

CITY OF LISBON, IOWA

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

June 30, 2012

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CITY OF LISBON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Beryl O'Connor	Mayor	December 2015
Doug O'Connor	Council Member	December 2015
John Bardsley	Council Member	December 2013
Lance Zerbe	Council Member	December 2015
Travis Jubeck	Council Member	December 2013
Larry McAtee	Council Member	December 2013
Chris Yancey	City Administrator	Indefinite
Tawnia Kakacek	City Clerk/Treasurer	Indefinite
Lederer, Weston & Craig	City Attorney	January 1, 2013

CITY OF LISBON



CliftonLarsonAllen

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, 2012, which collectively comprise the City's basic financial statements as 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, 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, Iowa's basic financial statements. The combining and individual fund financial statements and the schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
March 22, 2013

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

2012 Financial Highlights

Receipts of the City's governmental activities increased \$3,082,715, from fiscal year 2011 to 2012. Property tax increased \$111,276, bond proceeds increased \$3,083,197, while revenues from intergovernmental revenue decreased \$124,325, miscellaneous decreased \$43,518, respectively.

Disbursements for governmental activities increased \$2,075,568 from fiscal year 2011 to 2012. Public safety, public works, community and economic development, general government, debt service, and capital projects disbursements and transfers increased \$13,934, \$10,216, \$236,592, \$55,780, \$621,004, and \$1,143,443, respectively. Culture and recreation decreased \$5,401.

The City's total cash basis net assets increased 46.5%, or \$912,550, from June 30, 2011 to June 30, 2012. Of this amount the assets of the governmental activities increased \$1,190,870 and the assets of the business type activities decreased by \$278,320.

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 - Cash Basis. 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 provided 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 and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. 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 - Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets - Cash Basis 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 - Cash Basis 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 Local Option Sales Tax, Road Use Tax, and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects funds 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

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

The required financial statement for proprietary funds is 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)

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service	\$ 82	\$ 104
Operating grants, contributions and restricted interest	382	258
General receipts:		
Property tax	725	836
Tax increment financing	126	138
Local option sales tax	256	278
Other city tax	27	26
Unrestricted interest on investments	6	8
Other general receipts	54	10
Sales of assets	3	1
Bond and note proceeds	<u>39</u>	<u>3,122</u>
Total receipts	<u>1,700</u>	<u>4,782</u>
Disbursements:		
Public safety	307	321
Public works	273	283
Culture and recreation	234	228
Community and economic development	48	285
General government	229	285
Debt service	300	920
Capital projects	<u>262</u>	<u>1,406</u>
Total disbursements	<u>1,653</u>	<u>3,728</u>
Change in cash basis net assets before transfers	47	1,054
Transfers, net	<u>139</u>	<u>137</u>
Change in cash basis net assets	186	1,191
Cash basis net assets, beginning of year	<u>1,100</u>	<u>1,286</u>
Cash basis net assets, end of year	<u>\$ 1,286</u>	<u>\$ 2,477</u>

The City's total receipts for governmental activities increased by 181% or \$3,082,715 and the total cost of all programs and services increased by \$2,075,568 or 126%. These were due to bond proceeds received and capital projects added this year.

The City property tax rates for 2012 are at 14.38902, higher than the rates of 2011 at 13.02786. This is an increase of 10.4% from the 2011 rate due to a debt service levy increase as a result of a general obligation bonds issued and refinancing bonds.

The cost of all governmental activities this year was \$3,728,045, compared to \$1,652,477 last year. However, as shown in the Statement of Activities and Net Assets - Cash Basis on pages 14 through 17, the amount taxpayers ultimately financed for these activities was only \$1,278,486. Some of the cost was paid by those who directly benefited from the programs (charges for service (\$104,253)), by other governments and organizations that subsidized certain programs with grants and contributions (\$257,490), and debt proceeds of \$3,122,250. Overall, the City's governmental activities net assets, including intergovernmental aid and fees for service, increased in 2012 by \$1,190,870 due to receiving of bonds.

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

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 203	\$ 195
Sewer	271	266
Solid waste	136	137
Utility deposits	4	3
General receipts:		
Unrestricted interest on investments	<u>4</u>	<u>3</u>
Total receipts	<u>618</u>	<u>604</u>
Disbursements:		
Water	165	310
Sewer	240	307
Solid waste	124	127
Utility deposits	<u>1</u>	<u>2</u>
Total disbursements	<u>530</u>	<u>746</u>
Change in cash basis net assets before transfers	88	(142)
Transfers, net	<u>(139)</u>	<u>(137)</u>
Change in cash basis net assets	(51)	(279)
Cash basis net assets, beginning of year	<u>728</u>	<u>677</u>
Cash basis net assets, end of year	<u>\$ 677</u>	<u>\$ 398</u>

Total business type activities receipts for the fiscal year were \$603,958, compared to \$618,265 last year. The ending cash balance decreased \$278,320 primarily to increase of expenditures for projects in water and sewer.

Individual Major Governmental Fund Analysis

As the City of Lisbon completed the year, its governmental funds reported a combined cash balance of \$2,477,167, an increase of \$1,190,870 over the prior year.

