

LISBON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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LISBON COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2006

| <u>Name</u>                       | <u>Title</u>       | <u>Term Expires</u> |
|-----------------------------------|--------------------|---------------------|
| <b>Board of Education</b>         |                    |                     |
| (Before September, 2005 Election) |                    |                     |
| Scott Morningstar                 | Board President    | 2006                |
| Jeff Bohr                         | Board Member       | 2005                |
| Dave Prasil                       | Board Member       | 2005                |
| Andy Sullivan                     | Board Member       | 2007                |
| Doren Montgomery                  | Board Member       | 2007                |
| (After September, 2005 Election)  |                    |                     |
| Scott Morningstar                 | Board President    | 2006                |
| Andrew Sullivan                   | Board Member       | 2007                |
| Doren Montgomery                  | Board Member       | 2007                |
| Eric Krob                         | Board Member       | 2008                |
| Jeff Bohr                         | Board Member       | 2008                |
| <b>School Officials</b>           |                    |                     |
| Robert Torrence                   | Superintendent     | 2006                |
| Gene Lawson                       | District Secretary | 2006                |
| Belin Lamson McCormick            | Attorney           | 2006                |
| Zumbach Flynn                     |                    |                     |

# KAY L. CHAPMAN, CPA PC

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563-264-1385

## Independent Auditor's Report

To the Board of Education  
Lisbon Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Lisbon Community School District, Lisbon, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

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

The financial statements of Lisbon Community School Foundation have not been audited, and I was not engaged to audit the Foundation financial statements as part of my audit of the Lisbon Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because I was not engaged to audit the Foundation's financial statements and because I did not apply any auditing procedures to the Foundation's financial statements, I do not express an opinion on the discretely presented component unit.

In my 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 for the primary government of the Lisbon Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated October 4, 2006 on my consideration of Lisbon Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lisbon Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
October 4, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Lisbon 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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,497,252 in fiscal 2005 to \$4,894,076 in fiscal 2006, and General Fund expenditures increased from \$4,665,293 in fiscal 2005 to \$4,765,811 in fiscal 2006. The District's General Fund balance increased from \$174,771 in fiscal 2005 to \$303,036 in fiscal 2006, a 73% increase.
- The increase in General Fund revenues was attributable to an increase of state foundation revenue and an increase in miscellaneous revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, and an increase in open enrollment tuition out expenditures.

### **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 Assets and a Statement of Activities. These provide information about the activities of Lisbon 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 Lisbon 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 Lisbon Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

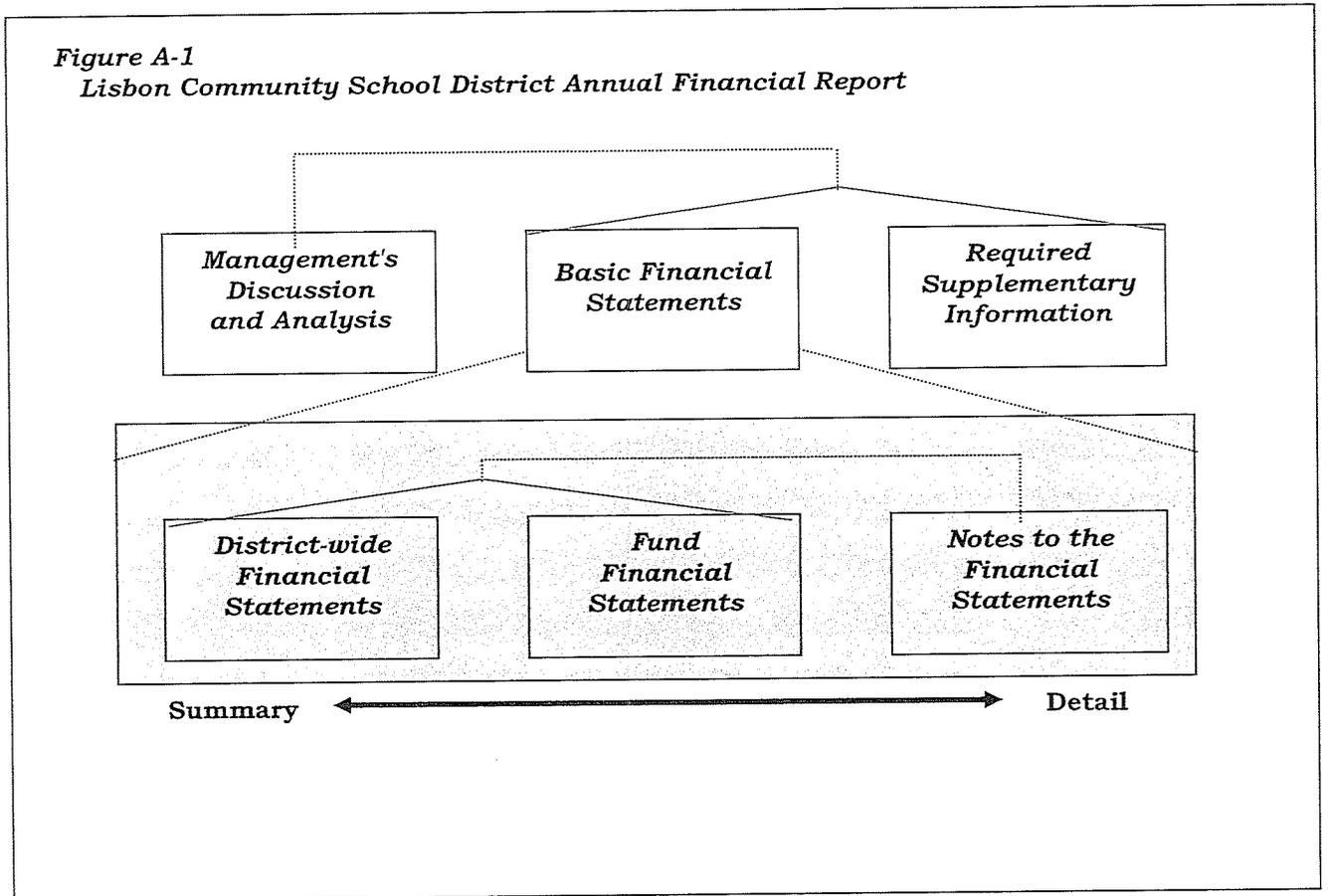


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**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, before and after school program   | Instances in which the District administers resources on behalf of someone else, such as scholarship programs                                 |
| Required financial statements          | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>  | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul> |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial 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 revenues and expenses during year, regardless of when cash is received or paid                             | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid   | All additions and deductions during the year, regardless of when cash is received or paid   |

## 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 Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial 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 three 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.
- *Component unit:* This includes the activities of the Lisbon Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

#### *Fund Financial Statements*

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

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *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, Debt Service Fund and Capital Projects Fund.

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

- 2) *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 Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Daycare Fund. Internal

Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the employee benefit, self-funded dental plan fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds consist of Agency Funds.

- Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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 assets at June 30, 2006 compared to June 30, 2005.

Figure A-3

### Condensed Statement of Net Assets

|  | Governmental Activities |                     | Business Type Activities |                  | Total School District |                     | Total Change |
|--|-------------------------|---------------------|--------------------------|------------------|-----------------------|---------------------|--------------|
|  | 2006                    | 2005                | 2006                     | 2005             | 2006                  | 2005                | 2005-2006    |
| Current and other assets                           | \$ 3,906,125            | \$ 3,466,620        | \$ 35,984                | \$ 32,024        | \$ 3,942,109          | \$ 3,498,644        | 12.68%       |
| Capital assets                                     | <u>6,338,453</u>        | <u>6,534,137</u>    | <u>34,685</u>            | <u>32,868</u>    | <u>6,373,138</u>      | <u>6,567,005</u>    | -2.95%       |
| Total assets                                       | <u>10,244,578</u>       | <u>10,000,757</u>   | <u>70,669</u>            | <u>64,892</u>    | <u>10,315,247</u>     | <u>10,065,649</u>   | 2.48%        |
| Long-term obligations                              | 2,693,870               | 2,645,000           | -                        | -                | 2,693,870             | 2,645,000           | 1.85%        |
| Other liabilities                                  | <u>3,243,105</u>        | <u>3,085,176</u>    | <u>50,351</u>            | <u>34,185</u>    | <u>3,293,456</u>      | <u>3,119,361</u>    | 5.58%        |
| Total liabilities                                  | <u>5,936,975</u>        | <u>5,730,176</u>    | <u>50,351</u>            | <u>34,185</u>    | <u>5,987,326</u>      | <u>5,764,361</u>    | 3.87%        |
| Net assets   |                         |                     |                          |                  |                       |                     |              |
| Invested in capital assets,<br>net of related debt | 3,749,583               | 3,889,138           | 34,685                   | 32,868           | 3,784,268             | 3,922,006           | -3.51%       |
| Restricted   | 302,835                 | 253,644             | -                        | -                | 302,835               | 253,644             | 19.39%       |
| Unrestricted                                       | <u>255,185</u>          | <u>127,799</u>      | <u>(14,367)</u>          | <u>(2,161)</u>   | <u>240,818</u>        | <u>125,638</u>      | 91.68%       |
| Total net assets                                   | <u>\$ 4,307,603</u>     | <u>\$ 4,270,581</u> | <u>\$ 20,318</u>         | <u>\$ 30,707</u> | <u>\$ 4,327,921</u>   | <u>\$ 4,301,288</u> | 0.62%        |

The District's combined net assets increased by .62%, or \$26,633, over the prior year. The largest portion of the District's net assets is the 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 sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$49,191, or 19.39% from the prior year. The increase was primarily a result of the unspent Capital Project Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$115,180, or approximately 92%.

Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4  
Change in Net Assets

|                                    | Governmental Activities |                  | Business Type Activities |                    | Total District   |                  | Total Change |
|------------------------------------|-------------------------|------------------|--------------------------|--------------------|------------------|------------------|--------------|
|                                    | 2006                    | 2005             | 2006                     | 2005               | 2006             | 2005             | 2005-2006    |
| Revenues                           |                         |                  |                          |                    |                  |                  |              |
| Program revenues                   |                         |                  |                          |                    |                  |                  |              |
| Charges for service and sales      | \$ 449,887              | \$ 415,337       | \$ 586,628               | \$ 559,091         | \$ 1,036,515     | \$ 974,428       | 6.37%        |
| Operating grants and contributions | 482,532                 | 515,556          | 69,575                   | 69,583             | 552,107          | 585,139          | -5.65%       |
| Capital grants and contributions   | -                       | 215,521          | -                        | -                  | -                | 215,521          | -100.00%     |
| General revenues                   |                         |                  |                          |                    |                  |                  |              |
| Property tax                       | 1,858,554               | 1,458,952        | -                        | -                  | 1,858,554        | 1,458,952        | 27.39%       |
| Sales and services tax             | 69,064                  | 64,200           | -                        | -                  | 69,064           | 64,200           | 7.58%        |
| Unrestricted state grants          | 2,533,937               | 2,541,407        | -                        | -                  | 2,533,937        | 2,541,407        | -0.29%       |
| Contributions and donations        | 5,717                   | 27,040           | -                        | -                  | 5,717            | 27,040           | -78.86%      |
| Unrestricted investment earnings   | 48,937                  | 12,623           | 221                      | 389                | 49,158           | 13,012           | 277.79%      |
| Other                              | <u>22,363</u>           | <u>12,152</u>    | <u>-</u>                 | <u>-</u>           | <u>22,363</u>    | <u>12,152</u>    | 84.03%       |
| Total revenues                     | <u>5,470,991</u>        | <u>5,262,788</u> | <u>656,424</u>           | <u>629,063</u>     | <u>6,127,415</u> | <u>5,891,851</u> | 4.00%        |
| Program expenses                   |                         |                  |                          |                    |                  |                  |              |
| Governmental activities            |                         |                  |                          |                    |                  |                  |              |
| Instruction                        | 3,181,765               | 3,200,745        | -                        | -                  | 3,181,765        | 3,200,745        | -0.59%       |
| Support services                   | 1,731,973               | 1,573,697        | -                        | -                  | 1,731,973        | 1,573,697        | 10.06%       |
| Non-instructional programs         | -                       | -                | 666,813                  | 689,036            | 666,813          | 689,036          | -3.23%       |
| Other expenses                     | 520,231                 | 414,022          | -                        | -                  | 520,231          | 414,022          | 25.65%       |
| Loss on disposal of capital assets | <u>-</u>                | <u>5,251</u>     | <u>-</u>                 | <u>-</u>           | <u>-</u>         | <u>5,251</u>     | -100.00%     |
| Total expenses                     | <u>5,433,969</u>        | <u>5,193,715</u> | <u>666,813</u>           | <u>689,036</u>     | <u>6,100,782</u> | <u>5,882,751</u> | 3.71%        |
| Change in net assets               | <u>\$ 37,022</u>        | <u>\$ 69,073</u> | <u>\$ (10,389)</u>       | <u>\$ (59,973)</u> | <u>\$ 26,633</u> | <u>\$ 9,100</u>  | 192.67%      |

In fiscal 2006, property tax and unrestricted state grants account for 80% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were \$6,127,415 of which \$5,470,991 was for governmental activities and \$656,424 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4% increase in revenues and a 3.71% increase in expenses. Property tax increased \$399,602 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits, and open enrollment out, as well as increases in expenses funded by grants received by the District.

**Governmental Activities**

Revenues for governmental activities were \$5,470,991 and expenses were \$5,433,969. In a difficult budget year, the District was able to balance the budget by receiving a federal grant.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

Total and Net Cost of Governmental Activities

|                            | Total Cost of Services |                     |                                   | Net Cost of Services |                     |                                   |
|----------------------------|------------------------|---------------------|-----------------------------------|----------------------|---------------------|-----------------------------------|
|                            | <u>2006</u>            | <u>2005</u>         | <u>Change</u><br><u>2005-2006</u> | <u>2006</u>          | <u>2005</u>         | <u>Change</u><br><u>2005-2006</u> |
| Instruction                | \$ 3,181,765           | \$ 3,200,745        | -0.6%                             | \$ 2,450,154         | \$ 2,442,285        | 0.3%                              |
| Support services           | 1,731,973              | 1,573,697           | 10.1%                             | 1,717,201            | 1,573,024           | 9.2%                              |
| Non-instructional programs | -                      | -                   | 0.0%                              | -                    | -                   | 0.0%                              |
| Other expenses             | <u>520,231</u>         | <u>414,022</u>      | <u>25.7%</u>                      | <u>334,195</u>       | <u>26,741</u>       | <u>1149.7%</u>                    |
| Total expenses             | <u>\$ 5,433,969</u>    | <u>\$ 5,188,464</u> | <u>4.7%</u>                       | <u>\$ 4,501,550</u>  | <u>\$ 4,042,050</u> | <u>11.4%</u>                      |

- The cost financed by users of the District's programs was \$449,887.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$482,532.
- The net cost of governmental activities was financed with \$1,927,618 in property and sales taxes and \$2,533,937 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$656,424 representing a 4.3 percent increase over the prior year while expenses totaled \$666,813, a 3.2 percent decrease from the prior year. The District's business type activities include the School Nutrition Fund and Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund which the District has obligated for increase in salaries and benefits. The LECCEC Daycare Program also increased their childcare fees to accommodate the increase in salaries and benefits.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Lisbon 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 a combined fund balance of \$682,507, well above last year's ending fund balances of \$395,064. The primary reason for the increase in combined fund balances in fiscal 2006 is due to the increase in the unspent Capital Project Fund balance.

### **Governmental Fund Highlights**

- The District's improving General Fund financial position is the result of many factors. Increased state and federal entitlements, as well as an increased cash reserve levy, resulted in an increase in revenues. The District's increase in General Fund expenditures was due to an increase in negotiated salaries and benefits, and an increase in open enrollment out of district. The District's increase in revenues was greater than the increase in expenditures, resulting in an improved financial position.
- The General Fund balance increased from \$174,771 to \$303,036, due to the increase in state and federal entitlements and the increase in the cash reserve levy.

### **Proprietary Fund Highlights**

Enterprise Fund net assets decreased from \$30,707 at June 30, 2005 to \$20,318 at June 30, 2006, representing a decrease of approximately 34%. For fiscal 2006, the decrease was due to increase of supply cost, as well as salaries and benefits that were higher than anticipated.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Lisbon Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the general fund activity.

The District's receipts were \$307,295 less than budgeted receipts, a variance of approximately 5%. The most significant variance resulted from the District's change from Cash to GAAP (Generally Accepted Accounting Principles) basis budgeting.

Total expenditures were \$476,379 less than budgeted, due primarily to the District's budget for the General and Capital Project Funds. It is the District's practice to budget expenditures to the maximum authorized spending authority for the General Fund to comply with statutory requirements. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$6,373,138, 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 increase of approximately 3% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$239,579.

The original cost of the District's capital assets was \$9,087,286. Governmental funds account for \$8,991,947, with the remainder of \$95,339 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 \$12,495 at June 30, 2006, compared to \$3,863,228 reported at June 30, 2005. This significant decrease resulted from completion of construction activity financed by the issuance of voter approved general obligation bonds and construction grant totaling \$3,840,000 in fiscal 2005 for construction of a new elementary wing and remodeling vacated areas.

Figure A-6

Capital Assets, Net of Depreciation

|                                    | Governmental       |                    | Business type   |                 | Total              |                    | Total     |
|------------------------------------|--------------------|--------------------|-----------------|-----------------|--------------------|--------------------|-----------|
|                                    | Activities         |                    | Activities      |                 | School District    |                    |           |
|                                    | 2006               | 2005               | 2006            | 2005            | 2006               | 2005               | 2005-2006 |
| Land                               | \$ 150,000         | \$ 150,000         | \$ -            | \$ -            | \$ 150,000         | \$ 150,000         | 0.00%     |
| Construction in progress           | 12,495             | 3,863,228          | -               | -               | 12,495             | 3,863,228          | -99.68%   |
| Buildings and improvements         | 5,989,329          | 2,289,990          | -               | -               | 5,989,329          | 2,289,990          | 161.54%   |
| Improvements, other than buildings | 35,727             | 38,444             | -               | -               | 35,727             | 38,444             | -7.07%    |
| Furniture and equipment            | <u>150,902</u>     | <u>192,476</u>     | <u>34,685</u>   | <u>32,868</u>   | <u>185,587</u>     | <u>225,344</u>     | -17.64%   |
| Totals                             | <u>\$6,338,453</u> | <u>\$6,534,138</u> | <u>\$34,685</u> | <u>\$32,868</u> | <u>\$6,373,138</u> | <u>\$6,567,006</u> | -2.95%    |

### Long-Term Debt

At June 30, 2006, the District had \$2,693,870 in general obligation debt outstanding. This represents a increase of approximately 2% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

During the year ended June 30, 2006, the District entered into a loan agreement with the local bank to partially finance the purchase of a bus. The loan was for \$48,870 at 4.5% interest and will be repaid in two installments in September 2006 and September 2007.

