550,000. The monies received may be used for implementation of the District's technology program, including the purchase of computer hardware and software for the start of a 1:1 computer program in the middle and high schools, general maintenance and upgrading of equipment, staff development including the student management system and for the use or purchase of new technologies that have been found to enhance student achievement or delivery of instruction.
- Local option sales tax collected for each county is pooled statewide and distributed to the District primarily based on enrollment.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Cerro Gordo County on March 4, 2003 that passed with a 69% yes vote and was effective as of July 1, 2003. This source of funding will produce approximately \$14,052 for the 2013-2014 school year.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Hancock County on April 1, 2003 that passed with a 67% yes vote and was effective as of July 1, 2003. This source of funding will produce approximately \$115,904 for the 2013-2014 school year.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Winnebago County on January 20, 2004 that passed with a 75% yes vote and was effective as of July 1, 2004. This source of funding will produce approximately \$698,336 for the 2013-2014 school year.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Worth County on March 30, 2004 that passed with an 80% yes vote and was effective as of July 1, 2004. This source of funding will produce approximately \$44,174 for the 2013-2014 school year.

USING THIS ANNUAL REPORT

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

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The government-wide financial statements consist of a statement of net position and a statement of activities. These provide information about the activities of Forest City Community School District as a whole and present an overall view of the District's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Forest City Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Forest City Community School District acts solely as an agent or custodian for the benefit of those outside of the District government.

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

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary information provides detailed information about the nonmajor governmental funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the District.

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

FIGURE A-1

FOREST CITY COMMUNITY SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

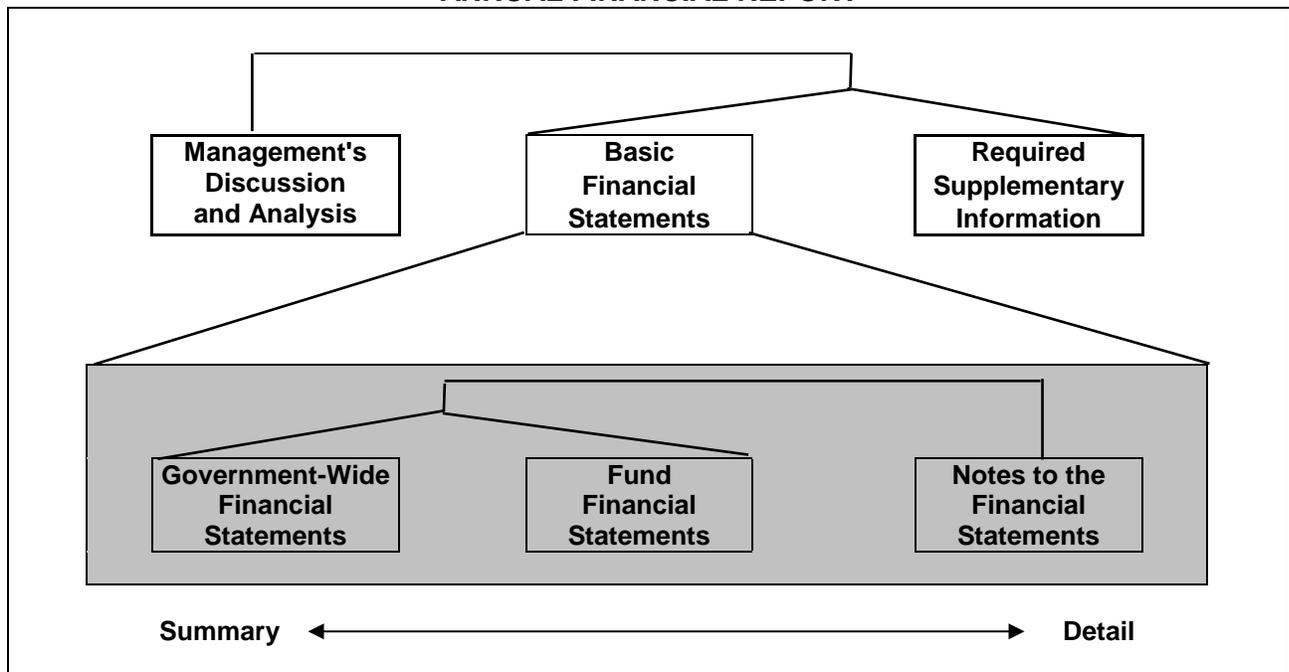


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

FIGURE A-2				
MAJOR FEATURES OF THE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS				
	Government-Wide Statements	Fund 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	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenue, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenue, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources 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, 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 revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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 during the year or soon thereafter	All revenue 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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-Wide Financial Statements

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

The two government-wide financial statements report the District's net position and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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 tax and state aid finance most of these activities.
- **Business-Type Activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is 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 or by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show it is properly using certain revenue, 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 fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

- *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 financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net position, a statement of revenue, expenses and changes in fund net position and a statement of cash flows.

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

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

The District is responsible for ensuring 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 position and a statement of changes in fiduciary net position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position as of June 30, 2013 compared to June 30, 2012.

**FIGURE A-3
CONDENSED STATEMENT OF NET POSITION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2012-2013
	2013	2012	2013	2012	2013	2012	
Current and other assets	\$ 9,243,325	\$ 9,151,427	\$ 103,964	\$ 168,629	\$ 9,347,289	\$ 9,320,056	0.3%
Capital assets	<u>8,956,121</u>	<u>9,273,995</u>	<u>65,735</u>	<u>27,850</u>	<u>9,021,856</u>	<u>9,301,845</u>	(3.0)
Total Assets	<u>18,199,446</u>	<u>18,425,422</u>	<u>169,699</u>	<u>196,479</u>	<u>18,369,145</u>	<u>18,621,901</u>	<u>(1.4)</u>
Long-term liabilities	1,955,156	2,308,560	10,549	8,355	1,965,705	2,316,915	(15.2)
Other liabilities	<u>5,378,811</u>	<u>6,024,203</u>	<u>50,231</u>	<u>48,555</u>	<u>5,429,042</u>	<u>6,072,758</u>	(10.6)
Total Liabilities	<u>7,333,967</u>	<u>8,332,763</u>	<u>60,780</u>	<u>56,910</u>	<u>7,394,747</u>	<u>8,389,673</u>	<u>(11.9)</u>
Net Position							
Net investment in capital assets	7,476,657	7,441,778	65,735	27,850	7,542,392	7,469,628	1.0
Restricted	1,723,352	998,748	—	—	1,723,352	998,748	72.6
Unrestricted	<u>1,665,470</u>	<u>1,652,133</u>	<u>43,184</u>	<u>111,719</u>	<u>1,708,654</u>	<u>1,763,852</u>	(3.1)
Total Net Position	<u>\$ 10,865,479</u>	<u>\$ 10,092,659</u>	<u>\$ 108,919</u>	<u>\$ 139,569</u>	<u>\$ 10,974,398</u>	<u>\$ 10,232,228</u>	<u>7.3%</u>

The District's total net position increased 7.3%, or approximately \$742,000, over the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased by approximately \$725,000, or 72.6%, over the prior year. The increase was primarily a result of decreased expenditures in the Capital Projects Fund.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$55,000, or 3.1%. This reduction in unrestricted net position was primarily a result of the District's net OPEB liability recorded in the current year.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 as compared to the year ended June 30, 2012.

