CITY OF LISBON, IOWA

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

June 30, 2008

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CITY OF LISBON

Officials

Name	Title	Term Expires
Rex Cook	Mayor	January 2012
Doug Kamberling	Council Member	January 2012
John Bardsley	Council Member	January 2010
Stephanie Kamberling	Council Member	January 2010
Randy Roberts	Council Member	January 2010
Lance Zerbe	Council Member	January 2012
Chris Yancey	City Administrator	Indefinite
Tawnia Kakacek	City Clerk/Treasurer	Indefinite
Jim Craig, Lederer, Weston & Craig	City Attorney	Indefinite

CITY OF LISBON

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Lisbon, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lisbon, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lisbon as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Offices in 17 states and Washington, DC

Member of HLB International

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lisbon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
April 8, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lisbon 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 Financial Highlights

Revenues of the City's governmental activities decreased by 34%, or approximately $1,196,000, from fiscal year 2007 to 2008. Property tax decreased approximately $12,951 and bond proceeds increased $110,000, respectively, while licenses and permits and use of money and property and intergovernmental revenue all decreased.

Disbursements for governmental activities decreased by 41%, or approximately $864,767, from fiscal year 2007 to fiscal year 2008. Community and Economic Development, debt service and capital projects disbursements decreased approximately $151,529, $151,657, $138,895, respectively.

The City's total cash basis net assets increased 1.6%, or approximately $96,240, from June 30, 2007 to June 30, 2008. Of this amount the assets of the governmental activities increased approximately $60,108 and the assets of the business type activities by approximately $36,132.

Using This Annual Report

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

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

Reporting the City's Financial Activities

Government-wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

   The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds. The water and sewer funds are considered to be major funds of the City.

   The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	Year Ended June 30, 2008	2007
General receipts and transfers:		
Property tax	$ 559	$ 588
TIF	141	148
Other taxes	42	28
Licenses and permits	9	18
Use of money and property	46	68
Intergovernmental	337	793
Charges for service	36	41
Other financing sources:		
Proceeds from debt	210	-
Sales of assets	-	19
Transfers	378	1,413
Special assessments	262	32
Miscellaneous	51	119
Total receipts and transfers	2,071	3,267
Disbursements and transfers:		
Public safety	306	215
Public works	240	140
Culture and recreation	214	206
Community and economic development	157	309
General government	204	148
Debt service	272	423
Capital projects	344	483
Transfers	274	1,046
Total disbursements and transfers	2,011	2,970
Increase in cash basis net assets	60	297
Cash basis net assets, beginning of year	1,197	900
Cash basis net assets, end of year	$ 1,257	$ 1,197

The City's total receipts for governmental activities decreased by 34%, or approximately $1,196,000. The total cost of all programs and services decreased by approximately $959,000, or 41%, with no new programs added this year.

The City property tax rates for 2008 are at 13.61361, higher than the rates of 2007 at 12.64942. This is an increase of 7.6% from the 2007 rate.

The cost of all governmental activities this year was $2,011,000, compared to $2,970,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14 through 17, the amount taxpayers ultimately financed for these activities was only $1,071,065 because some of the cost was paid by those who directly benefited from the programs (charges for service $302,056) or by other governments and organizations that subsidized certain programs with grants and contributions ($364,120). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2008 from $834,154 to $666,176. The City paid for the remaining "public benefit" portion of governmental activities with $742,314 in tax (some of which could only be used for certain programs) and with other receipts, such as interest, bond proceeds and general entitlements.

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

	Year Ended June 30, 2008	2007
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	$ 183	$ 194
Sewer	241	252
Solid waste	110	112
General receipts:		
Other receipts	24	9
Transfers	4	5
Total receipts and transfers	562	572
Disbursements and transfers:		
Water	136	119
Sewer	155	139
Solid waste	125	120
Other	3	2
Transfers	107	371
Total disbursements and transfers	526	751
Increase (decrease) in cash basis net assets	36	(179)
Cash basis net assets, beginning of year	409	588
Cash basis net assets, end of year	$ 445	$ 409

Total business type activities receipts and transfers for the fiscal year were $562,316 compared to $571,878 last year. This decrease was due primarily to the decrease in water and sewer usage. The cash balance increased approximately $36,132.