Figure A-7  
Outstanding Long-term Obligations

|                          | Total               |                     | Total                       |
|--------------------------|---------------------|---------------------|-----------------------------|
|                          | School District     |                     |                             |
|                          | <u>2006</u>         | <u>2005</u>         | <u>2005-</u><br><u>2006</u> |
| General obligation bonds | \$ 2,540,000        | \$ 2,645,000        | -3.97%                      |
| Note payable             | 48,870              | -                   | 100.00%                     |
| Early retirement         | 105,000             | 60,000              | 75.00%                      |
| Total                    | <u>\$ 2,693,870</u> | <u>\$ 2,705,000</u> | 1.85%                       |

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The District has experienced an increase in certified enrollment for the past several years, which is expected to continue. The increase in enrollment favorably affects the annual state aid which is generated. In addition, a decrease in the number of students who are open enrolled out of the District would also favorably affect the District's financial position.
- A favorable vote for the School Infrastructure Local Option Sales Tax in Linn and Johnson Counties in 2007 would greatly affect the District's financial health, allowing for needed infrastructure improvements.

### **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 Laurie A. Howe, District Secretary/Treasurer and Business Manager, Lisbon Community School District, 235 West School Street. PO Box 839, Lisbon, IA 52253-0839.

## Basic Financial Statements

LISBON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

Exhibit A

|   | Primary Government |               |                   | Component Unit |
|---|--------------------|---------------|-------------------|----------------|
|   | Governmental       | Business Type | Total             |                |
|   | Activities         | Activities    |                   |                |
| <b>ASSETS</b>                                   |                    |               |                   |                |
| Cash and cash equivalents                       |                    |               |                   |                |
| ISCAP   | \$ 921,717         | -             | \$ 921,717        | -              |
| Other   | 1,053,758          | 14,402        | 1,068,160         | 209,671        |
| Receivables                                     |                    |               |                   |                |
| Property tax                                    |                    |               |                   |                |
| Delinquent                                      | 21,105             | -             | 21,105            | -              |
| Succeeding year                                 | 1,721,637          | -             | 1,721,637         | -              |
| Interest receivable - ISCAP                     | 287                | -             | 287               | -              |
| Accounts receivable                             | 25,754             | -             | 25,754            | -              |
| Due from other governments                      | 161,867            | 5,115         | 166,982           | -              |
| Inventories                                     | -                  | 16,467        | 16,467            | -              |
| Capital assets, net of accumulated depreciation | 6,338,453          | 34,685        | 6,373,138         | -              |
| Total assets                                    | <u>10,244,578</u>  | <u>70,669</u> | <u>10,315,247</u> | <u>209,671</u> |
| <b>LIABILITIES</b>                              |                    |               |                   |                |
| Accounts payable                                | 180,037            | 6,315         | 186,352           | -              |
| Negative bank balance                           | -                  | 17,520        | 17,520            | -              |
| Salaries and benefits payable                   | 384,907            | 23,767        | 408,674           | -              |
| Health claims payable                           | 5,000              | -             | 5,000             | -              |
| Accrued interest payable                        | 21,272             | -             | 21,272            | -              |
| Deferred revenue - succeeding year property tax | 1,721,637          | -             | 1,721,637         | -              |
| Deferred revenue - other                        | -                  | 2,749         | 2,749             | -              |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

Exhibit A

|   | Primary Government  |                  |                     | Component Unit    |
|---|---------------------|------------------|---------------------|-------------------|
|   | Governmental        | Business Type    | Total               |                   |
|   | Activities          | Activities       |                     |                   |
| <b>LIABILITIES (continued)</b>                  |                     |                  |                     |                   |
| ISCAP warrants payable                          | \$ 923,000          | \$ -             | \$ 923,000          | \$ -              |
| ISCAP accrued interest payable                  | 228                 | -                | 228                 | -                 |
| ISCAP unamortized premium                       | 7,024               | -                | 7,024               | -                 |
| Long-term liabilities                           |                     |                  |                     |                   |
| Portion due within one year                     |                     |                  |                     |                   |
| Bonds payable                                   | 105,000             | -                | 105,000             | -                 |
| Note payable                                    | 26,093              | -                | 26,093              | -                 |
| Early retirement                                | 30,000              | -                | 30,000              | -                 |
| Portion due after one year                      |                     |                  |                     |                   |
| Bonds payable                                   | 2,435,000           | -                | 2,435,000           | -                 |
| Note payable                                    | 22,777              | -                | 22,777              | -                 |
| Early retirement                                | 75,000              | -                | 75,000              | -                 |
| Total liabilities                               | <u>5,936,975</u>    | <u>50,351</u>    | <u>5,987,326</u>    | <u>-</u>          |
| <b>NET ASSETS</b>                               |                     |                  |                     |                   |
| Invested in capital assets, net of related debt | 3,749,583           | 34,685           | 3,784,268           | -                 |
| Restricted for                                  |                     |                  |                     |                   |
| Physical plant and equipment levy               | 84,182              | -                | 84,182              | -                 |
| Other special revenue purposes                  | 64,841              | -                | 64,841              | -                 |
| Capital projects                                | 153,812             | -                | 153,812             | -                 |
| Unrestricted                                    | 255,185             | (14,367)         | 240,818             | 209,671           |
| Total net assets                                | <u>\$ 4,307,603</u> | <u>\$ 20,318</u> | <u>\$ 4,327,921</u> | <u>\$ 209,671</u> |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2006

Exhibit B

|   | Program Revenues |                         |  |  | Net (Expense) Revenue<br>and Changes in Net Assets |                             |                    | Component<br>Unit |
|---|------------------|-------------------------|--|--|--|-----------------------------|--------------------|-------------------|
|   | Expenses         | Charges<br>for Services | Operating Grants,<br>Contributions<br>and Restricted<br>Interest | Capital Grants,<br>Contributions<br>and Restricted<br>Interest | Governmental<br>Activities                         | Business Type<br>Activities | Total              |                   |
|   |                  |                         |  |  |  |                             |                    |                   |
| <b>Functions/Programs</b>                   |                  |                         |  |  |  |                             |                    |                   |
| <b>Primary Government</b>                   |                  |                         |  |  |  |                             |                    |                   |
| Governmental activities                     |                  |                         |  |  |  |                             |                    |                   |
| Instruction                                 |                  |                         |  |  |  |                             |                    |                   |
| Regular instruction                         | \$ 2,445,143     | \$ 382,089              | \$ 209,648   | \$ -   | \$ (1,853,406)                                     | -                           | \$ (1,853,406)     | \$ -              |
| Special instruction                         | 394,806          | 53,368                  | 86,506   | -  | (254,932)  | -                           | (254,932)          | -                 |
| Other instruction                           | 341,816          | -                       | -  | -  | (341,816)  | -                           | (341,816)          | -                 |
|   | <u>3,181,765</u> | <u>435,457</u>          | <u>296,154</u>   | <u>-</u>   | <u>(2,450,154)</u>                                 | <u>-</u>                    | <u>(2,450,154)</u> | <u>-</u>          |
| Support services                            |                  |                         |  |  |  |                             |                    |                   |
| Student services                            | 73,875           | -                       | -  | -  | (73,875)   | -                           | (73,875)           | -                 |
| Instructional staff services                | 140,236          | -                       | -  | -  | (140,236)  | -                           | (140,236)          | -                 |
| Administration services                     | 665,260          | -                       | -  | -  | (665,260)  | -                           | (665,260)          | -                 |
| Operation and maintenance of plant services | 541,635          | 5,850                   | -  | -  | (535,785)  | -                           | (535,785)          | -                 |
| Transportation services                     | 310,967          | 8,580                   | 342  | -  | (302,045)  | -                           | (302,045)          | -                 |
|   | <u>1,731,973</u> | <u>14,430</u>           | <u>342</u>   | <u>-</u>   | <u>(1,717,201)</u>                                 | <u>-</u>                    | <u>(1,717,201)</u> | <u>-</u>          |
| Non-instructional programs                  |                  |                         |  |  |  |                             |                    |                   |
| Other expenditures                          |                  |                         |  |  |  |                             |                    |                   |
| Facilities acquisition                      | 53,914           | -                       | -  | -  | (53,914)   | -                           | (53,914)           | -                 |
| Long-term debt interest                     | 108,100          | -                       | -  | -  | (108,100)  | -                           | (108,100)          | -                 |
| AEA flowthrough                             | 186,036          | -                       | 186,036  | -  | -  | -                           | -                  | -                 |
| Depreciation (unallocated)*                 | 172,181          | -                       | -  | -  | (172,181)  | -                           | (172,181)          | -                 |
|   | <u>520,231</u>   | <u>-</u>                | <u>186,036</u>   | <u>-</u>   | <u>(334,195)</u>                                   | <u>-</u>                    | <u>(334,195)</u>   | <u>-</u>          |
| Total governmental activities               | <u>5,433,969</u> | <u>449,887</u>          | <u>482,532</u>   | <u>-</u>   | <u>(4,501,550)</u>                                 | <u>-</u>                    | <u>(4,501,550)</u> | <u>-</u>          |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2006