**FIGURE A-4
CHANGES IN NET POSITION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2012-2013
	2013	2012	2013	2012	2013	2012	
Revenue							
Program Revenue							
Charges for service	\$ 2,263,278	\$ 1,899,881	\$ 295,280	\$ 305,144	\$ 2,558,558	\$ 2,205,025	16.0%
Operating grants and contributions	1,562,650	1,701,260	357,681	312,153	1,920,331	2,013,413	(4.6)
Capital grants and contributions	353,999	1,281,981	—	—	353,999	1,281,981	(72.4)
General Revenue							
Property tax	4,270,785	4,211,768	—	—	4,270,785	4,211,768	1.4
Income surtax	409,769	519,812	—	—	409,769	519,812	(21.2)
Statewide sales, services and use tax	902,493	841,796	—	—	902,493	841,796	7.2
Unrestricted state grants	5,113,365	5,437,908	—	—	5,113,365	5,437,908	(6.0)
Unrestricted invest- ment earnings	2,170	4,047	31	92	2,201	4,139	(46.8)
Total Revenue	14,878,509	15,898,453	652,992	617,389	15,531,501	16,515,842	(6.0)
Program Expenses							
Instruction	9,321,583	9,346,950	—	—	9,321,583	9,346,950	(0.3)
Support services	3,767,436	3,360,423	—	—	3,767,436	3,360,423	12.1
Noninstructional programs	—	—	683,642	600,581	683,642	600,581	13.8
Other expenses	1,016,670	1,668,231	—	—	1,016,670	1,668,231	(39.1)
Total Program Expenses	14,105,689	14,375,604	683,642	600,581	14,789,331	14,976,185	(1.2)
Change in Net Position	772,820	1,522,849	(30,650)	16,808	742,170	1,539,657	(51.8)
Net Assets - Beginning of Year	10,092,659	8,569,810	139,569	122,761	10,232,228	8,692,571	17.7
Net Assets - End of Year	\$ 10,865,479	\$ 10,092,659	\$ 108,919	\$ 139,569	\$ 10,974,398	\$ 10,232,228	7.3%

In fiscal year 2013, property tax and unrestricted state grants accounted for 63.1% of the governmental activities revenue while charges for service and operating grants and contributions accounted for 100% of business-type activities revenue. The District's total revenue was approximately \$15.5 million, of which approximately \$14.9 million was for governmental activities and less than \$1 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 6.0% decrease in revenue and a 1.2% decrease in expenses. The decrease in revenue is primarily related to decreased capital grants and contributions and state grants. The decrease in expenses is primarily related to decreased facilities acquisition and construction expenses.

Governmental Activities

Revenue for governmental activities was \$14,878,509 and expenses were \$14,105,689 for the year ended June 30, 2013. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenue.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses for the year ended June 30, 2013 compared to the year ended June 30, 2012.

FIGURE A-5
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES

	<u>Total Cost of Services</u>			<u>Net Cost of (Revenue From) Services</u>		
	2013	2012	Percentage Change 2012-2013	2013	2012	Percentage Change 2012-2013
Instruction	\$ 9,321,583	\$ 9,346,950	(0.3)%	\$ 6,148,410	\$ 6,241,901	(1.5)%
Support services	3,767,436	3,360,423	12.1	3,217,537	3,338,540	(3.6)
Other expenses	1,016,670	1,668,231	(39.1)	559,815	(87,959)	736.4
Total	<u>\$ 14,105,689</u>	<u>\$ 14,375,604</u>	<u>(1.9)%</u>	<u>\$ 9,925,762</u>	<u>\$ 9,492,482</u>	<u>4.6%</u>

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$2,263,278.
- Federal and state governments and local entities subsidized certain programs with grants and contributions totaling \$1,916,649.
- The net cost of governmental activities was financed with \$5,583,047 in property and other taxes, \$5,113,365 in unrestricted state grants and \$2,170 of unrestricted investment earnings.

Business-Type Activities

Revenue for business-type activities during the year ended June 30, 2013 was \$652,992, representing a 5.8% increase over the prior year, while expenses totaled \$683,642, a 13.8% increase over the prior year. The District's business-type activities includes the School Nutrition Fund. Revenue from these activities was comprised of charges for service, federal and state reimbursements and investment income.

The increase in revenue was primarily related to increased federal reimbursements. The increase in expenses was primarily related to increased costs of supplies.

INDIVIDUAL FUND ANALYSIS

As previously noted, 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 balances of \$3,437,185, well above last year's ending fund balances of \$2,668,939. The primary reason for the increase in combined fund balances at the end of fiscal year 2013 is due to decreased facilities acquisition and construction expenditures.

Governmental Fund Highlights

- The General Fund balance decreased from \$1,841,325 to \$1,778,736 primarily due to a decrease in state grant revenue.
- The Debt Service Fund balance increased from \$710 at the end of fiscal year 2012 to \$3,027 at the end of fiscal year 2013. Expenditures significantly increased from the prior year due to refunding general obligation bonds issued in the current year and the subsequent pay off of outstanding general obligation bonds.
- The Capital Project Fund balance increased from \$430,975 at the end of fiscal year 2012 to \$1,333,689 at the end of fiscal year 2013. Revenue and expenditures significantly decreased from the prior year due to less local contributions received and the completion of a large construction project at the beginning of the fiscal year.

Proprietary Fund Highlights

School Nutrition Fund net position decreased from \$139,569 as of June 30, 2012 to \$108,919 as of June 30, 2013, representing a decrease of approximately 22%. Revenue increased from the prior year due to an increase in federal reimbursements for meals served. Expenses increased from the prior year due to increased supplies costs.

BUDGETARY HIGHLIGHTS

Over the course of the year, Forest City Community School District amended its budget one time to reflect additional operating costs and bond refunding expenditures.

The District's total revenue was \$225,499 more than total budgeted revenue, a variance of 1.5%. Property tax revenue was more than anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the Capital Projects Fund. Capital projects did not progress as anticipated, so less was spent in fiscal year 2013 than was planned.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the District had invested \$9,021,856, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$728,060.

The original cost of the District's capital assets was approximately \$21.5 million. Governmental funds account for approximately \$21.3 million, with the remainder of approximately \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$93,611 as of June 30, 2013 compared to \$565,499 reported as of June 30, 2012. The significant decrease resulted from the completion of an athletic facility in the current year.

**FIGURE A-6
CAPITAL ASSETS, NET OF DEPRECIATION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2012-2013
	2013	2012	2013	2012	2013	2012	
Land	\$ 235,000	\$ 235,000	\$ —	\$ —	\$ 235,000	\$ 235,000	0.0%
Construction in progress	93,611	565,499	—	—	93,611	565,499	(83.4)
Buildings and improve- ments	7,898,170	7,739,096	—	—	7,898,170	7,739,096	2.1
Furniture and equipment	729,340	734,400	65,735	27,850	795,075	762,250	4.3
Total	<u>\$ 8,956,121</u>	<u>\$ 9,273,995</u>	<u>\$ 65,735</u>	<u>\$ 27,850</u>	<u>\$ 9,021,856</u>	<u>\$ 9,301,845</u>	<u>(3.0)%</u>

Long-Term Debt

As of June 30, 2013, the District had \$1,365,000 in total long-term debt outstanding. This represents a decrease of approximately 14.7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5% of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$23.6 million.

In December, 2012, the District's voters authorized the issuance of \$1,635,000 of refunding general obligation bonds to retire general obligation bonds of \$1,600,000 outstanding from 2003.

The District also had outstanding an outstanding School Equipment Note payable from the General Fund of \$114,464 as of June 30, 2013.

**FIGURE A-6
OUTSTANDING LONG-TERM OBLIGATIONS**

	Total District June 30,		Total Percentage Change June 30, 2012-2013
	2013	2012	
Governmental Activities			
General obligation bonds	\$ —	\$ 1,600,000	(100.0)%
Refunding general obligation bonds	<u>1,365,000</u>	<u>—</u>	<u>100.0</u>
Total	<u>\$ 1,365,000</u>	<u>\$ 1,600,000</u>	<u>(14.7)%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- For fiscal year 2007, there were three new housing developments in the City of Forest City along with the completion of an 18-hole golf course.
- The largest employer in the District, Winnebago Industries, continues to increase production and add as many employees as it can.
- The college in the District recently 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 by 25.4 students, 52.3 students and 3.3 students in the 2011-2012, 2012-2013 and 2013-2014 school years, respectively. 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 six retiring staff.
- Beginning with the 2013-2014 school year, Forest City Community School District will be consolidated with 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 cost per pupil for the next four years.
- During the 2013-2014 school year, Forest City Community School District will continue a sharing agreement with 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, 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 Rollefson, Board Secretary/Business Manager, Forest City Community School District, 145 South Clark Street, Forest City, Iowa 50436.