- The General Fund cash balance decreased \$82,180 from the prior year to \$500,822.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$479,323 from the prior year to \$1,144. This decrease was due to bond payments.
- The Debt Service Fund cash balance increased \$74,782 from the prior year to \$93,550 due to bonds recently issued.
- The major capital project funds increased a combined \$1,938,478 due to the receipt of bond proceeds in FY2012 that will be predominately spent going forward.

Business Type Fund Analysis

As the City of Lisbon completed the year, its business type funds reported a combined fund balance of \$398,377, a decrease of \$278,320 over the prior year. This decrease is due primarily to an increase in water and sewer expenditures related to capital projects.

Budgetary Highlights

Over the course of the year, the City amended its budget once. The budget amendment reflected the increased cost of operating services and capital project cost increases with some being offset by an increase in budgeted bond proceeds.

Debt Administration

As of June 30, 2012, the City had \$4,508,053 in bonds and other long-term debt, compared to \$2,144,053 last year, as shown below.

Outstanding Debt at Year End (Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2012</u>
General obligation capital loan notes	\$ 786	\$ 3,225
Revenue notes	<u>1,358</u>	<u>1,283</u>
Total	<u>\$ 2,144</u>	<u>\$ 4,508</u>

Debt increased as a result of new bonds issued during the year.

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 \$3,225,000 is below its constitutional debt limit of \$5,649,890.

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, 2012

	Program Receipts		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest
FUNCTIONS/PROGRAMS:			
Governmental activities:			
Public safety	\$ 320,503	\$ 14,227	\$ 18,093
Public works	282,998	-	204,120
Culture and recreation	228,347	28,506	35,277
Community and economic development	284,611	-	-
General government	285,181	61,520	-
Debt service	920,507	-	-
Capital projects	1,405,898	-	-
Total governmental activities	3,728,045	104,253	257,490
Business type activities:			
Water	309,478	190,799	-
Sewer	307,284	264,039	-
Solid waste	126,570	137,392	-
Utility deposits	2,293	-	-
Total business type activities	745,625	592,230	-
Total	\$ 4,473,670	\$ 696,483	\$ 257,490

GENERAL RECEIPTS AND TRANSFERS:

Property and other city tax levied for:
 General purposes
 Debt service
Tax increment financing
Local option sales tax
Other city tax
Unrestricted interest on investments
Miscellaneous
Sale of assets
Long-term debt issued
Transfers

Total general receipts and transfers

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

Governmental Activities	Business Type Activities	Total
\$ (288,183)	\$ -	\$ (288,183)
(78,878)	-	(78,878)
(164,564)	-	(164,564)
(284,611)	-	(284,611)
(223,661)	-	(223,661)
(920,507)	-	(920,507)
<u>(1,405,898)</u>	<u>-</u>	<u>(1,405,898)</u>
<u>(3,366,302)</u>	<u>-</u>	<u>(3,366,302)</u>
-	(118,679)	(118,679)
-	(43,245)	(43,245)
-	10,822	10,822
<u>-</u>	<u>(2,293)</u>	<u>(2,293)</u>
<u>-</u>	<u>(153,395)</u>	<u>(153,395)</u>
<u>(3,366,302)</u>	<u>(153,395)</u>	<u>(3,519,697)</u>
645,041	-	645,041
190,883	-	190,883
138,246	-	138,246
278,055	-	278,055
26,261	-	26,261
8,261	2,345	10,606
10,176	9,383	19,559
1,346	-	1,346
3,122,250	-	3,122,250
<u>136,653</u>	<u>(136,653)</u>	<u>-</u>
<u>4,557,172</u>	<u>(124,925)</u>	<u>4,432,247</u>

(continued)

CITY OF LISBON

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2012

	<u>Disbursements</u>	<u>Program Receipts</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
	<u>Charges for Services</u>		
CHANGE IN CASH BASIS NET ASSETS			
CASH BASIS NET ASSETS, BEGINNING OF YEAR			
CASH BASIS NET ASSETS, END OF YEAR			
CASH BASIS NET ASSETS:			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
Urban renewal purposes			
Debt service			
Streets			
Other purposes			
Unrestricted			
TOTAL CASH BASIS NET ASSETS			

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
1,190,870	(278,320)	912,550
<u>1,286,297</u>	<u>676,697</u>	<u>1,962,994</u>
<u>\$ 2,477,167</u>	<u>\$ 398,377</u>	<u>\$ 2,875,544</u>

\$ 71,587	\$ -	\$ 71,587
113,040	-	113,040
140,136	16,240	156,376
34,509	-	34,509
11,606	31,868	43,474
<u>2,106,289</u>	<u>350,269</u>	<u>2,456,558</u>
<u>\$ 2,477,167</u>	<u>\$ 398,377</u>	<u>\$ 2,875,544</u>