|                                       | Program Revenues |                      |   | Net (Expense) Revenue and Changes in Net Assets       |                         |                          | Component Unit |       |
|---------------------------------------|------------------|----------------------|---|---|-------------------------|--------------------------|----------------|-------|
|                                       | Expenses         | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Primary Government      |                          |                | Total |
|                                       |                  |                      |   |   | Governmental Activities | Business Type Activities |                |       |
| <b>Functions/Programs (continued)</b> |                  |                      |   |   |                         |                          |                |       |
| <b>Primary Government (continued)</b> |                  |                      |   |   |                         |                          |                |       |
| Business type activities              |                  |                      |   |   |                         |                          |                |       |
| Non-instructional programs            |                  |                      |   |   |                         |                          |                |       |
| Food service operations               | \$ 301,760       | \$ 218,226           | \$ 61,417   | \$ -  | \$ (22,117)             | \$ (22,117)              | \$ -           |       |
| Daycare operations                    | 365,053          | 368,402              | 8,158   | -   | 11,507                  | 11,507                   | -              |       |
| Total business type activities        | 666,813          | 586,628              | 69,575  | -   | (10,610)                | (10,610)                 | -              |       |
| Total primary government              | \$ 6,100,782     | \$ 1,036,515         | \$ 552,107  | \$ -  | \$ (10,610)             | \$ (4,512,160)           | \$ -           |       |
| <b>Component Unit</b>                 |                  |                      |   |   |                         |                          |                |       |
| Foundation                            | \$ -             | \$ -                 | \$ -  | \$ -  | \$ -                    | \$ -                     | \$ (25,080)    |       |
| <b>General Revenues</b>               |                  |                      |   |   |                         |                          |                |       |
| Property tax levied for               |                  |                      |   |   |                         |                          |                |       |
| General purposes                      |                  |                      |   |   |                         |                          |                |       |
| Debt service                          |                  |                      |   |   |                         |                          |                |       |
| Capital outlay                        |                  |                      |   |   |                         |                          |                |       |
| Local sales and service tax           |                  |                      |   |   |                         |                          |                |       |
| Unrestricted state grants             |                  |                      |   |   |                         |                          |                |       |
| Contributions and donations           |                  |                      |   |   |                         |                          |                |       |
| Unrestricted investment earnings      |                  |                      |   |   |                         |                          |                |       |
| Loss on disposal of capital assets    |                  |                      |   |   |                         |                          |                |       |
| Other                                 |                  |                      |   |   |                         |                          |                |       |
| Total general revenues                |                  |                      |   |   |                         |                          |                |       |
| Change in net assets                  |                  |                      |   |   |                         |                          |                |       |
| Net assets, beginning of year         |                  |                      |   |   |                         |                          |                |       |
| Net assets, end of year               |                  |                      |   |   |                         |                          |                |       |

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

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2006

Exhibit C

|  | <u>General</u>      | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total</u>        |
|--|---------------------|--|---------------------|
| <b>ASSETS</b>                            |                     |  |                     |
| Cash and pooled investments              |                     |  |                     |
| ISCAP                                    | \$ 921,717          | \$ -                                       | \$ 921,717          |
| Other                                    | 695,294             | 351,679                                    | 1,046,973           |
| Receivables                              |                     |  |                     |
| Property tax                             |                     |  |                     |
| Delinquent                               | 15,888              | 5,217                                      | 21,105              |
| Succeeding year                          | 1,313,841           | 407,796                                    | 1,721,637           |
| Accrued interest - ISCAP                 | 287                 | -  | 287                 |
| Accounts receivable                      | 25,754              | -  | 25,754              |
| Due from other governments               | 137,381             | 24,486                                     | 161,867             |
| Total assets                             | <u>\$ 3,110,162</u> | <u>\$ 789,178</u>                          | <u>\$ 3,899,340</u> |
| <br><b>LIABILITIES AND FUND BALANCES</b> |                     |  |                     |
| Liabilities                              |                     |  |                     |
| Accounts payable                         | \$ 178,126          | \$ 1,911                                   | \$ 180,037          |
| Salaries and benefits payable            | 384,907             | -  | 384,907             |
| ISCAP warrants payable                   | 923,000             | -  | 923,000             |
| ISCAP accrued interest payable           | 228                 | -  | 228                 |
| ISCAP unamortized premium                | 7,024               | -  | 7,024               |
| Deferred revenue                         |                     |  |                     |
| Succeeding year property tax             | 1,313,841           | 407,796                                    | 1,721,637           |
| Total liabilities                        | <u>2,807,126</u>    | <u>409,707</u>                             | <u>3,216,833</u>    |
| <br>Fund balances                        |                     |  |                     |
| Unreserved                               |                     |  |                     |
| Special revenue funds                    | -                   | 224,097                                    | 224,097             |
| Capital projects fund                    | -                   | 153,812                                    | 153,812             |
| Debt service fund                        | -                   | 1,562                                      | 1,562               |
| General fund                             | 303,036             | -  | 303,036             |
| Total fund balances                      | <u>303,036</u>      | <u>379,471</u>                             | <u>682,507</u>      |
| Total liabilities and fund balances      | <u>\$ 3,110,162</u> | <u>\$ 789,178</u>                          | <u>\$ 3,899,340</u> |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2006

Exhibit D

|   |                     |
|---|---------------------|
| Total fund balances of governmental funds   | \$ 682,507          |
| Amounts reported for governmental activities in the statement of net assets are different because:  |                     |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.  | 6,338,453           |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.  | (21,272)            |
| The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets. | 1,785               |
| Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.   | <u>(2,693,870)</u>  |
| Net assets of governmental activities   | <u>\$ 4,307,603</u> |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

Exhibit E

|  | <u>General</u>   | Nonmajor<br>Governmental<br><u>Funds</u> | <u>Total</u>     |
|--|------------------|--|------------------|
| Revenues                                       |                  |  |                  |
| Local sources                                  |                  |  |                  |
| Local tax                                      | \$ 1,464,185     | \$ 563,686                               | \$ 2,027,871     |
| Tuition  | 284,428          | -  | 284,428          |
| Other  | 128,208          | 12,956                                   | 141,164          |
| State sources                                  | 2,912,658        | 241                                      | 2,912,899        |
| Federal sources                                | 104,597          | -  | 104,597          |
| Total revenues                                 | <u>4,894,076</u> | <u>576,883</u>                           | <u>5,470,959</u> |
| Expenditures                                   |                  |  |                  |
| Current  |                  |  |                  |
| Instruction                                    |                  |  |                  |
| Regular instruction                            | 2,420,522        | -  | 2,420,522        |
| Special instruction                            | 394,806          | -  | 394,806          |
| Other instruction                              | 222,150          | 97,166                                   | 319,316          |
|  | <u>3,037,478</u> | <u>97,166</u>                            | <u>3,134,644</u> |
| Support services                               |                  |  |                  |
| Student services                               | 73,875           | -  | 73,875           |
| Instructional staff services                   | 140,236          | -  | 140,236          |
| Administration services                        | 551,338          | 29,958                                   | 581,296          |
| Operation and maintenance<br>of plant services | 506,663          | 29,987                                   | 536,650          |
| Transportation services                        | 270,185          | 6,065                                    | 276,250          |
|  | <u>1,542,297</u> | <u>66,010</u>                            | <u>1,608,307</u> |
| Other expenditures                             |                  |  |                  |
| Facilities acquisition                         | -                | 94,285                                   | 94,285           |
| Long-term debt                                 |                  |  |                  |
| Principal                                      | -                | 105,000                                  | 105,000          |
| Interest and fiscal charges                    | -                | 104,114                                  | 104,114          |
| AEA flowthrough                                | 186,036          | -  | 186,036          |
|  | <u>186,036</u>   | <u>303,399</u>                           | <u>489,435</u>   |
| Total expenditures                             | <u>4,765,811</u> | <u>466,575</u>                           | <u>5,232,386</u> |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

Exhibit E

|                                      | <u>General</u> | Nonmajor<br>Governmental<br><u>Funds</u> | <u>Total</u> |
|--------------------------------------|----------------|--|--------------|
| Excess of revenues over expenditures | \$ 128,265     | \$ 110,308                               | \$ 238,573   |
| Other financing sources              |                |  |              |
| Proceeds from bank loan              | -              | 48,870                                   | 48,870       |
| Net change in fund balances          | 128,265        | 159,178                                  | 287,443      |
| Fund balance, beginning of year      | 174,771        | 220,293                                  | 395,064      |
| Fund balance, end of year            | \$ 303,036     | \$ 379,471                               | \$ 682,507   |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds \$ 287,443

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

|                      |                  |           |
|----------------------|------------------|-----------|
| Capital outlays      | \$ 40,371        |           |
| Depreciation expense | <u>(236,056)</u> | (195,685) |

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (1,881)

Proceeds from issuing long-term liabilities provide current resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

|        |                |        |
|--------|----------------|--------|
| Issued | (48,870)       |        |
| Repaid | <u>105,000</u> | 56,130 |

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 |  | (105,000) |
|------------------|--|-----------|

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (3,985)

Change in net assets of governmental activities \$ 37,022

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

Exhibit G

|   | Business Type Activities |                     |                     | Governmental<br>Activity |
|---|--------------------------|---------------------|---------------------|--------------------------|
|   | Nonmajor                 |                     |                     | Internal<br>Service      |
|   | LECCEC                   | School<br>Nutrition | Total<br>Enterprise |                          |
| <b>ASSETS</b>                                   |                          |                     |                     |                          |
| Cash and pooled investments                     | \$ -                     | \$ 14,402           | \$ 14,402           | \$ 6,785                 |
| Due from other governments                      | 1,924                    | 3,191               | 5,115               | -                        |
| Inventories                                     | 2,841                    | 13,626              | 16,467              | -                        |
| Capital assets, net of accumulated depreciation | -                        | 34,685              | 34,685              | -                        |
| Total assets                                    | 4,765                    | 65,904              | 70,669              | 6,785                    |
| <b>LIABILITIES</b>                              |                          |                     |                     |                          |
| Accounts payable                                | 5,260                    | 1,055               | 6,315               | -                        |
| Health claims payable and incurred              | -                        | -                   | -                   | 5,000                    |
| Salaries and benefits payable                   | 19,278                   | 4,489               | 23,767              | -                        |
| Deferred revenue                                | -                        | 2,749               | 2,749               | -                        |
| Negative bank balance                           | 17,520                   | -                   | 17,520              | -                        |
| Total liabilities                               | 42,058                   | 8,293               | 50,351              | 5,000                    |
| <b>NET ASSETS</b>                               |                          |                     |                     |                          |
| Invested in capital assets, net of related debt | -                        | 34,685              | 34,685              | -                        |
| Unrestricted                                    | (37,293)                 | 22,926              | (14,367)            | 1,785                    |
| Total net assets                                | \$ (37,293)              | \$ 57,611           | \$ 20,318           | \$ 1,785                 |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2006