Basic Financial Statements

Statement of Net Position

As of June 30, 2013

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash, cash equivalents and investments.....	\$ 4,234,662	\$ 65,600	\$ 4,300,262
Receivables			
Property Tax			
Current year delinquent	64,862	—	64,862
Succeeding year	3,773,025	—	3,773,025
Due from other governments	1,145,078	13,753	1,158,831
Accounts.....	13,724	—	13,724
Inventories.....	11,974	24,611	36,585
Capital assets, net of accumulated depreciation...	<u>8,956,121</u>	<u>65,735</u>	<u>9,021,856</u>
Total Assets	<u>\$ 18,199,446</u>	<u>\$ 169,699</u>	<u>\$ 18,369,145</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	\$ 240,167	\$ 7,101	\$ 247,268
Salaries and benefits payable.....	1,361,417	42,338	1,403,755
Accrued interest payable	4,202	—	4,202
Deferred Revenue			
Succeeding year property tax	3,773,025	—	3,773,025
Other	—	792	792
Long-Term Liabilities			
Portion Due Within One Year			
General obligation refunding bonds	265,000	—	265,000
Note.....	114,464	—	114,464
Early retirement	77,503	—	77,503
Portion Due After One Year			
General obligation refunding bonds	1,100,000	—	1,100,000
Early retirement	145,724	—	145,724
Net OPEB liability	252,465	10,549	263,014
Total Liabilities.....	<u>7,333,967</u>	<u>60,780</u>	<u>7,394,747</u>
Net Position			
Net investment in capital assets	7,476,657	65,735	7,542,392
Restricted for			
Categorical funding.....	283,187	—	283,187
School infrastructure.....	1,224,117	—	1,224,117
Physical plant and equipment.....	109,572	—	109,572
Student activities	106,476	—	106,476
Unrestricted.....	<u>1,665,470</u>	<u>43,184</u>	<u>1,708,654</u>
Total Net Position	<u>10,865,479</u>	<u>108,919</u>	<u>10,974,398</u>
Total Liabilities and Net Position	<u>\$ 18,199,446</u>	<u>\$ 169,699</u>	<u>\$ 18,369,145</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Position		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 4,832,410	\$ 1,021,014	\$ 1,008,886	\$ —	\$ (2,802,510)	\$ —	\$ (2,802,510)
Special instruction	3,133,887	649,950	64,263	—	(2,419,674)	—	(2,419,674)
Other instruction	<u>1,355,286</u>	<u>417,363</u>	<u>11,697</u>	<u>—</u>	<u>(926,226)</u>	<u>—</u>	<u>(926,226)</u>
Total Instruction	<u>9,321,583</u>	<u>2,088,327</u>	<u>1,084,846</u>	<u>—</u>	<u>(6,148,410)</u>	<u>—</u>	<u>(6,148,410)</u>
Support Services							
Student services	310,005	—	—	—	(310,005)	—	(310,005)
Instructional staff services	408,819	—	20,949	—	(387,870)	—	(387,870)
Administration services	1,269,544	73,732	—	—	(1,195,812)	—	(1,195,812)
Operation and maintenance of plant services	1,259,590	95,427	—	353,999	(810,164)	—	(810,164)
Transportation services	<u>519,478</u>	<u>5,792</u>	<u>—</u>	<u>—</u>	<u>(513,686)</u>	<u>—</u>	<u>(513,686)</u>
Total Support Services	<u>3,767,436</u>	<u>174,951</u>	<u>20,949</u>	<u>353,999</u>	<u>(3,217,537)</u>	<u>—</u>	<u>(3,217,537)</u>
Other Expenditures							
Long-term debt interest and fiscal charges	65,270	—	—	—	(65,270)	—	(65,270)
AEA flowthrough	456,855	—	456,855	—	—	—	—
Depreciation - unallocated*	<u>494,545</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(494,545)</u>	<u>—</u>	<u>(494,545)</u>
Total Other Expenditures	<u>1,016,670</u>	<u>—</u>	<u>456,855</u>	<u>—</u>	<u>(559,815)</u>	<u>—</u>	<u>(559,815)</u>
Total Governmental Activities	<u>14,105,689</u>	<u>2,263,278</u>	<u>1,562,650</u>	<u>353,999</u>	<u>(9,925,762)</u>	<u>—</u>	<u>(9,925,762)</u>
Business-Type Activities							
Noninstructional Programs							
Food service operations	<u>683,642</u>	<u>295,280</u>	<u>357,681</u>	<u>—</u>	<u>—</u>	<u>(30,681)</u>	<u>(30,681)</u>
Total	<u>\$ 14,789,331</u>	<u>\$ 2,558,558</u>	<u>\$ 1,920,331</u>	<u>\$ 353,999</u>	<u>(9,925,762)</u>	<u>(30,681)</u>	<u>(9,956,443)</u>
General Revenue							
Property Tax Levied for							
General purposes					3,568,939	—	3,568,939
Management					302,782	—	302,782
Capital outlay					96,282	—	96,282
Debt service					302,782	—	302,782
Income surtax					409,769	—	409,769
Statewide sales, services and use tax					902,493	—	902,493
Unrestricted state grants					5,113,365	—	5,113,365
Unrestricted investment earnings					<u>2,170</u>	<u>31</u>	<u>2,201</u>
Total General Revenue					<u>10,698,582</u>	<u>31</u>	<u>10,698,613</u>
Change in Net Position					772,820	(30,650)	742,170
Net Position - Beginning of Year							
					<u>10,092,659</u>	<u>139,569</u>	<u>10,232,228</u>
Net Position - End of Year					<u>\$ 10,865,479</u>	<u>\$ 108,919</u>	<u>\$ 10,974,398</u>

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

Balance Sheet - Governmental Funds

As of June 30, 2013

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash, cash equivalents and investments	\$ 2,806,949	\$ 2,948	\$ 1,132,778	\$ 291,987	\$ 4,234,662
Receivables					
Property Tax					
Current year delinquent	54,628	4,279	1,389	4,566	64,862
Succeeding year	3,159,610	274,218	100,819	238,378	3,773,025
Due from other governments.....	870,537	—	274,541	—	1,145,078
Due from other funds.....	4,200	—	—	16,235	20,435
Accounts.....	—	—	—	13,724	13,724
Inventories.....	11,974	—	—	—	11,974
Total Assets.....	<u>\$ 6,907,898</u>	<u>\$ 281,445</u>	<u>\$ 1,509,527</u>	<u>\$ 564,890</u>	<u>\$ 9,263,760</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable.....	\$ 160,369	\$ —	\$ 75,019	\$ 4,779	\$ 240,167
Salaries and benefits payable.....	1,361,417	—	—	—	1,361,417
Due to other funds.....	16,235	4,200	—	—	20,435
Deferred Revenue					
Succeeding year property tax.....	3,159,610	274,218	100,819	238,378	3,773,025
Other.....	431,531	—	—	—	431,531
Total Liabilities	<u>5,129,162</u>	<u>278,418</u>	<u>175,838</u>	<u>243,157</u>	<u>5,826,575</u>
Fund Balances					
Nonspendable					
Inventories	11,974	—	—	—	11,974
Restricted for					
Categorical funding	283,187	—	—	—	283,187
Debt service.....	—	3,027	—	—	3,027
School infrastructure	—	—	1,224,117	—	1,224,117
Physical plant and equipment	—	—	109,572	—	109,572
Management levy purposes	—	—	—	215,257	215,257
Student activities	—	—	—	106,476	106,476
Unassigned	1,483,575	—	—	—	1,483,575
Total Fund Balances	<u>1,778,736</u>	<u>3,027</u>	<u>1,333,689</u>	<u>321,733</u>	<u>3,437,185</u>
Total Liabilities and Fund Balances....	<u>\$ 6,907,898</u>	<u>\$ 281,445</u>	<u>\$ 1,509,527</u>	<u>\$ 564,890</u>	<u>\$ 9,263,760</u>

See accompanying notes to the financial statements.

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

As of June 30, 2013

Total Fund Balances for Governmental Funds (Page 17).... **\$ 3,437,185**

***Amounts reported for governmental activities in the
statement of net position are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds..... 8,956,121

Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds..... (4,202)

Income surtax receivable is not available to pay current year expenditures and, therefore, is deferred in the governmental funds..... 431,531

Long-term liabilities, including general obligation refunding bonds, note, early retirement and other post-employment benefits are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.