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, 2012

	Special Revenue			
General	Road Use Tax	Local Option Sales Tax	City Hall Expansion	
RECEIPTS:				
Property tax	\$ 484,328	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-	-
Other city tax	25,833	-	278,055	-
Licenses and permits	33,073	-	-	-
Use of money and property	8,902	-	-	-
Intergovernmental	40,804	204,120	-	-
Charges for services	39,985	-	-	-
Special assessments	-	-	-	-
Miscellaneous	31,918	-	-	700
	<u>664,843</u>	<u>204,120</u>	<u>278,055</u>	<u>700</u>
Total receipts				
DISBURSEMENTS:				
Operating:				
Public safety	264,420	-	-	-
Public works	-	246,361	-	-
Culture and recreation	212,714	-	-	-
Community and economic development	39,104	-	-	-
General government	252,898	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	1,255,436
	<u>769,136</u>	<u>246,361</u>	<u>-</u>	<u>1,255,436</u>
Total disbursements				
Excess (deficiency) of receipts over disbursements	<u>(104,293)</u>	<u>(42,241)</u>	<u>278,055</u>	<u>(1,254,736)</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	1,346	-	-	-
Transfers in	26,542	14,750	-	500,000
Long-term debt issued	-	-	-	746,410
Transfers out	(5,775)	-	(757,378)	-
	<u>22,113</u>	<u>14,750</u>	<u>(757,378)</u>	<u>1,246,410</u>
Total other financing sources (uses)				

Exhibit B

<u>Capital Projects</u>					
<u>Water Main Improvement</u>	<u>Street Project 2011</u>	<u>Turn Lane Gillette</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 185,803	\$ 160,713	\$ 830,844
-	-	-	-	138,246	138,246
-	-	-	5,082	428	309,398
-	-	-	-	-	33,073
-	-	-	-	-	8,902
-	-	-	-	-	244,924
-	-	-	-	-	39,985
-	-	-	-	12,618	12,618
-	-	-	-	8,058	40,676
-	-	-	190,885	320,063	1,658,666
-	-	-	-	56,083	320,503
-	-	-	-	36,637	282,998
-	-	-	-	15,633	228,347
-	-	-	-	245,507	284,611
-	-	-	-	32,283	285,181
-	-	-	920,507	-	920,507
5,669	3,308	49,166	-	92,319	1,405,898
5,669	3,308	49,166	920,507	478,462	3,728,045
(5,669)	(3,308)	(49,166)	(729,622)	(158,399)	(2,069,379)
-	-	-	-	-	1,346
-	-	-	572,564	64,569	1,178,425
500,000	310,000	1,234,000	231,840	100,000	3,122,250
(39,053)	-	-	-	(239,566)	(1,041,772)
460,947	310,000	1,234,000	804,404	(74,997)	3,260,249

(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, 2012

		<u>Special Revenue</u>		
	<u>General</u>	<u>Road Use Tax</u>	<u>Local Option Sales Tax</u>	<u>City Hall Expansion</u>
NET CHANGE IN CASH BALANCES	\$ (82,180)	\$ (27,491)	\$ (479,323)	\$ (8,326)
CASH BALANCES (DEFICIT), BEGINNING OF YEAR	<u>583,002</u>	<u>61,600</u>	<u>480,467</u>	<u>(75,184)</u>
CASH BALANCES (DEFICIT), END OF YEAR	<u>\$ 500,822</u>	<u>\$ 34,109</u>	<u>\$ 1,144</u>	<u>\$ (83,510)</u>
CASH BASIS FUND BALANCES (DEFICIT):				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Urban renewal purposes	-	-	-	-
Debt service	-	-	-	-
Streets	-	34,109	400	-
Other purposes	-	-	744	-
Assigned for:				
Capital projects	-	-	-	-
Sewer project	-	-	-	-
Railroad project	-	-	-	-
Unassigned	<u>500,822</u>	<u>-</u>	<u>-</u>	<u>(83,510)</u>
Total cash basis fund balances (deficit)	<u>\$ 500,822</u>	<u>\$ 34,109</u>	<u>\$ 1,144</u>	<u>\$ (83,510)</u>

Exhibit B

<u>Capital Projects</u>					
<u>Water Main Improvement</u>	<u>Street Project 2011</u>	<u>Turn Lane Gillette</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
\$ 455,278	\$ 306,692	\$ 1,184,834	\$ 74,782	\$ (233,396)	\$ 1,190,870
(200)	-	(10,000)	18,768	227,844	1,286,297
<u>\$ 455,078</u>	<u>\$ 306,692</u>	<u>\$ 1,174,834</u>	<u>\$ 93,550</u>	<u>\$ (5,552)</u>	<u>\$ 2,477,167</u>
\$ -	\$ -	\$ -	\$ -	\$ 71,587	\$ 71,587
-	-	-	-	113,040	113,040
-	-	-	93,550	46,586	140,136
-	-	-	-	-	34,509
-	-	-	-	10,862	11,606
455,078	306,692	1,174,834	-	-	1,936,604
-	-	-	-	100,000	100,000
-	-	-	-	19,000	19,000
-	-	-	-	(366,627)	50,685
<u>\$ 455,078</u>	<u>\$ 306,692</u>	<u>\$ 1,174,834</u>	<u>\$ 93,550</u>	<u>\$ (5,552)</u>	<u>\$ 2,477,167</u>