Exhibit H

|                                  | Business Type Activities |                     |            | Governmental<br>Activity |
|----------------------------------|--------------------------|---------------------|------------|--------------------------|
|                                  | Nonmajor                 |                     | Total      | Internal                 |
|                                  | LECCEC                   | School<br>Nutrition |            |                          |
| Operating revenue                |                          |                     |            |                          |
| Local sources                    |                          |                     |            |                          |
| Charges for service              | \$ 368,402               | \$ 218,226          | \$ 586,628 | \$ -                     |
| Employee contributions           | -                        | -                   | -          | 20,525                   |
| Total operating revenue          | 368,402                  | 218,226             | 586,628    | 20,525                   |
| Operating expenses               |                          |                     |            |                          |
| Support services                 |                          |                     |            |                          |
| Administration services          | 1,900                    | 270                 | 2,170      | -                        |
| Operation & maintenance of plant | -                        | 1,889               | 1,889      | -                        |
| Non-instructional programs       |                          |                     |            |                          |
| Salaries                         | 230,367                  | 64,766              | 295,133    | -                        |
| Benefits                         | 73,566                   | 23,514              | 97,080     | 22,437                   |
| Purchased services               | 507                      | -                   | 507        | -                        |
| Supplies                         | 58,713                   | 207,798             | 266,511    | -                        |
| Depreciation                     | -                        | 3,523               | 3,523      | -                        |
| Total operating expenses         | 365,053                  | 301,760             | 666,813    | 22,437                   |
| Operating income (loss)          | 3,349                    | (83,534)            | (80,185)   | (1,912)                  |
| Non-operating revenues           |                          |                     |            |                          |
| Interest income                  | 73                       | 148                 | 221        | 31                       |
| State sources                    | -                        | 2,788               | 2,788      | -                        |
| Federal sources                  | 8,158                    | 58,629              | 66,787     | -                        |
| Total non-operating revenues     | 8,231                    | 61,565              | 69,796     | 31                       |
| Net income (loss)                | 11,580                   | (21,969)            | (10,389)   | (1,881)                  |
| Net assets, beginning of year    | (48,873)                 | 79,580              | 30,707     | 3,666                    |
| Net assets, end of year          | \$ (37,293)              | \$ 57,611           | \$ 20,318  | \$ 1,785                 |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT

Exhibit I

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2006

|   | Business Type Activities |                  |                  | Governmental     |
|---|--------------------------|------------------|------------------|------------------|
|   | Nonmajor                 |                  |                  | Activity         |
|   | LECCEC                   | School Nutrition | Total Enterprise | Internal Service |
| Cash flows from operating activities  |                          |                  |                  |                  |
| Cash received from sale of lunches and breakfasts   | \$ -                     | \$ 220,975       | \$ 220,975       | \$ -             |
| Cash received from sale of services   | 369,434                  | -                | 369,434          | -                |
| Cash received from miscellaneous operating activities                                     | -                        | -                | -                | 20,525           |
| Cash payments to employees for services   | (313,770)                | (66,198)         | (379,968)        | (22,437)         |
| Cash payments to suppliers for goods and services   | (62,554)                 | (199,029)        | (261,583)        | -                |
| Net cash used in operating activities   | (6,890)                  | (44,252)         | (51,142)         | (1,912)          |
| Cash flows from non-capital financing activities  |                          |                  |                  |                  |
| State grants received   | -                        | 2,788            | 2,788            | -                |
| Federal grants received   | 6,817                    | 48,570           | 55,387           | -                |
| Net cash provided by non-capital financing activities                                     | 6,817                    | 51,358           | 58,175           | -                |
| Cash flows from capital and related financing activities                                  |                          |                  |                  |                  |
| Acquisition of capital assets   | -                        | (5,340)          | (5,340)          | -                |
| Cash flows from investing activities  |                          |                  |                  |                  |
| Interest on investments   | 73                       | 148              | 221              | 31               |
| Net increase in cash and cash equivalents   | -                        | 1,914            | 1,914            | (1,881)          |
| Cash and cash equivalents, beginning of year  | -                        | 12,488           | 12,488           | 8,666            |
| Cash and cash equivalents, end of year  | \$ -                     | \$ 14,402        | \$ 14,402        | \$ 6,785         |
| <b>Reconciliation of operating income (loss) to net cash used in operating activities</b> |                          |                  |                  |                  |
| Operating income (loss)   | \$ 3,349                 | \$ (83,534)      | \$ (80,185)      | \$ (1,912)       |
| Adjustments to reconcile operating income (loss) to net cash used in operating activities |                          |                  |                  |                  |
| Commodities used  | -                        | 10,506           | 10,506           | -                |
| Depreciation  | -                        | 3,523            | 3,523            | -                |
| Decrease in accounts receivable   | 1,032                    | -                | 1,032            | -                |
| (Increase) decrease in inventories  | (2,841)                  | 657              | (2,184)          | -                |
| Decrease in due from other fund   | -                        | 22,799           | 22,799           | -                |
| (Decrease) in due to other fund   | (5,279)                  | -                | (5,279)          | -                |
| Increase in deferred revenue  | -                        | 2,749            | 2,749            | -                |
| Increase (decrease) in accounts payable   | 1,407                    | (235)            | 1,172            | -                |
| (Decrease) in salaries and benefits payable   | (4,558)                  | (717)            | (5,275)          | -                |
| Net cash used in operating activities   | (6,890)                  | (44,252)         | (51,142)         | (1,912)          |

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

During the year ended June 30, 2006, the District received \$10,506 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Fund  
June 30, 2006

Exhibit J

|                             | <u>Agency</u>      |
|-----------------------------|--------------------|
| Assets                      |                    |
| Cash and pooled investments | \$24,342           |
| Liabilities                 |                    |
| Due to others               | <u>          -</u> |
| Net assets                  | <u>\$24,342</u>    |

See notes to financial statements and Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies**

The Lisbon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Lisbon, Iowa, and the agricultural territories in Linn, Cedar, Jones and Johnson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Lisbon 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.

These financial statements present the Lisbon Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The Lisbon Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The trustees are elected for 3-year terms from nominations submitted by the Board of Education of the District. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements.

## Jointly Governed Organizations

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

### B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The Enterprise, Daycare Fund is used to account for the District's daycare operations.

Additionally, the District reports two nonmajor proprietary funds. The Enterprise, School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is utilized to account for the self-funded employee dental insurance program.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgments are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

| <u>Asset Class</u>                | <u>Amount</u> |
|-----------------------------------|---------------|
| Land                              | \$5,000       |
| Buildings                         | \$5,000       |
| Improvements other than buildings | \$5,000       |
| Furniture and equipment:          |               |
| School Nutrition Fund equipment   | \$ 500        |
| Other furniture and equipment     | \$5,000       |

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

| <u>Asset Class</u>                | <u>Useful Life</u> |
|-----------------------------------|--------------------|
| Buildings                         | 10-50 years        |
| Improvements other than buildings | 20 years           |
| Furniture and equipment           | 5-12 years         |

Salaries and Benefits Payable - Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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 Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted nor did the District exceed its General Fund unspent authorized budget.

### **Note 2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain

registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had no investments.

**Note 3. Iowa Schools Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006, is as follows:

| <u>Series</u> | <u>Warrant Date</u> | <u>Final Warrant Maturity</u> | <u>Investments</u> | <u>Accrued Interest Receivable</u> | <u>Warrants Payable</u> | <u>Accrued Interest Payable</u> | <u>Unamortized Premium</u> |
|---------------|---------------------|-------------------------------|--------------------|------------------------------------|-------------------------|---------------------------------|----------------------------|
| 2006-07A      | 6/28/06             | 6/28/07                       | \$ 921,717         | \$ 287                             | \$ 923,000              | \$ 228                          | \$ 7,024                   |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In additions, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

| <u>Series</u> | <u>Balance, Beginning of Year</u> | <u>Advances Received</u> | <u>Advances Repaid</u> | <u>Balance, End of Year</u> |
|---------------|-----------------------------------|--------------------------|------------------------|-----------------------------|
| 2005-06A      | \$ -                              | \$ 100,000               | \$ 100,000             | \$ -                        |

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

| <u>Series</u> | <u>Interest Rates on Warrants</u> | <u>Interest Rates on Investments</u> |
|---------------|-----------------------------------|--------------------------------------|
| 2005-06A      | 4.000%                            | 3.9030%                              |
| 2005-06B      | 4.500%                            | 4.7720%                              |
| 2006-07A      | 4.500%                            | 5.6760%                              |

#### Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

| <u>Governmental activities</u>               | <u>Balance, Beginning of Year</u> | <u>Additions</u>    | <u>Deletions</u>      | <u>Balance, End of Year</u> |
|--|-----------------------------------|---------------------|-----------------------|-----------------------------|
| Capital assets not being depreciated:        |                                   |                     |                       |                             |
| Land   | \$ 150,000                        | \$ -                | \$ -                  | \$ 150,000                  |
| Construction in progress                     | <u>3,863,228</u>                  | <u>12,495</u>       | <u>(3,863,228)</u>    | <u>12,495</u>               |
| Total capital assets, not being depreciated  | <u>4,013,228</u>                  | <u>12,495</u>       | <u>(3,863,228)</u>    | <u>162,495</u>              |
| Capital assets being depreciated:            |                                   |                     |                       |                             |
| Buildings and improvements                   | 4,265,989                         | 3,863,228           | -                     | 8,129,217                   |
| Improvements other than buildings            | 54,326                            | -                   | -                     | 54,326                      |
| Furniture and equipment                      | <u>628,481</u>                    | <u>27,876</u>       | <u>(10,448)</u>       | <u>645,909</u>              |
| Total capital assets being depreciated       | <u>4,948,796</u>                  | <u>3,891,104</u>    | <u>(10,448)</u>       | <u>8,829,452</u>            |
| Less accumulated depreciation for:           |                                   |                     |                       |                             |
| Buildings and improvements                   | 1,975,999                         | 163,889             | -                     | 2,139,888                   |
| Improvements other than buildings            | 15,882                            | 2,717               | -                     | 18,599                      |
| Furniture and equipment                      | <u>436,005</u>                    | <u>69,450</u>       | <u>(10,448)</u>       | <u>495,007</u>              |
| Total accumulated depreciation               | <u>2,427,886</u>                  | <u>236,056</u>      | <u>(10,448)</u>       | <u>2,653,494</u>            |
| Total capital assets being depreciated, net  | <u>2,520,910</u>                  | <u>3,655,048</u>    | <u>-</u>              | <u>6,175,958</u>            |
| Governmental activities capital assets, net  | <u>\$ 6,534,138</u>               | <u>\$ 3,667,543</u> | <u>\$ (3,863,228)</u> | <u>\$ 6,338,453</u>         |
| <u>Business type activities</u>              |                                   |                     |                       |                             |
| Furniture and equipment                      | \$ 89,999                         | \$ 5,340            | \$ -                  | \$ 95,339                   |
| Less accumulated depreciation                | <u>57,131</u>                     | <u>3,523</u>        | <u>-</u>              | <u>60,654</u>               |
| Business type activities capital assets, net | <u>\$ 32,868</u>                  | <u>\$ 1,817</u>     | <u>\$ -</u>           | <u>\$ 34,685</u>            |

Depreciation expense was charged to the following functions:

**Governmental activities**

|  |                   |
|--|-------------------|
| Instruction  |                   |
| Regular  | \$ 22,709         |
| Support services                                   |                   |
| Administration                                     | 1,464             |
| Operation and maintenance of plant                 | 4,985             |
| Transportation                                     | 34,717            |
| Unallocated depreciation                           | <u>172,181</u>    |
| Total governmental activities depreciation expense | <u>\$ 236,056</u> |

**Business type activities**

|               |                 |
|---------------|-----------------|
| Food services | <u>\$ 3,523</u> |
|---------------|-----------------|

**Note 5. Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

|                          | Balance,<br>Beginning<br>of Year | Additions         | Reductions         | Balance,<br>End<br>of Year | Due<br>Within<br>One Year |
|--------------------------|----------------------------------|-------------------|--------------------|----------------------------|---------------------------|
| General obligation bonds | \$ 2,645,000                     | \$ -              | \$(105,000)        | \$ 2,540,000               | \$ 105,000                |
| Note payable             | -                                | 48,870            | -                  | 48,870                     | 26,093                    |
| Early retirement         | <u>60,000</u>                    | <u>60,000</u>     | <u>(15,000)</u>    | <u>105,000</u>             | <u>30,000</u>             |
| Totals                   | <u>\$ 2,705,000</u>              | <u>\$ 108,870</u> | <u>\$(120,000)</u> | <u>\$ 2,693,870</u>        | <u>\$ 161,093</u>         |

Notes Payable

On September 2, 2005 the District borrowed \$48,870 to be used to partially finance the purchase of a school bus. The loan is with Hills Bank and Trust Company, matures on September 1, 2007 and bears interest at 4.5%. The loan will be repaid by two payments: \$26,093 on September 1, 2006 and a final payment of \$22,777 on September 1, 2007.

## Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

| Year<br>Ending<br><u>June 30,</u> | <u>Bond issue of May 1, 2003</u> |                     |                     |                     |
|-----------------------------------|----------------------------------|---------------------|---------------------|---------------------|
|                                   | <u>Interest<br/>Rates</u>        | <u>Interest</u>     | <u>Principal</u>    | <u>Total</u>        |
| 2007                              | 3.250                            | \$ 100,303          | \$ 105,000          | \$ 205,303          |
| 2008                              | 3.250                            | 96,890              | 110,000             | 206,890             |
| 2009                              | 3.250                            | 93,315              | 115,000             | 208,315             |
| 2010                              | 3.500                            | 89,577              | 120,000             | 209,577             |
| 2011                              | 3.500                            | 85,378              | 125,000             | 210,378             |
| 2012                              | 4.000                            | 81,002              | 130,000             | 211,002             |
| 2013                              | 4.000                            | 75,803              | 135,000             | 210,803             |
| 2014                              | 4.000                            | 70,402              | 140,000             | 210,402             |
| 2015                              | 4.000                            | 64,803              | 145,000             | 209,803             |
| 2016                              | 4.000                            | 59,002              | 150,000             | 209,002             |
| 2017                              | 4.000                            | 53,003              | 160,000             | 213,003             |
| 2018                              | 4.000                            | 46,602              | 165,000             | 211,602             |
| 2019                              | 4.100                            | 40,003              | 170,000             | 210,003             |
| 2020                              | 4.200                            | 33,032              | 180,000             | 213,032             |
| 2021                              | 4.300                            | 25,473              | 190,000             | 215,473             |
| 2022                              | 4.300                            | 17,302              | 195,000             | 212,302             |
| 2023                              | 4.350                            | 8,918               | 205,000             | 213,918             |
| Totals                            |                                  | <u>\$ 1,040,808</u> | <u>\$ 2,540,000</u> | <u>\$ 3,580,808</u> |

### **Note 6. 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, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$157,154, \$153,917 and \$150,182 respectively, equal to the required contributions for each year.

**Note 7. Risk Management**

The District has a self-funded dental plan for its employees. Settled claims have not exceeded the coverage in any of the past three calendar plan years.

Payments are made to the plan based on estimates of amounts needed to pay prior and current claims and to establish a reserve for catastrophic losses. That reserve was \$5,000 at June 30, 2006, the last date for which information is available. The incurred but not recorded and unpaid claims liability of \$5,000 reported in the plan at June 30, 2006, is based on the requirements of GASB Statement Number 10, which requires that a liability for claims be reported.

The change in the incurred but not reported and unpaid claims liability for the year ended June 30, 2006 is as follows:

|                                       |                 |
|---------------------------------------|-----------------|
| Balance, beginning of year            | \$ 5,000        |
| Incurred claims and claim adjustments | 20,525          |
| Payment of claims                     | <u>(20,525)</u> |
| Balance, end of year                  | <u>\$ 5,000</u> |

In addition, 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.

**Note 8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$186,036 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 9. Related Party Transactions**

The District had business transactions between the District and a board member, totaling \$54,660 during the year ended June 30, 2006.

Required Supplementary Information

LISBON COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

|  | Governmental<br>Funds<br>Actual | Proprietary<br>Funds<br>Actual | Total<br>Actual     | Less Funds<br>not Required<br>to be Budgeted | Net                 | Budgeted Amounts  |                   | Final to<br>Actual<br>Variance |
|--|---------------------------------|--------------------------------|---------------------|--|---------------------|-------------------|-------------------|--------------------------------|
|  |                                 |                                |                     |  |                     | Original          | Final             |                                |
| Receipts   |                                 |                                |                     |  |                     |                   |                   |                                |
| Local sources  | \$ 2,338,828                    | \$ 618,943                     | \$ 2,957,771        | \$ (20,556)                                  | \$ 2,937,215        | \$ 2,747,075      | \$ 3,268,252      | \$ (331,037)                   |
| State sources  | 2,913,729                       | 2,788                          | 2,916,517           | -  | 2,916,517           | 2,909,295         | 2,909,295         | 7,222                          |
| Federal sources  | 286,680                         | 54,940                         | 341,620             | -  | 341,620             | 325,100           | 325,100           | 16,520                         |
| Total receipts   | <u>5,539,237</u>                | <u>676,671</u>                 | <u>6,215,908</u>    | <u>(20,556)</u>                              | <u>6,195,352</u>    | <u>5,981,470</u>  | <u>6,502,647</u>  | <u>(307,295)</u>               |
| Disbursements  |                                 |                                |                     |  |                     |                   |                   |                                |
| Instruction  | 3,241,057                       | -                              | 3,241,057           | -  | 3,241,057           | 3,106,930         | 3,390,000         | 148,943                        |
| Support services   | 1,601,707                       | 4,059                          | 1,605,766           | -  | 1,605,766           | 1,604,700         | 1,750,000         | 144,234                        |
| Non-instructional programs   | -                               | 690,099                        | 690,099             | (22,437)                                     | 667,662             | 655,293           | 700,000           | 32,338                         |
| Other expenditures   | 624,136                         | -                              | 624,136             | -  | 624,136             | 726,900           | 775,000           | 150,864                        |
| Total disbursements  | <u>5,466,900</u>                | <u>694,158</u>                 | <u>6,161,058</u>    | <u>(22,437)</u>                              | <u>6,138,621</u>    | <u>6,093,823</u>  | <u>6,615,000</u>  | <u>476,379</u>                 |
| Excess (deficiency) of receipts<br>over (under) disbursements                                | 72,337                          | (17,487)                       | 54,850              | 1,881  | 56,731              | (112,353)         | (112,353)         | 169,084                        |
| Other financing sources, net   | <u>48,870</u>                   | <u>-</u>                       | <u>48,870</u>       | <u>-</u>                                     | <u>48,870</u>       | <u>50,000</u>     | <u>50,000</u>     | <u>(1,130)</u>                 |
| Excess (deficiency) of receipts<br>and other financing sources over<br>(under) disbursements | 121,207                         | (17,487)                       | 103,720             | 1,881  | 105,601             | (62,353)          | (62,353)          | 167,954                        |
| Balance, beginning of year   | 925,766                         | 21,154                         | 946,920             | (8,666)                                      | 938,254             | 959,847           | 959,847           | (21,593)                       |
| Balance, end of year   | <u>\$ 1,046,973</u>             | <u>\$ 3,667</u>                | <u>\$ 1,050,640</u> | <u>\$ (6,785)</u>                            | <u>\$ 1,043,855</u> | <u>\$ 897,494</u> | <u>\$ 897,494</u> | <u>\$ 146,361</u>              |