General obligation refunding bonds payable	\$ (1,365,000)	
Note payable	(114,464)	
Early retirement.....	(223,227)	
Net OPEB liability	<u>(252,465)</u>	<u>(1,955,156)</u>

Net Position of Governmental Activities (Page 15) **\$ 10,865,479**

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2013

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenue					
Local Sources					
Local tax	\$ 4,013,681	\$ 302,782	\$ 998,775	\$ 302,782	\$ 5,618,020
Tuition	1,347,451	—	—	—	1,347,451
Other	499,936	74	354,462	417,525	1,271,997
State sources	6,433,216	168	53	183	6,433,620
Federal sources	242,394	—	—	—	242,394
Total Revenue	<u>12,536,678</u>	<u>303,024</u>	<u>1,353,290</u>	<u>720,490</u>	<u>14,913,482</u>
Expenditures					
Current					
Instruction					
Regular instruction	4,743,446	—	—	89,219	4,832,665
Special instruction	3,134,070	—	—	—	3,134,070
Other instruction	722,388	—	—	491,173	1,213,561
Total Instruction	<u>8,599,904</u>	<u>—</u>	<u>—</u>	<u>580,392</u>	<u>9,180,296</u>
Support Services					
Student services	310,024	—	—	—	310,024
Instructional staff services	408,839	—	—	—	408,839
Administration services	1,265,331	—	—	—	1,265,331
Operation and maintenance					
of plant services	985,254	—	—	214,294	1,199,548
Transportation services	451,727	—	55,700	—	507,427
Total Support Services	<u>3,421,175</u>	<u>—</u>	<u>55,700</u>	<u>214,294</u>	<u>3,691,169</u>
Other Expenditures					
Facilities acquisition and construction	—	—	394,876	—	394,876
Long-Term Debt					
Principal	—	1,987,753	—	—	1,987,753
Interest and fiscal charges	—	69,287	—	—	69,287
AEA flowthrough	456,855	—	—	—	456,855
Total Other Expenditures	<u>456,855</u>	<u>2,057,040</u>	<u>394,876</u>	<u>—</u>	<u>2,908,771</u>
Total Expenditures	<u>12,477,934</u>	<u>2,057,040</u>	<u>450,576</u>	<u>794,686</u>	<u>15,780,236</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>58,744</u>	<u>(1,754,016)</u>	<u>902,714</u>	<u>(74,196)</u>	<u>(866,754)</u>
Other Financing Sources (Uses)					
General obligation refunding					
bonds issued	—	1,635,000	—	—	1,635,000
Operating transfers in	—	121,333	—	—	121,333
Operating transfers out	(121,333)	—	—	—	(121,333)
Total Other Financing Sources (Uses)	<u>(121,333)</u>	<u>1,756,333</u>	<u>—</u>	<u>—</u>	<u>1,635,000</u>
Net Change in Fund Balances	<u>(62,589)</u>	<u>2,317</u>	<u>902,714</u>	<u>(74,196)</u>	<u>768,246</u>
Fund Balances - Beginning of Year ...	1,841,325	710	430,975	395,929	2,668,939
Fund Balances - End of Year	<u>\$ 1,778,736</u>	<u>\$ 3,027</u>	<u>\$ 1,333,689</u>	<u>\$ 321,733</u>	<u>\$ 3,437,185</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities —————

Year Ended June 30, 2013

Change in Fund Balances - Total Governmental Funds (Page 19) \$ 768,246

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are not reported in the statement of net position and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense for the year are as follows:

Capital outlays.....	\$ 400,596	
Depreciation expense.....	<u>(718,470)</u>	(317,874)

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 interest accrues, regardless of when it is due. 4,017

Income surtax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds..... (34,973)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amounts of issues and repayments for the year are as follows:

Issued.....	\$ (1,635,000)	
Repaid	<u>1,987,753</u>	352,753

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:

Early retirement.....	\$ 90,634	
Other post-employment benefits.....	<u>(89,983)</u>	<u>651</u>

Change in Net Position of Governmental Activities (Page 16) \$ 772,820

Statement of Net Position - Proprietary Fund

Year Ended June 30, 2013

	Nonmajor Enterprise School Nutrition
Assets	
Current Assets	
Cash, cash equivalents and investments.....	\$ 65,600
Receivables	
Due from other governments.....	13,753
Inventories.....	<u>24,611</u>
Total Current Assets	<u>103,964</u>
Capital Assets	
Capital Assets, Net of Accumulated Depreciation.....	<u>65,735</u>
Total Assets	<u>\$ 169,699</u>
Liabilities and Net Position	
Current Liabilities	
Accounts payable	\$ 7,101
Salaries and benefits payable.....	42,338
Deferred revenue	<u>792</u>
Total Current Liabilities	<u>50,231</u>
Net OPEB Liability	<u>10,549</u>
Total Liabilities	<u>60,780</u>
Net Position	
Investment in capital assets.....	65,735
Unrestricted.....	<u>43,184</u>
Total Net Position	<u>108,919</u>
Total Liabilities and Net Position	<u>\$ 169,699</u>

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Fund

Year Ended June 30, 2013

	Nonmajor Enterprise School Nutrition
Operating Revenue	
Local Sources	
Charges for service.....	<u>\$ 295,280</u>
Operating Expenses	
Noninstructional Programs	
Food Service Operations	
Salaries	182,909
Benefits	99,851
Purchased services.....	4,785
Supplies	386,507
Depreciation.....	<u>9,590</u>
Total Operating Expenses	<u>683,642</u>
Loss From Operations	<u>(388,362)</u>
Nonoperating Revenue	
State sources	5,692
Federal sources.....	351,989
Interest on investments	<u>31</u>
Total Nonoperating Revenue.....	<u>357,712</u>
Change in Net Position	(30,650)
Net Position - Beginning of Year.....	<u>139,569</u>
Net Position - End of Year.....	<u>\$ 108,919</u>

Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2013

	Nonmajor Enterprise School Nutrition
Cash Flows From Operating Activities	
Cash received from sale of lunches and breakfasts.....	\$ 291,653
Cash payments to employees for services	(278,187)
Cash payments to suppliers for goods or services.....	<u>(341,537)</u>
Net Cash Used in Operating Activities	<u>(328,071)</u>
Cash Flows From Noncapital Financing Activities	
State grants received.....	5,692
Federal grants received.....	<u>303,130</u>
Net Cash Provided by Noncapital Financing Activities	<u>308,822</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets.....	<u>(47,475)</u>
Cash Flows From Investing Activities	
Interest on investments	<u>31</u>
Net Decrease in Cash, Cash Equivalents and Investments.....	(66,693)
Cash, Cash Equivalents and Investments - Beginning of Year	<u>132,293</u>
Cash, Cash Equivalents and Investments - End of Year	<u>\$ 65,600</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations.....	\$ (388,362)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Commodities used.....	47,706
Depreciation	9,590
Changes in Assets and Liabilities	
Increase in inventories.....	(875)
Increase in accounts payable	2,924
Increase in salaries and benefits payable	2,379
Decrease in deferred revenue	(3,627)
Increase in net OPEB liability	<u>2,194</u>
Net Cash Used in Operating Activities.....	<u>\$ (328,071)</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2013, the District received \$48,815 of federal commodities.

Statement of Fiduciary Net Position - Fiduciary Fund

As of June 30, 2013

	Private Purpose Trust <u>Scholarship</u>
Assets	
Cash, Cash Equivalents and Investments	<u>\$ 3,240</u>
Net Position	
Reserved for Scholarships	<u>\$ 3,240</u>

Statement of Changes in Fiduciary Net Position - Fiduciary Fund —————

Year Ended June 30, 2013

	Private Purpose Trust <hr style="border: 0; border-top: 1px solid black;"/> Scholarship
Revenue	
Local Sources	
Interest income	<u>\$ 17</u>
Expenditures	
Transfer to Forest City Community School Foundation.....	<u>11,650</u>
Change in Net Position	(11,633)
Net Position - Beginning of Year.....	<u>14,873</u>
Net Position - End of Year	<u>\$ 3,240</u>

Notes to the 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 along with special education pre-kindergarten. 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 nonpartisan basis.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board.