Individual Major Governmental Fund Analysis

As the City of Lisbon completed the year, its governmental funds reported a combined fund balance of $1,256,912, an increase of $60,108 over the prior year.

- The General Fund cash balance decreased $90,554 from the prior year to $450,039. This decrease was due in large part to reduced revenues per state mandates while maintaining city services.

- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased $95,352 from the prior year to $297,862. This increase was due to taxes levied and special assessments.

- The Road Use Tax cash balance decreased $66,744 from the prior year to $17,876.

- The Local Option Sales Tax cash balance remained the same as in the prior year.

- The Debt Service Fund cash balance increased $50,581 from the prior year to $139,167.

- The East Main Street Fund cash balance decreased $416 from prior year to ($1,336) due to expenditures for capital projects exceeding revenues.

- The Highway 30 Expansion Fund cash balance increased $200,000 from prior year to ($10,672) due to receiving special assessment funds.

Individual Major Business Type Fund Analysis

As the City of Lisbon completed the year, its business type funds reported a combined fund balance of $445,483, an increase of $36,132 over the prior year. This increase is due to water rate increases and reductions of debt service payments over the prior year.

Budgetary Highlights

Over the course of the year, the City amended its budget once. This was a balanced budget amendment reflecting the increased cost of operating services and capital project cost increases being offset by an increase in revenues.

Debt Administration

As of June 30, 2008, the City had $2,238,000 in bonds and other long-term debt, compared to $2,212,000 last year, as shown below.

Outstanding Debt at Year End
(Expressed in Thousands)

	Year Ended June 30, 2008	2007
General obligation capital loan notes	$ 1,225	$ 1,150
Revenue notes	1,013	1,062
Total	$ 2,238	$ 2,212

Debt increased as a result of issuing a $210,000 general obligation note.

The City does not carry a general obligation bond rating assigned by national rating agencies due to the small size of the City and the debt that we traditionally bond for; additionally, it is considered that the cost associated with obtaining such a rating would not be in line with any potential resulting savings or points discounted. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $1,125,000 is significantly below its constitutional debt limit of $4,923,356.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Administrator or the City Clerk/Treasurer at Lisbon City Hall, 115 N Washington, P.O. Box 68, Lisbon, Iowa 52253. (319) 455-2459.

BASIC FINANCIAL STATEMENTS

CITY OF LISBON

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2008

		Program Receipts	
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest
FUNCTIONS/PROGRAMS:			
Governmental activities:			
Public safety	$ 306,448	$ 7,657	$ 14,065
Public works	240,445	-	162,607
Culture and recreation	214,118	10,972	152,216
Community and economic development	157,254	-	-
General government	203,592	83,427	35,232
Debt service	271,617	-	-
Capital projects	343,768	200,000	-
Total governmental activities	1,737,242	302,056	364,120
Business type activities:			
Water	136,312	183,365	-
Sewer	155,193	240,882	-
Solid waste	124,429	110,285	-
Utility deposits	2,800	-	-
Total business type activities	418,734	534,532	-
Total	2,155,976	836,588	364,120
GENERAL RECEIPTS:			
Property Taxes levied for:			
General purposes			
Tax increment financing			
Debt service			
Other city tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Miscellaneous			
Bond proceeds			
Transfers			
Total general receipts and transfers			

Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
$ -	$ (284,726)	$ -	$ (284,726)
-	(77,838)	-	(77,838)
-	(50,930)	-	(50,930)
-	(157,254)	-	(157,254)
-	(84,933)	-	(84,933)
-	(271,617)	-	(271,617)
-	(143,768)	-	(143,768)
-	(1,071,066)	-	(1,071,066)
-	-	47,053	47,053
-	-	85,689	85,689
-	-	(14,144)	(14,144)
-	-	(2,800)	(2,800)
-	-	115,798	115,798
-	(1,071,066)	115,798	(955,268)
	456,062	-	456,062
	141,556	-	141,556
	102,383	-	102,383
	42,313	-	42,313
	715	-	715
	46,156	13,556	59,712
	28,035	10,732	38,767
	210,000	-	210,000
	103,954	(103,954)	-
	1,131,174	(79,666)	1,051,508