See accompanying Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

|                         | Governmental Funds  |                        |                              |
|-------------------------|---------------------|------------------------|------------------------------|
|                         | Cash<br>Basis       | Accrual<br>Adjustments | Modified<br>Accrual<br>Basis |
| Revenues                | \$ 5,539,237        | \$ (68,278)            | \$ 5,470,959                 |
| Expenditures            | <u>5,466,900</u>    | <u>(234,514)</u>       | <u>5,232,386</u>             |
| Net                     | 72,337              | 166,236                | 238,573                      |
| Other financing sources | 48,870              | -                      | 48,870                       |
| Beginning fund balances | <u>925,766</u>      | <u>(530,702)</u>       | <u>395,064</u>               |
| Ending fund balances    | <u>\$ 1,046,973</u> | <u>\$ (364,466)</u>    | <u>\$ 682,507</u>            |
|                         |                     |                        |                              |
|                         | Proprietary Funds   |                        |                              |
|                         | Cash<br>Basis       | Accrual<br>Adjustments | Accrual<br>Basis             |
| Revenues                | \$ 676,671          | \$ 278                 | \$ 676,949                   |
| Expenditures            | <u>694,158</u>      | <u>(4,908)</u>         | <u>689,250</u>               |
| Net                     | (17,487)            | 5,186                  | (12,301)                     |
| Beginning fund balances | <u>21,154</u>       | <u>13,219</u>          | <u>34,373</u>                |
| Ending fund balances    | <u>\$ 3,667</u>     | <u>\$ 18,405</u>       | <u>\$ 22,072</u>             |

See accompanying Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$521,177.

During the year ended June 30, 2006, District disbursements did not exceed the amounts budgeted; nor did General Fund disbursements exceed the unspent authorized budget.

## Other Supplementary Information

LISBON COMMUNITY SCHOOL DISTRICT  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2006

Schedule 1

|                                      | Special Revenue   |                  |                                   |                   |
|--------------------------------------|-------------------|------------------|-----------------------------------|-------------------|
|                                      | Management Levy   | Student Activity | Physical Plant and Equipment Levy | Capital Projects  |
| <b>ASSETS</b>                        |                   |                  |                                   |                   |
| Cash and pooled investments          | \$ 74,599         | \$ 64,841        | \$ 82,853                         | \$ 129,386        |
| Receivables                          |                   |                  |                                   |                   |
| Property tax                         |                   |                  |                                   |                   |
| Current year delinquent              | 1,093             | -                | 1,314                             | -                 |
| Succeeding year                      | 100,000           | -                | 101,993                           | -                 |
| Due from other governments           | <u>13</u>         | <u>-</u>         | <u>15</u>                         | <u>24,426</u>     |
| Total assets                         | <u>\$ 175,705</u> | <u>\$ 64,841</u> | <u>\$ 186,175</u>                 | <u>\$ 153,812</u> |
|                                      |                   |                  | Debt Service                      | Total             |
|                                      |                   |                  | \$ -                              | \$ 351,679        |
|                                      |                   |                  | 2,810                             | 5,217             |
|                                      |                   |                  | 205,803                           | 407,796           |
|                                      |                   |                  | <u>32</u>                         | <u>24,486</u>     |
|                                      |                   |                  | <u>\$ 208,645</u>                 | <u>\$ 789,178</u> |
| <b>LIABILITIES AND FUND BALANCES</b> |                   |                  |                                   |                   |
| Liabilities                          |                   |                  |                                   |                   |
| Accounts payable                     | \$ 631            | \$ -             | \$ -                              | \$ 1,280          |
| Deferred revenue                     |                   |                  |                                   |                   |
| Succeeding year property tax         | <u>100,000</u>    | <u>-</u>         | <u>101,993</u>                    | <u>-</u>          |
| Total liabilities                    | 100,631           | -                | 101,993                           | 207,083           |
| Fund Balances                        |                   |                  |                                   |                   |
| Unreserved                           | <u>75,074</u>     | <u>64,841</u>    | <u>84,182</u>                     | <u>153,812</u>    |
| Total liabilities and fund balances  | <u>\$ 175,705</u> | <u>\$ 64,841</u> | <u>\$ 186,175</u>                 | <u>\$ 153,812</u> |
|                                      |                   |                  | <u>\$ 208,645</u>                 | <u>\$ 379,471</u> |
|                                      |                   |                  | <u>\$ 208,645</u>                 | <u>\$ 789,178</u> |

See accompanying Independent Auditor's Report.

**LISBON COMMUNITY SCHOOL DISTRICT**  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2006

Schedule 2

|  | Special Revenue    |                     |  |                     |                 |                |
|--|--------------------|---------------------|--|---------------------|-----------------|----------------|
|  | Management<br>Levy | Student<br>Activity | Physical<br>Plant and<br>Equipment<br>Levy | Capital<br>Projects | Debt<br>Service | Total          |
| Revenues                                       |                    |                     |  |                     |                 |                |
| Local sources                                  |                    |                     |  |                     |                 |                |
| Local taxes                                    | \$ 84,793          | \$ 101,278          | \$ 98,354                                  | \$ 69,064           | \$ 210,197      | \$ 563,686     |
| Other  | 3,501              | -                   | 7,450                                      | 1,799               | 206             | 12,956         |
| State sources                                  | <u>54</u>          | <u>-</u>            | <u>60</u>                                  | <u>-</u>            | <u>127</u>      | <u>241</u>     |
| Total revenues                                 | <u>88,348</u>      | <u>101,278</u>      | <u>105,864</u>                             | <u>70,863</u>       | <u>210,530</u>  | <u>576,883</u> |
| Expenditures                                   |                    |                     |  |                     |                 |                |
| Current  |                    |                     |  |                     |                 |                |
| Instruction                                    |                    |                     |  |                     |                 |                |
| Other instruction                              | 7,500              | 89,666              | -  | -                   | -               | 97,166         |
| Support services                               |                    |                     |  |                     |                 |                |
| Administration services                        | 29,958             | -                   | -  | -                   | -               | 29,958         |
| Operation and maintenance<br>of plant services | 29,987             | -                   | -  | -                   | -               | 29,987         |
| Transportation services                        | 6,065              | -                   | -  | -                   | -               | 6,065          |
| Other expenditures                             |                    |                     |  |                     |                 |                |
| Facilities acquisition                         | -                  | -                   | 94,285                                     | -                   | -               | 94,285         |
| Long-term debt                                 |                    |                     |  |                     |                 |                |
| Principal                                      | -                  | -                   | -  | -                   | 105,000         | 105,000        |
| Interest and fiscal charges                    | -                  | -                   | -  | -                   | 104,114         | 104,114        |
| Total expenditures                             | <u>73,510</u>      | <u>89,666</u>       | <u>94,285</u>                              | <u>-</u>            | <u>209,114</u>  | <u>466,575</u> |

See accompanying Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2006

Schedule 2

|  | <u>Special Revenue</u> |                     |  |                     |                 |                   |
|--|------------------------|---------------------|--|---------------------|-----------------|-------------------|
|  | Management<br>Levy     | Student<br>Activity | Physical<br>Plant and<br>Equipment<br>Levy | Capital<br>Projects | Debt<br>Service | Total             |
| Excess of revenues over expenditures                             | \$ 14,838              | \$ 11,612           | \$ 11,579                                  | \$ 70,863           | \$ 1,416        | \$ 110,308        |
| Other financing sources  | -                      | -                   | 48,870                                     | -                   | -               | 48,870            |
| Proceeds from bank loan  |                        |                     |  |                     |                 |                   |
| Excess of revenues and other financing sources over expenditures | 14,838                 | 11,612              | 60,449                                     | 70,863              | 1,416           | 159,178           |
| Fund balances, beginning of year                                 | 60,236                 | 53,229              | 23,733                                     | 82,949              | 146             | 220,293           |
| Fund balances, end of year                                       | <u>\$ 75,074</u>       | <u>\$ 64,841</u>    | <u>\$ 84,182</u>                           | <u>\$ 153,812</u>   | <u>\$ 1,562</u> | <u>\$ 379,471</u> |

See accompanying Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Fiduciary Assets and Liabilities  
 Agency Funds  
 For the Year Ended June 30, 2006

Schedule 3

|               | Balance,<br>Beginning<br><u>of Year</u> | <u>Additions</u> | <u>Deductions</u> | Balance,<br>End of<br><u>Year</u> |
|---------------|---|------------------|-------------------|-----------------------------------|
| Assets        |   |                  |                   |                                   |
| Cash          | <u>\$ 20,761</u>                        | <u>\$ 77,360</u> | <u>\$ 73,779</u>  | <u>\$ 24,342</u>                  |
| Liabilities   |   |                  |                   |                                   |
| Due to others | <u>\$ 20,761</u>                        | <u>\$ 77,360</u> | <u>\$ 73,779</u>  | <u>\$ 24,342</u>                  |

See accompanying Independent Auditor's Report.