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 District has no component units which 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 Winnebago and Hancock County Assessor's Conference Boards.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (previously referred to as net assets) and the statement of activities report information on all 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but 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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenue are reported instead as general revenue.

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 Projects Fund accounts.

The District reports the following major governmental funds:

The *General Fund* is the general operating fund of the District. All general tax revenue and other revenue 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 expenses, including instructional, support and other costs.

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

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 reports the following nonmajor proprietary fund:

The *Enterprise, School Nutrition Fund* is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net position and changes in net position. The District's fiduciary fund includes the following:

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end.

Property tax, intergovernmental revenue (shared revenue, 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 judgments 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 revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenue.

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.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Investments

The cash balances of most District funds are 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 nonnegotiable 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 the 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 becomes due and collectible in September and March of the fiscal year with a 1-1/2% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

Due From Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. Inventories of the Proprietary and General Fund are recorded as expenses when consumed rather than when purchased or received.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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 position. 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. The District did not have any intangible assets as of June 30, 2013. 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.

Land.....	\$ —
Buildings and improvements	25,000
Intangibles.....	100,000
Furniture and Equipment	
School Nutrition Fund equipment	500
Other furniture and equipment.....	3,000

Capital assets are depreciated/amortized using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 50 Years
Intangibles.....	3 - 10 Years
Furniture and equipment	5 - 30 Years

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 revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of amounts received in advance for meal sales, property tax and other receivables not collected within 60 days after year end.

Deferred revenue in the statement of net position consists of 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 or sick leave benefits when employment with the District ends.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Long-Term Liabilities

In the government-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 position.

Fund Equity

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

Nonspendable - Amounts which cannot be spent because they are in a nonspendable 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 the preceding classifications.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2013, expenditures exceeded the amount budgeted in the support services function. The District did not exceed its General Fund unspent authorized budget.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash, Cash Equivalents and Investments

The District's deposits in banks as of June 30, 2013 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.

As of June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Diversified Government Obligations Portfolio which are valued at an amortized cost of \$1,450 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.

Notes to the Financial Statements

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables as of June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue		
Management Levy	General	\$ 16,235
General	Debt Service	4,200
		<u>\$ 20,435</u>

The outstanding balances are related to prior year expenditures paid from the incorrect fund. The balances are to be repaid by June 30, 2014.

(4) Interfund Transfers

The detail of the interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer From	Amount
Debt Service	General	<u>\$ 121,333</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 235,000	\$ —	\$ —	\$ 235,000
Construction in progress	<u>565,499</u>	<u>344,897</u>	<u>816,785</u>	<u>93,611</u>
Total Capital Assets Not Being Depreciated.....	<u>800,499</u>	<u>344,897</u>	<u>816,785</u>	<u>328,611</u>
Capital Assets Being Depreciated				
Buildings and improvements	17,287,830	760,779	—	18,048,609
Furniture and equipment	<u>2,816,563</u>	<u>111,705</u>	<u>23,773</u>	<u>2,904,495</u>
Total Capital Assets Being Depreciated.....	<u>20,104,393</u>	<u>872,484</u>	<u>23,773</u>	<u>20,953,104</u>
Less Accumulated Depreciation for				
Buildings and improvements	9,548,734	601,705	—	10,150,439
Furniture and equipment	<u>2,082,163</u>	<u>116,765</u>	<u>23,773</u>	<u>2,175,155</u>
Total Accumulated Depreciation...	<u>11,630,897</u>	<u>718,470</u>	<u>23,773</u>	<u>12,325,594</u>
Total Capital Assets Being Depreciated, Net	<u>8,473,496</u>	<u>154,014</u>	<u>—</u>	<u>8,627,510</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,273,995</u>	<u>\$ 498,911</u>	<u>\$ 816,785</u>	<u>\$ 8,956,121</u>

Notes to the Financial Statements

(5) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Furniture and equipment	\$ 193,639	\$ 47,475	\$ —	\$ 241,114
Less accumulated depreciation	<u>165,789</u>	<u>9,590</u>	<u>—</u>	<u>175,379</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 27,850</u>	<u>\$ 37,885</u>	<u>\$ —</u>	<u>\$ 65,735</u>

Depreciation expense was charged to the following functions:

Governmental Activities

Instruction		
Other instruction.....		\$ 141,767
Support Services		
Administration services		4,280
Operation and maintenance of plant services.....		10,098
Transportation services.....		67,780
Unallocated		<u>494,545</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 718,470</u>

Business-Type Activities

Food Service Operations.....		<u>\$ 9,590</u>
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(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are summarized as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Government Activities					
General obligation					
bonds.....	\$ 1,600,000	\$ —	\$ 1,600,000	\$ —	\$ —
General obligation					
refunding bonds	—	1,635,000	270,000	1,365,000	265,000
Note payable	232,217	—	117,753	114,464	114,464
Early retirement	313,861	—	90,634	223,227	77,503
Net OPEB liability ...	<u>162,482</u>	<u>89,983</u>	<u>—</u>	<u>252,465</u>	<u>—</u>
Total	<u>\$ 2,308,560</u>	<u>\$ 1,724,983</u>	<u>\$ 2,078,387</u>	<u>\$ 1,955,156</u>	<u>\$ 456,967</u>
Business-Type Activities					
Net OPEB Liability ..	<u>\$ 8,355</u>	<u>\$ 2,194</u>	<u>\$ —</u>	<u>\$ 10,549</u>	<u>\$ —</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

General Obligation Refunding Bonds

Details of the District's June 30, 2013 general obligation refunding bond indebtedness are as follows:

Year Ending June 30,	Bonds Issued January 1, 2013			
	Interest Rates	Principal	Interest	Total
2014	0.45%	\$ 265,000	\$ 9,218	\$ 274,218
2015	0.50	265,000	8,025	273,025
2016	0.60	275,000	6,700	281,700
2017	0.80	275,000	5,050	280,050
2018	1.00	<u>285,000</u>	<u>2,850</u>	<u>287,850</u>
Total		<u>\$ 1,365,000</u>	<u>\$ 31,843</u>	<u>\$ 1,396,843</u>

On January 1, 2013, the District issued \$1,635,000 of general obligation refunding bonds for the current refunding of \$1,600,000 of general obligation bonds issued June 1, 2003. The bonds bear interest at 0.45% to 1.00% per annum and mature on June 1, 2018. The refunding was undertaken to reduce total debt service payments over the next five years by \$138,564 and resulted in an economic gain of \$128,926.

Note Payable

During the year ended June 30, 2012, the District issued a note of \$348,325 to provide funds for the purchase of computers. The note bears interest at 3% per annum and is payable from the General Fund. Details of the District's indebtedness under the agreement in effect as of June 30, 2013 are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	<u>\$ 114,464</u>	<u>\$ 5,229</u>	<u>\$ 119,693</u>

(7) 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 which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$660,126, \$603,286 and \$507,595, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 153 active and 15 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug 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 which 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, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution.....	\$ 175,712
Interest on net OPEB obligation.....	4,271
Adjustment to annual required contribution.....	<u>(14,798)</u>
Annual OPEB Cost	165,185
Contributions made	<u>(73,008)</u>
Increase in Net OPEB Obligation	92,177
Net OPEB Obligation - Beginning of Year.....	<u>170,837</u>
Net OPEB Obligation - End of Year	<u>\$ 263,014</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plan's actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$73,008 to the medical plan. Plan members eligible for benefits contributed \$11,006 or 13.1% of the premium costs.

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 88,207	21.3%	\$ 218,265
June 30, 2012	170,837	46.4	170,837
June 30, 2013	165,185	44.2	263,014

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date for the period of July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1,072,980 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,072,980. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$7,701,000, and the ratio of the UAAL to the covered payroll was 13.9%. As of June 30, 2013, 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 healthcare 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 for the retiree health plan, presented as required supplementary information in the section following the notes to financial statements, presents 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 frozen entry age actuarial cost method was used. The actuarial assumptions include 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%. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the 2006 Society of Actuaries Study. The UAAL is being amortized as a level percentage of projected payroll expense on a closed basis over 30 years.