(continued)

CITY OF LISBON

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2008

		Program Receipts	
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest
CHANGE IN CASH BASIS NET ASSETS			
CASH BASIS NET ASSETS, BEGINNING OF YEAR			
CASH BASIS NET ASSETS, END OF YEAR			
CASH BASIS NET ASSETS:			
Restricted:			
Streets			
Capital projects			
Debt service			
Unrestricted			
TOTAL CASH BASIS NET ASSETS			

Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
	60,108	36,132	96,240
	1,196,804	409,351	1,606,155
	$ 1,256,912	$ 445,483	$ 1,702,395
	$ 600,440	$ -	$ 600,440
	-	10,000	10,000
	139,167	50,193	189,360
	517,305	385,290	902,595
	$ 1,256,912	$ 445,483	$ 1,702,395

The accompanying notes are an integral part of the financial statements.

CITY OF LISBON

Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances - Governmental Funds

As of and for the Year Ended June 30, 2008

		Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
RECEIPTS:				
Property tax	$ 383,513	$ -	$ -	$ -
Tax increment financing collections	-	-	141,556	-
Other city tax	42,313	-	-	-
Licenses and permits	8,828	-	-	-
Use of money and property	46,156	-	-	-
Intergovernmental	174,027	162,607	-	-
Charges for services	36,199	-	-	-
Special assessments	-	-	-	-
Miscellaneous	43,869	-	3,566	-
Total receipts	734,905	162,607	145,122	-
DISBURSEMENTS:				
Operating:				
Public safety	263,954	-	-	-
Public works	-	219,351	-	-
Culture and recreation	207,916	-	-	-
Community and economic development	157,254	-	-	-
General government	175,084	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	804,208	219,351	-	-
Excess (deficiency) of receipts over (under) disbursements	(69,303)	(56,744)	145,122	-
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(21,251)	(10,000)	(49,770)	-
Net other financing sources (uses)	(21,251)	(10,000)	(49,770)	-

Debt Service	Capital Projects: E Main Street	Capital Projects: Highway 30 Expansion	Other Nonmajor Governmental Funds	Totals
$ 102,526	$ -	$ -	$ 72,550	$ 558,589
-	-	-	-	141,556
-	-	-	-	42,313
-	-	-	-	8,828
-	-	-	-	46,156
-	-	-	-	336,634
-	-	-	-	36,199
-	-	200,000	62,112	262,112
-	-	-	3,575	51,010
102,526	-	200,000	138,237	1,483,397
-	-	-	42,494	306,448
-	-	-	21,094	240,445
-	-	-	6,202	214,118
-	-	-	-	157,254
-	-	-	28,508	203,592
271,617	-	-	-	271,617
-	210,416	-	133,352	343,768
271,617	210,416	-	231,650	1,737,242
(169,091)	(210,416)	200,000	(93,413)	(253,845)
-	210,000	-	-	210,000
219,672	-	-	158,268	377,940
-	-	-	(192,966)	(273,987)
	-	-		
219,672	210,000	-	(34,698)	313,953

(continued)

CITY OF LISBON

Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances - Governmental Funds

As of and for the Year Ended June 30, 2008

		Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
NET CHANGE IN CASH BALANCES	(90,554)	(66,744)	95,352	-
CASH BALANCES, BEGINNING OF YEAR	540,593	84,620	202,510	284,702
CASH BALANCES, END OF YEAR	$ 450,039	$ 17,876	$ 297,862	$ 284,702
CASH BASIS FUND BALANCES:				
Reserved:				
Debt service	$ -	$ -	$ -	$ -
Streets	-	17,876	297,862	284,702
Unreserved:				
General	450,039	-	-	-
Special revenue funds	-	-	-	-
Capital project funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	$ 450,039	$ 17,876	$ 297,862	$ 284,702

Debt Service	Capital Projects: E Main Street	Capital Projects: Highway 30 Expansion	Other Nonmajor Governmental Funds	Totals
50,581	(416)	200,000	(128,111)	60,108
88,586	(920)	(210,672)	207,385	1,196,804
$ 139,167	$ (1,336)	$ (10,672)	$ 79,274	$ 1,256,912
$ 139,167	$ -	$ -	$ -	$ 139,167
-	-	-	-	600,440
-	-	-	-	450,039
-	-	-	104,191	104,191
-	(1,336)	(10,672)	(91,598)	(103,606)
-	-	-	66,681	66,681
$ 139,167	$ (1,336)	$ (10,672)	$ 79,274	$ 1,256,912

The accompanying notes are an integral part of the financial statements.