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

CITY OF LISBON

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

As of and for the Year Ended June 30, 2012

	Enterprise Funds				
	Water	Sewer	Solid Waste	Nonmajor Utility Deposits	Totals
OPERATING RECEIPTS:					
Charges for services	\$ 190,799	\$ 264,039	\$ 137,392	\$ -	\$ 592,230
Miscellaneous	<u>4,297</u>	<u>2,331</u>	<u>155</u>	<u>2,600</u>	<u>9,383</u>
Total operating receipts	195,096	266,370	137,547	2,600	601,613
OPERATING DISBURSEMENTS:					
Business type activities	<u>309,478</u>	<u>307,284</u>	<u>126,570</u>	<u>2,293</u>	<u>745,625</u>
Excess (deficiency) of operating receipts over operating disbursements	(114,382)	(40,914)	10,977	307	(144,012)
NON-OPERATING RECEIPTS:					
Interest on investments	<u>1,772</u>	<u>421</u>	<u>152</u>	<u>-</u>	<u>2,345</u>
Excess (deficiency) of receipts over disbursements	<u>(112,610)</u>	<u>(40,493)</u>	<u>11,129</u>	<u>307</u>	<u>(141,667)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	32,600	-	-	-	32,600
Transfers out	<u>(79,525)</u>	<u>(89,728)</u>	<u>-</u>	<u>-</u>	<u>(169,253)</u>
Net other financing uses	<u>(46,925)</u>	<u>(89,728)</u>	<u>-</u>	<u>-</u>	<u>(136,653)</u>
NET CHANGE IN CASH BALANCES	(159,535)	(130,221)	11,129	307	(278,320)
CASH BALANCES, BEGINNING OF YEAR	<u>417,790</u>	<u>168,882</u>	<u>58,464</u>	<u>31,561</u>	<u>676,697</u>
CASH BALANCES, END OF YEAR	<u>\$ 258,255</u>	<u>\$ 38,661</u>	<u>\$ 69,593</u>	<u>\$ 31,868</u>	<u>\$ 398,377</u>
CASH BASIS FUND BALANCES:					
Restricted:					
Debt service	\$ 10,985	\$ 5,255	\$ -	\$ -	\$ 16,240
Other purposes	-	-	-	31,868	31,868
Unrestricted	<u>247,270</u>	<u>33,406</u>	<u>69,593</u>	<u>-</u>	<u>350,269</u>
Total cash basis fund balances	<u>\$ 258,255</u>	<u>\$ 38,661</u>	<u>\$ 69,593</u>	<u>\$ 31,868</u>	<u>\$ 398,377</u>

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

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

(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, community and economic development 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.

The police and fire reserve organizations have governing authorities independent from the City and are not considered to be component units of the City. As such, their activity is not included in the financial statements of the City.

B. Basis of Presentation

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

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

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

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

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

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

B. Basis of Presentation (continued)

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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 property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The City Hall Expansion Fund is used to track spending and activity relating to the expansion of City Hall.

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

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

B. Basis of Presentation (continued)

The Water Main Improvement Fund is used to track spending and activity relating to the improvement of the City's water main system infrastructure.

The Street Project 2011 Fund is used to track spending and activity relating to street infrastructure projects funded by the 2011 Bonds.

The Turn Lane Gillette Fund is used to track spending and activity relating to the construction of a turn lane on Gillette Lane.

The City reports the following major proprietary funds:

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

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

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

The City reports the following nonmajor funds:

<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise Funds</u>
Urban Renewal Tax Increment	Alger Estates	Water Deposits
Downtown Reinvestment	Novak Development	
Novak Development	Highway 30 Expansion	
LMI – TIF	Highway 30 Turn Lane	
Brother's Market	Storm Water Projects	
Special Assessment	Booster Station	
Employee Benefits	Sewer Project 2011	
Emergency Levy	Railroad Project	

C. Measurement Focus and Basis of Accounting

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

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances:

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

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2010, to compute the amounts which became liens on property on July 1, 2011. These taxes were due and payable in two installments on September 30, 2011

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

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

and March 31, 2012, at the Linn County Treasurer's Offices. 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, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2012, the City's deposits consisted of cash, cash equivalents and bank certificates of deposit.

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

(3) **Bonds and Notes Payable**

During the current year, the City issued two bonds. General Obligation Local Option Sales Tax Bonds, Series 2011A, were issued for \$735,000 at an interest rate of 2.25%. General Obligation Corporate Purpose and Refunding Bonds, Series 2011B, were issued for \$2,395,000 with interest rates ranging from 1.00% to 4.00%. The majority of the 2011A and 2011B funds are being used to fund various capital projects. The 2011B bonds were also used to refund the 2002 and 2007 bonds and produced an economic gain of \$12,187.