Notes to the Financial Statements

(9) Early Retirement Plan

The District offered a voluntary early retirement plan to its employees during fiscal years 2006, 2009 and 2010. Eligible employees must have completed at least ten years of continuous service to the District and must have reached the age of 55 on or before June 30 in the calendar year in which early retirement commenced. The application for early retirement was 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 consisted of \$35,000 of future health insurance premiums.

As of June 30, 2013, the District has obligations to 16 participants with a total liability of \$223,227. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$90,634.

(10) Risk Management

The 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 Support

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 \$456,855 for the year ended June 30, 2013, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Categorical Funding

The District's restricted fund balance for categorical funding as of June 30, 2013 is comprised of the following programs:

Program	Amount
Statewide voluntary four-year-old preschool program.....	\$ 176,064
Teacher salary supplement	56,164
Professional development for model core curriculum.....	50,959
	<u>\$ 283,187</u>

(13) Construction Commitment

The District has entered into contracts totaling \$1,101,510 for improvements to the elementary school and baseball stadium. As of June 30, 2013, costs of \$93,611 had been incurred against the contracts. The balance of \$1,007,899 remaining as of June 30, 2013 will be paid as work on the projects progress.

(14) Reorganization of Forest City Community School District and Woden-Crystal Lake Community School District

On September 11, 2012, the voters of Forest City Community School District and Woden-Crystal Lake Community School District approved a reorganization effective July 1, 2013, a new District was formed called Forest City Community School District.

(15) Change in Estimated Useful Lives of Assets

During the year ended June 30, 2013, management determined the useful lives of some building improvements were over-estimated. The building improvements had been depreciated over 20-50 years and it was deemed they should have been depreciated over 15-20 years. The remaining net book value will be depreciated over the re-estimated useful life beginning in the year ended June 30, 2013. The change in estimated useful lives resulted in additional depreciation expense of \$46,085 in the year ended June 30, 2013 and will also result in additional depreciation expense of \$46,085 in the year ending June 30, 2014. The effect of the re-estimated useful lives will not have a material effect on depreciation expense after the year ending June 30, 2014.

(16) Subsequent Events

Management has evaluated events through February 12, 2014, the date which the financial statements were available to be issued.

The District entered into contracts totaling approximately \$600,000 for a loading dock and remodeling of the high school entrance.

Required Supplementary Information



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

Year Ended June 30, 2013

	Actual			Budget Amount		Over (Under) Budget
	Govern- mental Fund Types	Proprietary Fund Type	Total	Original	Final	
Revenue						
Local sources	\$ 8,237,468	\$ 295,311	\$ 8,532,779	\$ 8,285,167	\$ 8,285,167	\$ 247,612
State sources	6,433,620	5,692	6,439,312	6,518,808	6,518,808	(79,496)
Federal sources	242,394	351,989	594,383	537,000	537,000	57,383
Total Revenue.....	<u>14,913,482</u>	<u>652,992</u>	<u>15,566,474</u>	<u>15,340,975</u>	<u>15,340,975</u>	<u>225,499</u>
Expenditures/Expenses						
Instruction.....	9,180,296	—	9,180,296	9,074,427	9,674,427	(494,131)
Support services	3,691,169	—	3,691,169	3,440,000	3,540,000	151,169
Noninstructional programs	—	683,642	683,642	725,000	725,000	(41,358)
Other expenditures.....	2,908,771	—	2,908,771	2,085,573	3,685,573	(776,802)
Total Expenditures/ Expenses	<u>15,780,236</u>	<u>683,642</u>	<u>16,463,878</u>	<u>15,325,000</u>	<u>17,625,000</u>	<u>(1,161,122)</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures/Expenses....	(866,754)	(30,650)	(897,404)	15,975	(2,284,025)	1,386,621
Other Financing Sources (Net)	<u>1,635,000</u>	<u>—</u>	<u>1,635,000</u>	<u>—</u>	<u>—</u>	<u>1,635,000</u>
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses.....	768,246	(30,650)	737,596	15,975	(2,284,025)	3,021,621
Balance - Beginning of Year ...	<u>2,668,939</u>	<u>139,569</u>	<u>2,808,508</u>	<u>3,131,010</u>	<u>3,131,010</u>	<u>(322,502)</u>
Balance - End of Year	<u>\$ 3,437,185</u>	<u>\$ 108,919</u>	<u>\$ 3,546,104</u>	<u>\$ 3,146,985</u>	<u>\$ 846,985</u>	<u>\$ 2,699,119</u>

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 the Private-Purpose Trust Fund. The budget may be amended during the year utilizing similar and 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, noninstructional 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 ended June 30, 2013, the District adopted one budget amendment, increasing budgeted expenditures by \$2,300,000.

During the year ended June 30, 2013, expenditures in the support services function exceeded the amount budgeted; however, the District did not exceed its General Fund unspent authorized budget.

Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 827,960	\$ 827,960	0%	\$ 6,525,000	12.7%
2010	7-1-08	—	819,518	819,518	0	7,153,000	11.5
2011	7-1-08	—	819,518	819,518	0	7,161,000	11.4
2012	7-1-11	—	1,187,204	1,187,204	0	6,994,000	17.0
2013	7-1-11	—	1,072,980	1,072,980	0	7,701,000	13.9

See Note 8 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2013

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash, cash equivalents and investments.....	\$ 194,456	\$ 97,531	\$ 291,987
Receivables			
Property Tax			
Current year delinquent.....	4,566	—	4,566
Succeeding year	238,378	—	238,378
Due from other funds	16,235	—	16,235
Accounts	<u>—</u>	<u>13,724</u>	<u>13,724</u>
Total Assets	<u>\$ 453,635</u>	<u>\$ 111,255</u>	<u>\$ 564,890</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ —	\$ 4,779	\$ 4,779
Deferred Revenue			
Succeeding year property tax.....	<u>238,378</u>	<u>—</u>	<u>238,378</u>
Total Liabilities	<u>238,378</u>	<u>4,779</u>	<u>243,157</u>
Fund Balances			
Restricted for			
Management levy purposes	215,257	—	215,257
Student activities.....	<u>—</u>	<u>106,476</u>	<u>106,476</u>
Total Fund Balances	<u>215,257</u>	<u>106,476</u>	<u>321,733</u>
Total Liabilities and Fund Balances	<u>\$ 453,635</u>	<u>\$ 111,255</u>	<u>\$ 564,890</u>

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

Year Ended June 30, 2013

	Special Revenue		
	Management Levy	Student Activity	Total
Revenue			
Local Sources			
Local tax	\$ 302,782	\$ —	\$ 302,782
Other.....	98	417,427	417,525
State sources	183	—	183
Total Revenue.....	<u>303,063</u>	<u>417,427</u>	<u>720,490</u>
Expenditures			
Current			
Instruction			
Regular instruction	89,219	—	89,219
Other instruction.....	—	491,173	491,173
Total Instruction.....	<u>89,219</u>	<u>491,173</u>	<u>580,392</u>
Support Services			
Operation and maintenance of plant services...	<u>214,294</u>	—	<u>214,294</u>
Total Expenditures	<u>303,513</u>	<u>491,173</u>	<u>794,686</u>
Net Change in Fund Balances	(450)	(73,746)	(74,196)
Fund Balances - Beginning of Year	<u>215,707</u>	<u>180,222</u>	<u>395,929</u>
Fund Balances - End of Year	<u>\$ 215,257</u>	<u>\$ 106,476</u>	<u>\$ 321,733</u>