Exhibit C

CITY OF LISBON

Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances - Proprietary Funds

As of and for the Year Ended June 30, 2008

	Enterprise Funds				
	Water	Sewer	Solid Waste	Utility Deposits	Totals
OPERATING RECEIPTS:					
Use of money and property	$ 9,377	$ 2,605	$ 1,574	$ -	$ 13,556
Charges for services	183,365	240,882	110,285	-	534,532
Miscellaneous	-	5,477	-	5,254	10,731
Total operating receipts	192,742	248,964	111,859	5,254	558,819
OPERATING DISBURSEMENTS:					
Business type activities	136,312	155,193	124,429	2,800	418,734
Excess (deficiency) of operating receipts over (under) operating disbursements	56,430	93,771	(12,570)	2,454	140,085
OTHER FINANCING SOURCES (USES):					
Operating transfers in	1,748	1,749	-	-	3,497
Operating transfers out	(12,000)	(95,450)	-	-	(107,450)
Net other financing sources (uses)	(10,252)	(93,701)	-	-	(103,953)
NET CHANGE IN CASH BALANCES	46,178	70	(12,570)	2,454	36,132
CASH BALANCES, BEGINNING OF YEAR	269,981	57,418	61,316	20,636	409,351
CASH BALANCES, END OF YEAR	$ 316,159	$ 57,488	$ 48,746	$ 23,090	$ 445,483
CASH BASIS FUND BALANCES:					
Reserved:					
Debt service	$ 10,958	$ 16,145	$ -	$ 23,090	$ 50,193
Improvements	10,000	-	-	-	10,000
Unreserved	295,201	41,343	48,746	-	385,290
Total cash basis fund balances	$ 316,159	$ 57,488	$ 48,746	$ 23,090	$ 445,483

The accompanying notes are an integral part of the financial statements.

(1) Summary of Significant Accounting Policies

The City of Lisbon is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

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

B. Basis of Presentation

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

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

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 preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

(1) **Summary of Significant Accounting Policies** (continued)

B. Basis of Presentation (continued)

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the collection and disbursement of local option sales tax.

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

Capital Project:

The E Main Street Fund is used to account for the construction of the street.

The Highway 30 Expansion Fund is used to account for the construction of the expansion.

(1) **Summary of Significant Accounting Policies** (continued)

B. Basis of Presentation (continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage collection services.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2006, to compute the amounts which became liens on property on July 1, 2007. These taxes were due and payable in two installments on September 30, 2007 and March 31, 2008, at the Linn County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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 City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 157,000	$ 55,596	$ 50,000	$ 30,390	$ 207,000	$ 85,986
2010	158,000	43,868	52,000	28,890	210,000	72,758
2011	124,000	37,165	53,000	27,330	177,000	64,495
2012	130,000	32,293	55,000	25,740	185,000	58,033
2013	82,000	26,977	57,000	24,090	139,000	51,067
2014	87,000	23,786	58,000	22,380	145,000	46,166
2015	92,000	20,360	60,000	20,640	152,000	41,000
2016	93,000	16,672	62,000	18,840	155,000	35,512
2017	83,000	12,863	64,000	16,980	147,000	29,843
2018	89,000	9,418	66,000	15,060	155,000	24,478
2019	65,000	5,686	67,000	13,080	132,000	18,776
2020	65,000	2,861	69,000	11,070	134,000	13,931
2021	-	-	72,000	9,000	72,000	9,000
2022	-	-	74,000	6,840	74,000	6,840
2023	-	-	76,000	4,620	76,000	4,620
2024	-	-	78,000	2,340	78,000	2,340
Total	$1,225,000	$ 287,545	$1,013,000	$ 277,290	$2,238,000	$ 564,835

During the current year, the City issued $210,000 of general obligation bonds in order to finance street improvements.