Long-term debt activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General governmental activities					
General obligation bonds	\$ 786,000	\$3,130,000	\$ 691,000	\$3,225,000	\$ 435,000
Business-type activities					
Revenue bonds	\$1,358,053	\$ 0	\$ 75,000	\$1,283,053	\$ 117,053

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

(3) Bonds and Notes Payable (continued)

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
2013	\$ 435,000	\$ 89,978	\$ 117,053	\$ 37,320	\$ 552,053	\$ 127,298
2014	435,000	80,825	79,000	34,980	514,000	115,805
2015	200,000	71,182	82,000	32,610	282,000	103,792
2016	205,000	66,398	85,000	30,150	290,000	96,548
2017	195,000	61,467	88,000	27,600	283,000	89,067
2018-2022	810,000	230,447	478,000	97,050	1,228,000	327,497
2023-2027	545,000	135,500	305,000	28,140	850,000	163,640
2028-2030	<u>400,000</u>	<u>31,883</u>	<u>49,000</u>	<u>1,920</u>	<u>449,000</u>	<u>33,803</u>
Total	<u>\$3,225,000</u>	<u>\$ 767,680</u>	<u>\$1,283,053</u>	<u>\$ 289,770</u>	<u>\$4,508,053</u>	<u>\$1,057,450</u>

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the remaining balance of the \$1,200,000 sewer revenue notes issued in May 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 \$967,940. The revenue notes contain certain covenants. As of June 30, 2012, the City did not meet the loan covenant requirement to maintain net revenues at a level not less than 110% of the amount of principal and interest on the bond.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the remaining balance of the \$519,000 sewer revenue notes issued in January 2009. Proceeds from the notes provided financing for the construction of a well and improvements to the water system. The note is payable from water customer net receipts and are payable through 2029. The total principal and interest remaining to be paid on the notes is \$565,830. The revenue notes contain certain covenants. As of June 30, 2012, the City did not meet the loan covenant requirement to maintain net revenues at a level not less than 110% of the amount of principal and interest on the bond.

Interest expenditures for the year ended June 30, 2012 totaled \$119,362.

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

(3) Bonds and Notes Payable (continued)

Pursuant to the Code of Iowa, the City's debt is limited to 5% of assessed value as follows:

Assessed value	<u>\$112,997,808</u>
Debt limit - 5% of assessed value	\$ 5,649,890
Debt outstanding	<u>3,225,000</u>
Debt margin	<u>\$ 2,424,890</u>

(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.

During the year ended June 30, 2012, most regular plan members were required to contribute 5.38% of their annual covered salary and the City was required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$26,090, \$21,017, and \$18,285, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate earned but unused vacation and sick leave hours for subsequent use or, in certain cases, for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid.

Unused vacation hours are payable to all employees upon termination, retirement or death. One-half of accumulated sick leave hours are payable only to union-contracted employees upon their retirement.

The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, is \$36,550 for vacation and \$41,756 for sick leave. This liability has been computed based on rates of pay in effect at June 30, 2012.

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

(6) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 10,847
	Emergency Levy	<u>15,695</u>
		<u>26,542</u>
Special Revenue:		
Road Use Tax	General	4,425
	Enterprise	
	Water	<u>10,325</u>
		<u>14,750</u>
LMI - TIF	Special Revenue:	
	Urban Renewal Tax Increment	<u>64,569</u>
Capital Project:	Special Revenue:	
City Hall Expansion	Local Option Sales Tax	<u>500,000</u>
Debt Service	Capital Project:	
	Water Main Improvement	39,053
	Enterprise:	
	Water	69,199
	Sewer	89,728
	Special Revenue:	
	Local Option Sales Tax	257,378
	Special Assessment	16,833
	Urban Renewal Tax Increment	<u>100,373</u>
		<u>572,564</u>
Enterprise:		
Water	General	1,350
	Special Revenue:	
	Urban Renewal Tax Increment	<u>31,250</u>
		<u>32,600</u>
Total		<u>\$1,211,025</u>

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

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

(7) Risk Management

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

(8) Commitments

During the current year, the City issued bonds to begin the construction of a few significant projects. A turn lane / Gillette Road is being constructed with total project costs estimated at \$1.24 million. As of June 30, 2012, commitments of \$0.97 million remains to be spent on this project. In addition, the City has committed funds to improve its water mains and streets with outstanding commitments as of June 30, 2012 of \$371,024 and \$636,165 remaining on these contracts, respectively.

The City has entered into various contracts for capital projects, equipment purchases, and service contracts, with total contracted amounts in process of \$207,916. As of June 30, 2012, commitments of \$147,668 remain outstanding on these contracts.

The City entered into an agreement with Brothers Market, Inc. to make economic development tax increment payments in an amount not to exceed \$500,000 in total. Payments will begin in December 2013 and are to be made semiannually through June 1, 2023 as property taxes become available. As part of the \$500,000, the City provided Brothers Market, Inc. a forgivable loan of \$160,000 in November 2011. For every month that the developers meet the loan's requirements, the City shall forgive a portion of the loan. The loan is secured by property and final payment of any outstanding balance is due November 30, 2021.

The City entered into an agreement with LaPorte Motor Supply, Inc. to make economic development tax increment payments in an amount not to exceed \$60,000 in total. Payments will begin in December 2013 and are to be made semiannually through June 1, 2018 as property taxes become available.