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

Year Ended June 30, 2013

Account	Balance - Beginning of Year	Revenue	Expendi- tures	Intrafund Transfers	Balance - End of Year
Athletics and cheerleading.....	\$ 66,732	\$ 103,060	\$ 165,036	\$ 12,694	\$ 17,450
Cross Country	—	—	1,294	1,294	—
Golf	—	320	1,428	1,108	—
Boys athletics	—	—	1,476	1,476	—
Boys basketball	—	12,968	3,897	(9,071)	—
Football	4,575	44,975	41,702	(7,372)	476
Baseball field improvement.....	2,311	18,591	11,848	(1,477)	7,577
Boys track	—	2,931	2,384	160	707
Wrestling	110	9,813	9,798	(125)	—
Girls basketball.....	7,227	16,441	21,887	—	1,781
Volleyball.....	8,817	22,939	27,332	—	4,424
Softball	—	—	15	15	—
Girls track.....	(526)	5,036	4,519	1,298	1,289
Cheer fundraising	447	11,102	11,549	—	—
Special education wind suit	116	—	—	—	116
Elementary activities.....	35,304	8,019	10,162	—	33,161
FFA	1,842	24,951	24,845	—	1,948
HS activities.....	3,503	17,052	19,678	—	877
HS band	3,603	7,543	10,372	—	774
HS home economics awards ...	1	—	—	—	1
HS color guard	2,175	1,359	1,496	—	2,038
HS music.....	1,166	3,194	4,046	—	314
HS marketing.....	597	10,072	9,437	—	1,232
HS student council.....	1,746	6,386	5,797	—	2,335
MS activities	—	15,633	10,372	—	5,261
MS band and vocal.....	3,367	3,438	3,349	—	3,456
MS history club.....	176	29,675	29,851	—	—
MS art club	671	—	643	—	28
MS industrial arts.....	82	—	—	—	82
MS spin program	9,774	—	6,345	—	3,429
MS memory book	587	1,560	1,854	—	293
MS student council	1,641	593	1,359	—	875
MS musical.....	212	247	242	—	217
Class of 2012	539	—	—	(539)	—
Class of 2013	452	1,609	1,548	1,509	2,022
Class of 2014	645	—	20	(625)	—
Class of 2015	345	—	—	(345)	—
Spanish club.....	599	—	—	—	599
Special needs.....	1,645	—	—	—	1,645
Speech and drama	500	6,044	6,338	—	206
Rotary corner funds.....	4,012	4,800	7,261	—	1,551
Yearbook.....	1,893	11,211	12,711	—	393
Fall musical	7,339	4,956	8,280	—	4,015
Spring play	2,500	—	—	—	2,500
Student activity tickets	—	10,845	10,845	—	—
WCL booster club	1,504	—	157	—	1,347
Chicago trip	634	—	—	—	634
Interest	1,359	64	—	—	1,423
Total	\$ 180,222	\$ 417,427	\$ 491,173	\$ —	\$ 106,476

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2013

	<u>Capital Projects</u>		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Assets			
Cash, cash equivalents and investments.....	\$ 1,024,595	\$ 108,183	\$ 1,132,778
Receivables			
Property Tax			
Current year delinquent	—	1,389	1,389
Succeeding year.....	—	100,819	100,819
Due from other governments	<u>274,541</u>	<u>—</u>	<u>274,541</u>
Total Assets	<u>\$ 1,299,136</u>	<u>\$ 210,391</u>	<u>\$ 1,509,527</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 75,019	\$ —	\$ 75,019
Deferred Revenue			
Succeeding year property tax	<u>—</u>	<u>100,819</u>	<u>100,819</u>
Total Liabilities.....	<u>75,019</u>	<u>100,819</u>	<u>175,838</u>
Fund Balances			
Restricted for			
School infrastructure.....	1,224,117	—	1,224,117
Physical plant and equipment.....	<u>—</u>	<u>109,572</u>	<u>109,572</u>
Total Fund Balances.....	<u>1,224,117</u>	<u>109,572</u>	<u>1,333,689</u>
Total Liabilities and Fund Balances.....	<u>\$ 1,299,136</u>	<u>\$ 210,391</u>	<u>\$ 1,509,527</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Capital Projects Accounts

Year Ended June 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenue			
Local Sources			
Local taxes	\$ 902,493	\$ 96,282	\$ 998,775
Other	354,414	48	354,462
State sources	<u>—</u>	<u>53</u>	<u>53</u>
Total Revenue	<u>1,256,907</u>	<u>96,383</u>	<u>1,353,290</u>
Expenditures			
Current Expenditures			
Support Services			
Transportation services	—	55,700	55,700
Other Expenditures			
Facilities acquisition and construction.....	<u>394,876</u>	<u>—</u>	<u>394,876</u>
Total Expenditures	<u>394,876</u>	<u>55,700</u>	<u>450,576</u>
Net Change in Fund Balances	862,031	40,683	902,714
Fund Balances - Beginning of Year	<u>362,086</u>	<u>68,889</u>	<u>430,975</u>
Fund Balances - End of Year	<u>\$ 1,224,117</u>	<u>\$ 109,572</u>	<u>\$ 1,333,689</u>

**Schedule of Revenue By Source and Expenditures By Function -
All Governmental Fund Types (Modified Accrual Basis)**

For the Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenue										
Local Sources										
Local tax	\$ 5,618,020	\$ 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
Tuition	1,347,451	1,128,876	885,345	890,431	998,866	916,426	838,885	777,886	769,041	878,311
Other	1,271,997	2,057,182	652,398	653,205	720,366	677,252	704,043	583,879	487,027	551,272
State sources	6,433,620	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
Federal sources.....	<u>242,394</u>	<u>295,274</u>	<u>785,076</u>	<u>1,040,860</u>	<u>235,541</u>	<u>184,775</u>	<u>323,564</u>	<u>223,498</u>	<u>323,357</u>	<u>210,706</u>
Total	<u>\$ 14,913,482</u>	<u>\$ 15,964,498</u>	<u>\$ 14,559,776</u>	<u>\$ 13,830,842</u>	<u>\$ 13,482,329</u>	<u>\$ 12,899,925</u>	<u>\$ 12,664,130</u>	<u>\$ 12,381,030</u>	<u>\$ 11,809,359</u>	<u>\$ 10,916,193</u>
Expenditures										
Instruction										
Regular instruction	\$ 4,832,665	\$ 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
Special instruction.....	3,134,070	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
Other instruction.....	1,213,561	1,812,133	1,663,312	1,594,213	1,537,882	1,288,204	1,199,493	1,145,501	807,656	777,055
Support Services										
Student services	310,024	257,351	245,663	238,955	283,483	238,398	232,767	227,634	237,857	216,622
Instructional staff services.....	408,839	329,797	248,695	360,366	412,992	441,907	345,894	410,126	452,861	384,480
Administration services	1,265,331	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
Operations and maintenance of plant services.....	1,199,548	1,044,094	1,010,773	992,533	943,838	948,200	959,939	891,072	880,312	905,573
Transportation services.....	507,427	532,036	513,137	420,011	432,309	457,783	508,876	488,992	459,071	464,650
Other Expenditures										
Facilities acquisition and construction	394,876	2,407,271	542,798	219,568	314,901	719,273	757,699	392,877	1,481,485	2,797,704
Long-Term Debt										
Principal	1,987,753	351,108	225,000	220,000	373,579	303,151	266,510	248,718	261,458	306,316
Interest and fiscal charges.....	69,287	70,190	72,115	79,105	92,483	102,500	111,063	116,066	123,345	130,335
AEA flowthrough	<u>456,855</u>	<u>474,060</u>	<u>531,812</u>	<u>537,820</u>	<u>457,736</u>	<u>441,706</u>	<u>432,789</u>	<u>423,738</u>	<u>404,063</u>	<u>398,349</u>
Total	<u>\$ 15,780,236</u>	<u>\$ 16,145,393</u>	<u>\$ 13,676,084</u>	<u>\$ 12,991,031</u>	<u>\$ 13,176,354</u>	<u>\$ 13,289,191</u>	<u>\$ 13,093,022</u>	<u>\$ 12,177,982</u>	<u>\$ 12,722,348</u>	<u>\$ 13,740,494</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program.....	10.553	FY 13	\$ 50,729
National School Lunch Program	10.555	FY 13	273,862*
Summer School Service Program for Children	10.559	FY 13	<u>27,399</u>
Total U.S. Department of Agriculture.....			<u>351,990</u>
U.S. Department of Education - Indirect			
Pass-Through From Area Education Agency 267			
Special Education - Grants to States.....	84.027	FY 13	<u>54,969</u>
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY 13	<u>132,491</u>
Improving Teacher Quality State Grants	84.367	FY 13	<u>38,605</u>
Grants for State Assessments and Related Activities	84.369	FY 13	<u>7,501</u>
Total Pass-Through From Iowa Department of Education			<u>178,597</u>
Pass-Through from Mason City Community School District			
Career and Technical Education - Basic Grants to States	84.048	FY 13	<u>8,828</u>
Total U.S. Department of Education			<u>242,394</u>
Total			<u>\$ 594,384</u>

* Includes \$48,815 of noncash awards

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 modified accrual basis of accounting. The information in 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.