LISBON COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2006

Schedule 4

| <u>Account</u>              | Balance,<br>Beginning<br>of Year | <u>Revenues</u>   | <u>Expenditures</u> | Balance,<br>End of<br>Year |
|-----------------------------|----------------------------------|-------------------|---------------------|----------------------------|
| High School Athletics       |                                  |                   |                     |                            |
| Boys basketball             | \$ 6,521                         | \$ 3,760          | \$ 1,669            | \$ 8,612                   |
| Bys football                | 10,439                           | 9,585             | 5,057               | 14,967                     |
| Boys baseball               | -                                | 4,909             | 4,909               | -                          |
| Boys track                  | -                                | 1,417             | 1,417               | -                          |
| Boys golf                   | -                                | 200               | 200                 | -                          |
| Boys wrestling              | 1,273                            | 4,162             | 2,964               | 2,471                      |
| Girls basketball            | 6,670                            | 2,584             | 1,813               | 7,441                      |
| Girls volleyball            | 3,527                            | 1,917             | 1,640               | 3,804                      |
| Girls softball              | -                                | 6,205             | 6,205               | -                          |
| Girls track                 | -                                | 60                | 60                  | -                          |
| Girls golf                  | -                                | 260               | 260                 | -                          |
| Athletics                   | 9,412                            | 11,497            | 10,946              | 9,963                      |
| Middle School Athletics     |                                  |                   |                     |                            |
| Boys basketball             | -                                | 499               | 499                 | -                          |
| Boys football               | -                                | 369               | 369                 | -                          |
| Boys track                  | -                                | 30                | 30                  | -                          |
| Boys wrestling              | -                                | 228               | 228                 | -                          |
| Girls basketball            | -                                | 576               | 576                 | -                          |
| Girls volleyball            | -                                | 889               | 889                 | -                          |
| Girls softball              | -                                | 429               | 429                 | -                          |
| Girls track                 | -                                | 30                | 30                  | -                          |
| SADD                        | 438                              | -                 | -                   | 438                        |
| Peer counselors             | 1,032                            | -                 | -                   | 1,032                      |
| National Honor Society      | 67                               | 72                | 230                 | (91)                       |
| Speech                      | -                                | -                 | 1,096               | (1,096)                    |
| Ski trip                    | 275                              | 671               | 684                 | 262                        |
| Spanish club                | 3,437                            | 2,992             | 1,702               | 4,727                      |
| High school student council | 499                              | 770               | 587                 | 682                        |
| Cheerleaders                | 849                              | 10,285            | 7,836               | 3,298                      |
| Junior high student council | 3,380                            | 16,293            | 13,906              | 5,767                      |
| Class of 2004               | 599                              | -                 | -                   | 599                        |
| Class of 2005               | 134                              | -                 | -                   | 134                        |
| Class of 2006               | 428                              | 861               | 1,289               | -                          |
| Class of 2007               | -                                | 8,391             | 7,263               | 1,128                      |
| Annual                      | 758                              | 5,382             | 6,360               | (220)                      |
| Special                     | 3,429                            | 5,955             | 8,523               | 861                        |
| Recycling                   | 62                               | -                 | -                   | 62                         |
| Totals                      | <u>\$ 53,229</u>                 | <u>\$ 101,278</u> | <u>\$ 89,666</u>    | <u>\$ 64,841</u>           |

See accompanying Independent Auditor's Report

LISBON COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Fund Types  
For the Last Four Years

Schedule 5

|  | Modified Accrual Basis |                     |                     |                     |
|--|------------------------|---------------------|---------------------|---------------------|
|  | <u>2006</u>            | <u>2005</u>         | <u>2004</u>         | <u>2003</u>         |
| Revenues                                       |                        |                     |                     |                     |
| Local sources                                  |                        |                     |                     |                     |
| Local tax                                      | \$ 2,027,871           | \$ 1,727,809        | \$ 1,667,356        | \$ 1,445,064        |
| Tuition  | 284,428                | 363,834             | 245,725             | 246,554             |
| Other  | 141,164                | 177,524             | 204,924             | 185,726             |
| State sources                                  | 2,912,899              | 2,671,854           | 2,486,211           | 2,543,102           |
| Federal sources                                | 104,597                | 314,394             | 931,592             | 146,795             |
| Total revenues                                 | <u>\$ 5,470,959</u>    | <u>\$ 5,255,415</u> | <u>\$ 5,535,808</u> | <u>\$ 4,567,241</u> |
| Expenditures                                   |                        |                     |                     |                     |
| Instruction                                    |                        |                     |                     |                     |
| Regular instruction                            | 2,420,522              | 2,426,716           | 2,289,496           | 2,100,020           |
| Special instruction                            | 394,806                | 506,763             | 470,526             | 577,189             |
| Other instruction                              | 319,316                | 233,475             | 203,778             | 207,764             |
| Support services                               |                        |                     |                     |                     |
| Student services                               | 73,875                 | 74,412              | 60,311              | 84,307              |
| Instructional staff services                   | 140,236                | 157,538             | 149,933             | 152,428             |
| Administration services                        | 581,296                | 606,773             | 653,110             | 617,842             |
| Operation and maintenance<br>of plant services | 536,650                | 531,125             | 452,985             | 424,458             |
| Transportation services                        | 276,250                | 237,485             | 119,240             | 113,129             |
| Other expenditures                             |                        |                     |                     |                     |
| Facilities acquisition                         | 94,285                 | 363,399             | 3,479,845           | 324,649             |
| Long-term debt                                 |                        |                     |                     |                     |
| Principal                                      | 105,000                | 156,567             | 150,681             | 30,000              |
| Interest and other charges                     | 104,114                | 110,410             | 116,405             | 5,905               |
| AEA flowthrough                                | 186,036                | 171,760             | 168,244             | 178,558             |
| Total expenditures                             | <u>\$ 5,232,386</u>    | <u>\$ 5,576,423</u> | <u>\$ 8,314,554</u> | <u>\$ 4,816,249</u> |

See accompanying Independent Auditor's Report.

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
October 4, 2006

LISBON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

1. Segregation of Duties – The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response – We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion – Response accepted.

2. Signature Cards – I noted that the bank signature cards for some of the District accounts did not indicate that two authorized signatures are required on District checks. Also, the superintendent was listed as an authorized signature on some of the District accounts. However, the Code of Iowa does not provide for the superintendent to be an authorized signer of District checks, unless the board has adopted a resolution authorizing the superintendent to sign on behalf of the board president.

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Recommendation – Chapters 291.1 and 291.8 of the Code of Iowa require the board president and board secretary to sign all District checks. Chapter 291.1 allows the board, by resolution, to designate an individual (other than the board secretary) to sign checks on behalf of the board president. If the board desires to have the superintendent authorized to sign checks, they should adopt a resolution stating such. Until the board adopts such a resolution, the superintendent should be removed from the bank signature cards. This District should also change all bank signature cards to indicate that two properly authorized signatures are required on all District checks.

Response – We will take appropriate action as recommended.

Conclusion – Response accepted.

**Part II. Other Findings Related to Statutory Reporting:**

1. Certified Budget – Disbursements for the year ended June 30, 2006 did not exceed the amended amounts budgeted.
2. Questionable Disbursements – I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. 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.
4. Business Transactions – Business transactions between the District and District officials are detailed as follows:

| <u>Name, Title and Business Connection</u>                             | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| Scott Morningstar, board president<br>owner of Lisbon Insurance Agency | School insurance coverage      | \$ 54,660     |

The \$54,660 is the total amount of insurance premiums paid to Lisbon Insurance Agency during the year ended June 30, 2006. However, Mr. Morningstar's commission on these business transactions was significantly less than the total premiums. In accordance with an Attorney General's Opinion dated November 9, 1976, the transactions with Board Member Morningstar does not appear to represent a conflict of interest with Chapter 729.7A of the Code of Iowa.

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Recommendation – The District should consult legal counsel to determine the disposition of this matter.

Response – The Board Member has been the District's insurance agent for several years. We are aware the payment to the company exceeds the \$2,500 limit allowed by the Code of Iowa. However, the commission earned is below that limit. We also have consulted with our attorney on this matter.

Conclusion – Response accepted.

5. 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 insure that the coverage is adequate for current operations.
6. Board Minutes – I noted no transactions requiring Board approval which had not been approved by the Board. However, it was noted that the minutes were not always published timely in accordance with Chapter 279.35 of the Code of Iowa.

Recommendation – Chapter 279.35 of the Code of Iowa requires that minutes be made available to the publisher within two weeks of the board meeting. The District should ensure that the minutes are submitted to the publisher within the stipulated time frame.

Response – The minutes are e-mailed to the publisher within two weeks of the board meeting. However, the e-mails supporting these submissions were not available at audit time due to a change in business managers after year-end. In the future we will keep evidence to support the timely submission of minutes to the publisher.

Conclusion – Response accepted.

7. Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments – I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports – The Certified Annual Report was certified to the Iowa Department of Education timely and I noted no significant deficiencies in the amounts reported.