The City has entered into an agreement to lease a photocopier. Future minimum lease payments required under the lease for the years ending June 30 are as follows:

2013	\$ 4,099
2014	4,099
2015	<u>3,758</u>
Total	<u>\$ 11,956</u>

CITY OF LISBON

Notes to Financial Statements

June 30, 2012

(9) Deficit Fund Balances

The following funds had deficit balances as shown at June 30, 2012:

Capital Projects Funds:	
City Hall Expansion	\$ (83,510)
Alger Estates	(1,523)
Novak Development	(69,557)
Highway 30 Expansion	(24,184)
Highway 30 Turn Lane	(734)
Storm Water Projects	(2,644)
Booster Station	(20,298)
Special Revenue Funds:	
Downtown Reinvestment	(19,487)
Novak Development	(64,000)
Brother's Market	(164,200)

These deficits will be eliminated as funds are received or transfers are made from other funds, future debt issuances and future tax increment financing receipts.

(10) Interfund Loans

During fiscal year 2005, the City authorized the use of Water, Sewer, General and Road Use Tax funds to help finance the Urban Renewal Tax Increment Fund. 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 bore interest at a rate of 5% per annum and were paid back using incremental property tax revenues received on real property within the Urban Renewal Area (Novak Part I). During the fiscal year ended June 30, 2012, the loans were paid back in full through transfers of \$10,846 to the General Fund and \$31,250 to the Water Fund.

(11) Subsequent Events

Management evaluated subsequent events through March 22, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to March 22, 2013, that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2012.

OTHER 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, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$ 830,844	\$ -	\$ -
Tax increment financing collections	138,246	-	-
Other city tax	309,398	-	-
Licenses and permits	33,073	-	-
Use of money and property	8,902	2,345	-
Intergovernmental	244,924	-	-
Charges for services	39,985	592,230	-
Special assessments	12,618	-	-
Miscellaneous	40,676	9,383	-
	<u>1,658,666</u>	<u>603,958</u>	<u>-</u>
Total receipts			
DISBURSEMENTS:			
Public safety	320,503	-	-
Public works	282,998	-	-
Culture and recreation	228,347	-	-
Community and economic development	284,611	-	-
General government	285,181	-	-
Debt service	920,507	-	-
Capital projects	1,405,898	-	-
Business type activities	-	745,625	-
	<u>3,728,045</u>	<u>745,625</u>	<u>-</u>
Total disbursements			
Excess (deficiency) of receipts over disbursements	(2,069,379)	(141,667)	-
OTHER FINANCING SOURCES (USES), NET			
	<u>3,260,249</u>	<u>(136,653)</u>	<u>-</u>
Net changes in cash balances (deficit)	1,190,870	(278,320)	-
BALANCES, BEGINNING OF YEAR			
	<u>1,286,297</u>	<u>676,697</u>	<u>-</u>
BALANCES, END OF YEAR			
	<u>\$ 2,477,167</u>	<u>\$ 398,377</u>	<u>\$ -</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 830,844	\$ 746,917	\$ 814,917	\$ 15,927
138,246	140,143	140,143	(1,897)
309,398	331,366	392,866	(83,468)
33,073	13,550	43,550	(10,477)
11,247	10,235	10,235	1,012
244,924	409,029	432,029	(187,105)
632,215	687,700	688,900	(56,685)
12,618	3,000	11,500	1,118
50,059	28,650	37,183	12,876
<u>2,262,624</u>	<u>2,370,590</u>	<u>2,571,323</u>	<u>(308,699)</u>
320,503	276,878	332,329	11,826
282,998	240,709	285,159	2,161
228,347	250,106	261,356	33,009
284,611	327,667	524,867	240,256
285,181	241,166	302,166	16,985
920,507	284,835	953,156	32,649
1,405,898	3,545,000	3,771,916	2,366,018
745,625	582,903	762,503	16,878
<u>4,473,670</u>	<u>5,749,264</u>	<u>7,193,452</u>	<u>2,719,782</u>
(2,211,046)	(3,378,674)	(4,622,129)	2,411,083
<u>3,123,596</u>	<u>-</u>	<u>3,099,445</u>	<u>24,151</u>
912,550	(3,378,674)	(1,522,684)	2,435,234
<u>1,962,994</u>	<u>5,390,738</u>	<u>1,962,994</u>	<u>-</u>
<u>\$ 2,875,544</u>	<u>\$ 2,012,064</u>	<u>\$ 440,310</u>	<u>\$ 2,435,234</u>

CITY OF LISBON

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2012

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 category, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted revenues by \$200,733, increased disbursements by \$1,444,188, and increased other financing sources by \$3,099,445. The budget amendment is reflected in the final budgeted amounts.