(3) **Bonds and Notes Payable** (continued)

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay $1,200,000 in sewer revenue notes issued in April 2004. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment system. The note is payable solely from sewer customer net receipts and are payable through 2024. The total principal and interest remaining to be paid on the notes is $1,290,290.

(4) **Pension and Retirement Benefits**

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

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were $19,393, $18,245, and $19,942, respectively, equal to the required contributions for each year.

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2008 was $6,290. This liability, which primarily relates to the General Fund, has been computed based on rates of pay as of June 30, 2008.

(6) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Enterprise:	General	
Water		$ 1,748
Sewer		1,749
		3,497

(6) **Interfund Transfers** (continued)

Transfer to	Transfer from	Amount
Debt Service	Enterprise:	
	Water	12,000
	Sewer	95,450
	General	17,754
	Capital Projects:	
	Fire Truck	44,698
	Special Revenue:	
	Urban Renewal Tax Increment	49,770
		219,672
Capital Projects:	Capital Projects:	
Westside Street	Westside Water	148,268
Special Revenue:	Special Revenue:	
Road Use Capital Equipment	Road Use Tax	10,000
Total		$ 381,437

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

(7) **Risk Management**

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

(8) **Commitments**

Following is a table of the City's construction and equipment purchase commitments at June 30, 2008:

Commitment	Contract Amount	Paid to 6-30-08	Unpaid Commitment
Well rehab project	$ 568,579	$ 13,943	$ 554,636
Gillette Lane	17,000	-	17,000
City truck	33,370	-	33,370
Storm water drain	5,281	-	5,281

(9) Deficit Fund Balances

The following funds had deficit balances at June 30, 2008:

Capital Projects:	
E Main Street	$ 1,336
Highway 30 Expansion	10,672
NE Sidewalk	105,728
Westside Street	12,523
Well Rehab	13,943
Alger Estates	1,523
2005 Lisbon Square	168
Special Revenue:	
Employee Benefits	34,956
Casey's Development	22,070

(10) Interfund Loans

During fiscal year 2005, $419,556 was loaned to the Special Revenue, Urban Renewal Tax Increment fund from other funds, as follows: Enterprise, Water $143,250; Enterprise, Sewer $31,250; General $122,527 and; Special Revenue, Road Use Tax $122,529. These funds were used to pay the costs of improvements within the City's Urban Renewal Area relative to the Novak Estates Part I Development. These loans will be repaid, with interest at the rate of 5% per annum, out of incremental property tax revenues received on real property within the Urban Renewal Area (Novak Part I).

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LISBON

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds Required Supplementary Information

Year Ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	$ 558,589	$ -	$ -
Tax increment financing collections	141,556	-	-
Other city tax	42,313	-	-
Licenses and permits	8,828	-	-
Use of money and property	46,156	13,556	-
Intergovernmental	336,634	-	-
Charges for services	36,199	534,532	-
Special assessments	262,112	-	-
Miscellaneous	51,010	10,731	1,050
Total receipts	1,483,397	558,819	1,050
DISBURSEMENTS:			
Public safety	306,448	-	-
Public works	240,445	-	-
Culture and recreation	214,118	-	-
Community and economic development	157,254	-	-
General government	203,592	-	-
Debt service	271,617	-	-
Capital projects	343,768	-	-
Business type activities	-	418,734	-
Total disbursements	1,737,242	418,734	-
Excess (deficiency) of receipts over (under) disbursements	(253,845)	140,085	1,050
OTHER FINANCING SOURCES, NET	313,953	(103,953)	-
Excess of receipts and other financing sources over (under) disbursements and other financing uses	60,108	36,132	1,050
BALANCES, BEGINNING OF YEAR	1,196,804	409,351	65,631
BALANCES, END OF YEAR	$ 1,256,912	$ 445,483	$ 66,681