Subrecipients

Forest City Community School District provided no federal awards to subrecipients.

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

Board of Education
Forest City Community School District
Forest City, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated February 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Forest City Community School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Forest City Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 13-II-R-1 and 13-II-R-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Forest City Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we also noted certain immaterial instances of noncompliance 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, 2013 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

Forest City Community School District's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Forest City Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Mason City, Iowa
February 12, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Board of Education
Forest City Community School District
Forest City, Iowa

Report on Compliance for Each Major Federal Program

We have audited Forest City Community School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2013. Forest City Community School District's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Forest City Community School District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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 on compliance for each major federal program. However, our audit does not provide a legal determination on Forest City Community School District's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Forest City Community School District complied, in all material respects, with the 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 13-III-C-1. Our opinion on each major federal program is not modified with respect to this matter. Forest City Community School District's response to the instance of noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Forest City Community School District's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of Forest City Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Forest City Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's 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 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 the accompanying schedule of findings and questioned costs as item 13-III-R-1 to be a material weakness.

Forest City Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Forest City Community School District's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
February 12, 2014

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? yes no

Significant deficiencies identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiencies identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

Child Nutrition Cluster
10.553
10.555
10.559

School Breakfast Program
National School Lunch Program
Summer Food Service Program
for Children

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

13-II-R-1 Segregation of Duties

Finding - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of accounting personnel employed by the District makes it difficult to achieve adequate control procedures through segregation of duties. The concentration of closely related duties and responsibilities, such as recording and preparing cash receipts, preparing and recording checks and preparation of journals and general financial information for posting makes it difficult to establish an adequate system of automatic internal checks on accounting record accuracy and reliability.

Auditor's Recommendation - We realize that with a limited number of accounting employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances. Management should review procedures to ensure receipt, disbursements and reconciliation functions are as separate as possible.

District's Response - We will review procedures and will implement additional controls where possible.

Auditor's Conclusion - Response accepted.

13-II-R-2 Journal Entries

Finding - District staff make adjusting journal entries as needed to the general ledger. These journal entries are not reviewed by a second person and supporting documentation is not consistently maintained.

Auditor's Recommendation - We recommend the District implement procedures to require supporting documentation be maintained for all journal entries. We also recommend a qualified person different from the person who made the journal entry review it to ensure it is properly supported and appropriate.

District's Response - We will review our procedures related to journal entries and implement procedures for review and supporting documentation maintenance as deemed possible with available staff.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part III: Findings and Questioned Costs For Federal Awards

Instances of Noncompliance

13-III-C-1 Reporting

Finding - The District did not file its Data Collection Form with the Federal Audit Clearinghouse within nine months of its year end for the years ended June 30, 2012 and 2011.

Auditor's Recommendation - We realize the District relied on its external auditor for assistance but should set up a system to ensure that the Data Collection Form is filed timely.

District's Response - We have set up the necessary procedures to ensure that the Data Collection Form will be filed timely in the future.

Auditor's Conclusion - Response accepted.

Internal Control Deficiencies

All Programs Displayed on the Schedule of Expenditures of Federal Awards

13-III-R-1 Segregation of Duties - Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See finding 13-II-R-1 for additional information.

Part IV: Other Findings Related to Statutory Reporting

13-IV-A Certified Budget

Findings - Expenditures for the year ended June 30, 2013 exceeded the certified budget amount in the support services function.

Auditor's 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's Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

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

13-IV-C Travel Expense - 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.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

- 13-IV-D Business Transactions** - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Eric Kingland, Board member, owner of Kingland Construction	Elementary school entrance modification - \$186,000 total project	\$54,184 of expenses were incurred in the year ended June 30, 2013

The transaction does not appear to represent a conflict of interest since it was entered into through a competitive bidding process in accordance with Chapters 279.7A and 26.2 through 26.13 of the Code of Iowa.

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

- 13-IV-F Board Minutes**

Finding - No transactions were found that we believe should have been approved in the Board minutes but were not; however, we did note several instances of Board minutes and schedules of bills allowed that were not published as required by Chapter 279.35 of the Code of Iowa.

Auditor's Recommendation - The Board Secretary should furnish a copy of the Board proceedings within two weeks of each meeting and a schedule of bills allowed at least monthly to be published in accordance with the Code of Iowa.

District's Response - Procedures will be revised to ensure the Board minutes and schedules of bills allowed are published as required.

Auditor's Conclusion - Response accepted.

- 13-IV-G Certified Enrollment**

Finding - We were unable to verify certified enrollment data because supporting documentation was not provided to us by the District. No variances in the basic enrollment data certified to the Iowa Department of Education (Department) were noted from the information available; however, the Fall, 2012 certification was not completed timely based on the Department's records. The District's certification was deemed late due to changes made by the District to their data, although their original upload of data was completed timely.

Auditor's Recommendation - Basic enrollment data should be certified timely to the Iowa Department of Education as required by Chapter 257.6 of the Code of Iowa and adequate supporting documentation should be maintained. Also consider contacting the Department of Education regarding any necessary changes.

District's Response - In the future, basic enrollment data will be timely certified to the Iowa Department of Education and supporting documentation will be maintained.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

13-IV-H Supplementary Weighting

Finding - We were unable to verify supplementary weighting data as supporting documentation was not provided to us by the District. From information available, we did note the District over reported students enrolled for dual credit classes. The District did not offer and teach the minimum number of classes required to obtain accreditation in social studies. As a result, they are unable to count a college course for supplementary weighting purposes.

Auditor's Recommendation - The District should review procedures for counting students and meeting accreditation requirements and maintain supporting documentation.

District's Response - We will review our procedures regarding supplementary weighting and maintain supporting documentation.

Auditor's Conclusion - Response accepted.

13-IV-I Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

13-IV-J Certified Annual Report

Finding - The Certified Annual Report (CAR) was certified timely with the Iowa Department of Education, but we noted numerous differences between the amounts reported and the District's general ledger.

Auditor's Recommendation - Procedures should be established to make sure the CAR is reconciled with accounting records and reviewed by a member of management prior to being filed.

District's Response - We will establish procedures to reconcile the report with accounting records.

Auditor's Conclusion - Response accepted.

13-IV-K Categorical Funding

Finding - Except as noted, no instances of categorical funding being used to supplant rather than supplement other funds were noted. The District charged at least \$70,000 of administration expenses to the Special Education Program in excess of the maximum approved by the Special Budget Review Committee. The expenses were related to salaries and benefits of the special education administrator. Administration costs, unless approved by the Special Budget Review Committee, are not an allowable cost of this program pursuant to Chapter 257 of the Code of Iowa and Iowa Department of Education administrative rules.

Auditor's Recommendation - The District should contact the Iowa Department of Education regarding corrective action required. In the future, the District should not allocate administration costs to the Special Education Program in excess of the amount approved by the Special Budget Review Committee. The questioned costs should be deducted from the unassigned fund balance and reported as restricted fund balance.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

District's Response - We will contact the Iowa Department of Education and take corrective action necessary to correct this matter.

Auditor's Conclusion - Response accepted.

13-IV-L Statewide Sales, Services and Use Tax - No instances of noncompliance with the allowable uses of the statewide sales, services and use tax revenue provided in 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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance.....			\$ 362,086
Revenue			
Sales tax revenue	\$ 902,493		
Other local revenue	<u>354,414</u>		1,256,907
Expenditures			
School infrastructure construction	\$ 323,271		
Building improvements.....	15,600		
Equipment	<u>56,005</u>		<u>394,876</u>
Ending Balance			<u>\$ 1,224,117</u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

13-IV-M Student Activity Fund

Finding - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program. There are some miscellaneous building accounts reported in the Special Revenue, Student Activity Fund that do not appear to be extracurricular or co-curricular in nature.

Auditor's Recommendation - The District should review and reclassify these accounts to the appropriate fund.

District's Response - We have reviewed the activity in the accounts and will reclassify the accounts to the General Fund as necessary.

Auditor's Conclusion - Response accepted.