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, 2012

	Special Revenue							
	Urban Renewal Tax Increment	Downtown Reinvestment	Novak Development	LMI - TIF	Brother's Market	Special Assessment	Employee Benefits	Emergency Levy
RECEIPTS:								
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 145,446	\$ 15,267
Tax increment financing collections	138,246	-	-	-	-	-	-	-
Other city tax	-	-	-	-	-	-	-	428
Special assessments	-	-	-	-	-	12,618	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Total receipts	<u>138,246</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,618</u>	<u>145,446</u>	<u>15,695</u>
DISBURSEMENTS:								
Operating:								
Public safety	-	-	-	-	-	-	56,083	-
Public works	-	-	-	-	-	-	36,637	-
Culture and recreation	-	-	-	-	-	-	15,633	-
Community and economic development	-	16,485	64,000	-	164,200	-	-	822
General government	-	-	-	-	-	-	32,283	-
Capital projects	-	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>16,485</u>	<u>64,000</u>	<u>-</u>	<u>164,200</u>	<u>-</u>	<u>141,458</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>138,246</u>	<u>(16,485)</u>	<u>(64,000)</u>	<u>-</u>	<u>(164,200)</u>	<u>12,618</u>	<u>3,988</u>	<u>15,695</u>
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	64,569	-	-	-	-
Long-term debt issued	-	-	-	-	-	-	-	-
Transfers out	(207,038)	-	-	-	-	(16,833)	-	(15,695)
Net other financing sources (uses)	<u>(207,038)</u>	<u>-</u>	<u>-</u>	<u>64,569</u>	<u>-</u>	<u>(16,833)</u>	<u>-</u>	<u>(15,695)</u>
NET CHANGE IN CASH BALANCES	(68,792)	(16,485)	(64,000)	64,569	(164,200)	(4,215)	3,988	-
CASH BALANCES (DEFICIT), BEGINNING OF YEAR	<u>117,263</u>	<u>(3,002)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,801</u>	<u>6,874</u>	<u>-</u>
CASH BALANCES (DEFICIT), END OF YEAR	<u>\$ 48,471</u>	<u>\$ (19,487)</u>	<u>\$ (64,000)</u>	<u>\$ 64,569</u>	<u>\$ (164,200)</u>	<u>\$ 46,586</u>	<u>\$ 10,862</u>	<u>\$ -</u>
CASH BASIS FUND BALANCES (DEFICIT):								
Nonexpendable - cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:								
Urban renewal purposes	48,471	-	-	64,569	-	-	-	-
Debt service	-	-	-	-	-	46,586	-	-
Other purposes	-	-	-	-	-	-	10,862	-
Assigned for:								
Sewer project	-	-	-	-	-	-	-	-
Railroad project	-	-	-	-	-	-	-	-
Unassigned	-	(19,487)	(64,000)	-	(164,200)	-	-	-
Total cash basis fund balances (deficit)	<u>\$ 48,471</u>	<u>\$ (19,487)</u>	<u>\$ (64,000)</u>	<u>\$ 64,569</u>	<u>\$ (164,200)</u>	<u>\$ 46,586</u>	<u>\$ 10,862</u>	<u>\$ -</u>

Capital Projects								Permanent	
Alger Estates	Novak Development	Highway 30 Expansion	Highway 30 Turn Lane	Storm Water Projects	Booster Station	Sewer Project 2011	Railroad Project	Cemetery Perpetual Care	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,713
-	-	-	-	-	-	-	-	-	138,246
-	-	-	-	-	-	-	-	-	428
-	-	-	-	-	-	-	-	-	12,618
-	5,333	-	-	-	-	-	-	2,725	8,058
-	5,333	-	-	-	-	-	-	2,725	320,063
-	-	-	-	-	-	-	-	-	56,083
-	-	-	-	-	-	-	-	-	36,637
-	-	-	-	-	-	-	-	-	15,633
-	-	-	-	-	-	-	-	-	245,507
-	-	-	-	-	-	-	-	-	32,283
-	69,377	-	-	2,644	20,298	-	-	-	92,319
-	69,377	-	-	2,644	20,298	-	-	-	478,462
-	(64,044)	-	-	(2,644)	(20,298)	-	-	2,725	(158,399)
-	-	-	-	-	-	-	-	-	64,569
-	-	-	-	-	-	100,000	-	-	100,000
-	-	-	-	-	-	-	-	-	(239,566)
-	-	-	-	-	-	100,000	-	-	(74,997)
-	(64,044)	-	-	(2,644)	(20,298)	100,000	-	2,725	(233,396)
(1,523)	(5,513)	(24,184)	(734)	-	-	-	19,000	68,862	227,844
<u>\$ (1,523)</u>	<u>\$ (69,557)</u>	<u>\$ (24,184)</u>	<u>\$ (734)</u>	<u>\$ (2,644)</u>	<u>\$ (20,298)</u>	<u>\$ 100,000</u>	<u>\$ 19,000</u>	<u>\$ 71,587</u>	<u>\$ (5,552)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,587	\$ 71,587
-	-	-	-	-	-	-	-	-	113,040
-	-	-	-	-	-	-	-	-	46,586
-	-	-	-	-	-	-	-	-	10,862
-	-	-	-	-	-	100,000	-	-	100,000
-	-	-	-	-	-	-	19,000	-	19,000
(1,523)	(69,557)	(24,184)	(734)	(2,644)	(20,298)	-	-	-	(366,627)
<u>\$ (1,523)</u>	<u>\$ (69,557)</u>	<u>\$ (24,184)</u>	<u>\$ (734)</u>	<u>\$ (2,644)</u>	<u>\$ (20,298)</u>	<u>\$ 100,000</u>	<u>\$ 19,000</u>	<u>\$ 71,587</u>	<u>\$ (5,552)</u>