Total	Budgeted Amounts		Final to Total
	Original	Final	Variance
$ 558,589	$ 581,087	$ 581,087	$ (22,498)
141,556	133,563	133,563	7,993
42,313	32,286	32,286	10,027
8,828	22,200	22,200	(13,372)
59,712	21,300	55,400	4,312
336,634	381,245	653,945	(317,311)
570,731	683,623	684,823	(114,092)
262,112	50,000	61,000	201,112
60,691	5,050	(59,050)	119,741
2,041,166	1,910,354	2,165,254	(124,088)
306,448	219,443	323,343	16,895
240,445	182,686	273,686	33,241
214,118	228,574	253,874	39,756
157,254	76,836	174,836	17,582
203,592	144,399	219,299	15,707
271,617	304,913	274,913	3,296
343,768	574,830	412,830	69,062
418,734	450,675	511,675	92,941
2,155,976	2,182,356	2,444,456	288,480
(114,810)	(272,002)	(279,202)	164,392
210,000	416,000	210,000	-
95,190	143,998	(69,202)	164,392
1,540,524	1,603,809	1,603,809	(63,285)
$ 1,635,714	$ 1,747,807	$ 1,534,607	$ 101,107

See accompanying independent auditor's report.

CITY OF LISBON

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2008

The 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 and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted revenues by $254,900 and disbursements by $262,100. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LISBON

Schedule of Cash Receipts, Disbursements,
and Changes in Cash Balances

Nonmajor Governmental Funds

As of and for the Year Ended June 30, 2008

	Special Revenue					
	Special Assessment	Employee Benefits	Street Assessment	Novak Development	Road Use Capital Equipment	Casey's Development
RECEIPTS:						
Property tax	$ -	$ 72,550	$ -	$ -	$ -	$ -
Special assessments	51,124	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total receipts	51,124	72,550	-	-	-	-
DISBURSEMENTS:						
Operating:						
Public safety	-	42,494	-	-	-	-
Public works	-	21,094	-	-	-	-
Culture and recreation	-	6,202	-	-	-	-
General government	-	28,508	-	-	-	-
Capital projects	-	-	-	-	-	-
Total disbursements	-	98,298	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	51,124	(25,748)	-	-	-	-
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	10,000	-
Transfers out	-	-	-	-	-	-
Net other financing sources (uses)	-	-	-	-	10,000	-
NET CHANGE IN CASH BALANCE	51,124	(25,748)	-	-	10,000	-
CASH BALANCES, BEGINNING OF YEAR	37,448	(9,208)	25,000	18,645	19,000	(22,070)
CASH BALANCES, END OF YEAR	$ 88,572	$ (34,956)	$ 25,000	$ 18,645	$ 29,000	$ (22,070)
CASH BASIS FUND BALANCE:						
Unreserved:						
Special revenue funds	$ 88,572	$ (34,956)	$ 25,000	$ 18,645	$ 29,000	$ (22,070)
Capital project funds	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	$ 88,572	$ (34,956)	$ 25,000	$ 18,645	$ 29,000	$ (22,070)

Schedule 1

Capital Projects									Permanent	
NE Sidewalk	Westside Street	Well Rehab	Alger Estates	2005 Lisbon Square	Downtown Revitalization	Fire Truck	Westside Water	Railroad	Cemetery Perpetual Care	Totals
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 72,550
10,988	-	-	-	-	-	-	-	-	-	62,112
-	-	-	-	2,525	-	-	-	-	1,050	3,575
10,988	-	-	-	2,525	-	-	-	-	1,050	138,237
-	-	-	-	-	-	-	-	-	-	42,494
-	-	-	-	-	-	-	-	-	-	21,094
-	-	-	-	-	-	-	-	-	-	6,202
-	-	-	-	-	-	-	-	-	-	28,508
116,716	-	13,943	-	2,693	-	-	-	-	-	133,352
116,716	-	13,943	-	2,693	-	-	-	-	-	231,650
(105,728)	-	(13,943)	-	(168)	-	-	-	-	1,050	(93,413)
-	148,268	-	-	-	-	-	-	-	-	158,268
-	-	-	-	-	-	(44,698)	(148,268)	-	-	(192,966)
-	148,268	-	-	-	-	(44,698)	(148,268)	-	-	(34,698)
(105,728)	148,268	(13,943)	-	(168)	-	(44,698)	(148,268)	-	1,050	(128,111)
-	(160,791)	-	(1,523)	-	23,287	44,698	148,268	19,000	65,631	207,385
$ (105,728)	$ (12,523)	$ (13,943)	$ (1,523)	$ (168)	$ 23,287	$ -	$ -	$ 19,000	$ 66,681	$ 79,274
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 104,191
(105,728)	(12,523)	(13,943)	(1,523)	(168)	23,287	-	-	19,000	-	(91,598)
-	-	-	-	-	-	-	-	-	66,681	66,681
$ (105,728)	$ (12,523)	$ (13,943)	$ (1,523)	$ (168)	$ 23,287	$ -	$ -	$ 19,000	$ 66,681	$ 79,274

CITY OF LISBON

Schedule of Indebtedness

Year Ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Street improvements, fire truck, waterworks improvements	April 15, 2005	2.90-4.40%	$ 925,000
Street improvements	Dec. 1, 1999	4.60-5.30%	365,000
Street, sewer, sidewalk and lighting improvements	Oct. 1, 2002	2.40-4.60%	415,000
Street improvements	Oct. 1, 2007	3.90%	210,000
Total			
Revenue notes:			
Sewer improvement	May 18, 2004	3.00%	$1,200,000

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 795,000	$ -	$ 55,000	$ 740,000	$ 31,248	$ -
130,000	-	40,000	90,000	6,785	-
225,000	-	40,000	185,000	9,470	-
-	210,000	-	210,000	4,664	-
$1,150,000	$ 210,000	$ 135,000	$1,225,000	$ 52,167	$ -
$1,062,000	$ -	$ 49,000	$1,013,000	$ 31,800	$ -

Schedule 3

CITY OF LISBON

Bond and Note Maturities

June 30, 2008

Year Ending June 30,	General Obligation Capital Loan Notes								
	Street Improvements Issued Dec. 1, 1999		Street, Sewer, Sidewalk and Lighting Improvements Issued Oct. 1, 2002		Street, Fire Truck and Waterworks Improvements Issued April 15, 2005		Street Improvements Issued Oct. 1, 2007		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2009	5.20%	$ 45,000	4.00%	$ 45,000	3.35%	$ 50,000	3.90%	$ 17,000	$ 157,000
2010	5.30	45,000	4.20	45,000	3.45	50,000	3.90	18,000	158,000
2011		-	4.40	45,000	3.60	60,000	3.90	19,000	124,000
2012		-	4.60	50,000	3.70	60,000	3.90	20,000	130,000
2013		-		-	3.90	60,000	3.90	22,000	82,000
2014		-		-	3.95	65,000	3.90	22,000	87,000
2015		-		-	4.05	70,000	3.90	22,000	92,000
2016		-		-	4.15	70,000	3.90	23,000	93,000
2017		-		-	4.25	60,000	3.90	23,000	83,000
2018		-		-	4.30	65,000	3.90	24,000	89,000
2019		-		-	4.35	65,000		-	65,000
2020		-		-	4.40	65,000		-	65,000
Total		$ 90,000		$ 185,000		$ 740,000		$ 210,000	$1,225,000

Year Ending June 30,	Revenue Notes Sewer Improvement Issued May 18, 2004	
	Interest Rates	Amount
2009	3.00%	$ 50,000
2010	3.00	52,000
2011	3.00	53,000
2012	3.00	55,000
2013	3.00	57,000
2014	3.00	58,000
2015	3.00	60,000
2016	3.00	62,000
2017	3.00	64,000
2018	3.00	66,000
2019	3.00	67,000
2020	3.00	69,000
2021	3.00	72,000
2022	3.00	74,000
2023	3.00	76,000
2024	3.00	78,000
Total		$1,013,000

Schedule 4

CITY OF LISBON

Schedule of Receipts by Source and Disbursements By Function -
All Governmental Funds

For the Last Five Years

	2008	(Unaudited) 2007	(Unaudited) 2006	2005	2004
RECEIPTS:					
Property tax	$ 558,589	$ 587,725	$ 560,163	$ 548,523	$ 530,740
Tax increment financing collections	141,556	148,196	147,427	130,893	122,886
Other city tax	42,313	28,443	223,653	245,892	76,749
Licenses and permits	8,828	17,564	22,869	5,849	4,322
Use of money and property	46,156	68,112	44,140	21,842	15,575
Intergovernmental	336,634	793,044	332,530	191,636	198,177
Charges for service	36,199	41,110	27,050	23,067	21,729
Special assessments	262,112	31,792	121,537	64,308	82,403
Miscellaneous	51,010	138,069	37,418	25,715	40,879
Total	$ 1,483,397	$ 1,854,055	$ 1,516,787	$ 1,257,725	$ 1,093,460
DISBURSEMENTS:					
Operating:					
Public safety	$ 306,448	$ 215,210	$ 209,709	$ 248,620	$ 130,346
Public works	240,445	140,351	153,656	141,293	133,261
Culture and recreation	214,118	205,703	139,076	128,650	108,870
Community and economic development	157,254	308,783	44,964	373,325	46,096
General government	203,592	147,964	153,210	145,303	125,774
Debt service	271,617	423,273	374,572	256,924	224,467
Capital projects	343,768	482,663	1,435,523	1,421,452	476,781
Total	$ 1,737,242	$ 1,923,947	$ 2,510,710	$ 2,715,567	$ 1,245,595

See accompanying independent auditor's report.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
Lisbon, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lisbon, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated April 8, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lisbon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Lisbon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Lisbon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Lisbon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Lisbon's financial statements that is more than inconsequential will not be prevented or detected by City of Lisbon's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Lisbon's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-B-08 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

Clifton Gunderson LLP

Cedar Rapids, Iowa
April 8, 2009

CITY OF LISBON

Schedule of Findings

Year Ended June 30, 2008

Part I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS:

(a) A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

(b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCIES:

II-A-08: Segregation of Duties

Criteria:

The City should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The City does not have complete segregation of duties over all accounting transactions.

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The City has a limited number of personnel performing accounting functions.

Recommendation:

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend the City review its operating procedures to obtain the maximum internal control possible under the circumstances.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (CONTINUED)

SIGNIFICANT DEFICIENCIES: (CONTINUED)

II-A-08: Segregation of Duties (continued)

Management Response:

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. Management is monitoring the situation and is segregating accounting duties where practical.

Conclusion:

Response accepted.

II-B-08: Preparation of Financial Statements

Criteria:

The City Council and management share the ultimate responsibility for the City's financial statements, including disclosures.

Condition:

The City Clerk has the ability to prepare the basic financial statements, but does not have the training and reference materials available to draft the footnotes to the financial statements.

Context:

While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The independent auditor cannot be considered part of the City's internal control system. The City has implemented procedures to review the financial statements and disclosures but has not utilized review aids, such as a disclosure checklist, and may not have monitored recent accounting developments to the extent necessary to provide a high level of assurance that financial statement omissions or other errors would be identified and corrected.

Effect:

As a result of this condition, there is a higher risk that financial statement omissions or other errors could occur and not be detected.

Cause:

The City has relied on the independent auditor to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

CITY OF LISBON

Schedule of Findings

Year Ended June 30, 2008

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (CONTINUED)

SIGNIFICANT DEFICIENCIES: (CONTINUED)

II-B-08: **Preparation of Financial Statements** (continued)

Recommendation:

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable accounting principles and knowledge of the City's activities and operations.

Management Response:

The City does not have the resources to employ staff possessing the detailed understanding of applicable accounting principles to the extent required to utilize such a disclosure checklist. We understand the list of reporting and disclosure requirements in these disclosure checklists exceeds 50 pages in length. As a result, the City of Lisbon has relied on the independent auditor to identify disclosures required in the financial statements.

Conclusion:

Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

III-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

III-B-08 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF LISBON

Schedule of Findings

Year Ended June 30, 2008

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING: (CONTINUED)

III-D-08 Business Transactions - We noted no business transactions between the City and City officials or employees.

III-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-08 Council Minutes - N o transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-08 Revenue Bonds - No instances of noncompliance with the revenue bond resolutions were noted.

III-H-08 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-I-08 Financial Condition - The City had a deficit balance at June 30, 2008 in multiple funds.

Recommendation - The City should investigate alternatives to eliminate deficits in order to return these funds to a sound financial position.

Response - The majority of the deficits were due to capital project costs incurred greater than receipts received. The deficits will be eliminated in future years.

Conclusion - Response accepted.

CITY OF LISBON

Staff

This audit was performed by:

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