CITY OF LISBON

Schedule of Indebtedness

Year Ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Street, sewer, sidewalk and lighting improvements	Oct. 1, 2002	2.40-4.60%	\$ 415,000
Street improvements, fire truck, waterworks improvements	April 15, 2005	2.90-4.40%	925,000
Street improvements	Oct. 1, 2007	3.90%	210,000
City Hall improvements and refunding of existing bonds	Sept. 7, 2011	2.25%	735,000
Street, sewer, and water system Improvements	Aug. 11, 2011	1.00-4.00%	2,395,000
Total			
Revenue notes:			
Sewer improvements	May 18, 2004	3.00%	1,200,000
Water improvements	Jan. 14, 2009	3.00%	519,000
Water improvements	Sept. 16, 2009	0.00%	39,053
Total			

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ 50,000	\$ -	\$ 50,000	\$ -	\$ 843
580,000	-	60,000	520,000	23,900
156,000	-	156,000	-	2,943
-	735,000	245,000	490,000	12,128
<u>-</u>	<u>2,395,000</u>	<u>180,000</u>	<u>2,215,000</u>	<u>40,038</u>
<u>\$ 786,000</u>	<u>\$ 3,130,000</u>	<u>\$ 691,000</u>	<u>\$ 3,225,000</u>	<u>\$ 79,852</u>
\$ 858,000	\$ -	\$ 55,000	\$ 803,000	\$ 25,680
461,000	-	20,000	441,000	13,830
39,053	-	-	39,053	-
<u>\$1,358,053</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 1,283,053</u>	<u>\$ 39,510</u>

CITY OF LISBON
Bond and Note Maturities
June 30, 2012

General Obligation Bonds							
Year Ending June 30,	Street, Fire Truck and Waterworks Improvements Issued April 15, 2005		City Hall Improvements and Refunding Issued Sept. 7, 2011		Street, Sewer, and Water System Improvements Issued Aug. 11, 2011		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2013	3.90%	\$ 60,000	2.25%	\$ 245,000	1.00%	\$ 130,000	\$ 435,000
2014	3.95%	65,000	2.25%	245,000	1.25%	125,000	435,000
2015	4.05%	70,000	-	-	1.50%	130,000	200,000
2016	4.15%	70,000	-	-	1.50%	135,000	205,000
2017	4.25%	60,000	-	-	1.60%	135,000	195,000
2018	4.30%	65,000	-	-	1.90%	140,000	205,000
2019	4.35%	65,000	-	-	2.15%	125,000	190,000
2020	4.40%	65,000	-	-	2.35%	125,000	190,000
2021	-	-	-	-	2.60%	130,000	130,000
2022	-	-	-	-	3.00%	95,000	95,000
2023	-	-	-	-	3.00%	100,000	100,000
2024	-	-	-	-	3.20%	105,000	105,000
2025	-	-	-	-	3.35%	110,000	110,000
2026	-	-	-	-	3.50%	110,000	110,000
2027	-	-	-	-	3.65%	120,000	120,000
2028	-	-	-	-	3.75%	125,000	125,000
2029	-	-	-	-	3.85%	135,000	135,000
2030	-	-	-	-	4.00%	140,000	140,000
Total		\$ 520,000		\$ 490,000		\$ 2,215,000	\$ 3,225,000

Revenue Notes							
Year Ending June 30,	Sewer Improvements Issued May 18, 2004		Water Improvements Issued Jan. 14, 2009		Water Improvements Issued Sept. 16, 2009		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2013	3.00%	\$ 57,000	3.00%	\$ 21,000	0.00%	\$ 39,053	\$ 117,053
2014	3.00%	58,000	3.00%	21,000	-	-	79,000
2015	3.00%	60,000	3.00%	22,000	-	-	82,000
2016	3.00%	62,000	3.00%	23,000	-	-	85,000
2017	3.00%	64,000	3.00%	24,000	-	-	88,000
2018	3.00%	66,000	3.00%	24,000	-	-	90,000
2019	3.00%	67,000	3.00%	25,000	-	-	92,000
2020	3.00%	69,000	3.00%	26,000	-	-	95,000
2021	3.00%	72,000	3.00%	27,000	-	-	99,000
2022	3.00%	74,000	3.00%	28,000	-	-	102,000
2023	3.00%	76,000	3.00%	29,000	-	-	105,000
2024	3.00%	78,000	3.00%	29,000	-	-	107,000
2025	-	-	3.00%	30,000	-	-	30,000
2026	-	-	3.00%	31,000	-	-	31,000
2027	-	-	3.00%	32,000	-	-	32,000
2028	-	-	3.00%	34,000	-	-	34,000
2029	-	-	3.00%	15,000	-	-	15,000
Total		\$ 803,000		\$ 441,000		\$ 39,053	\$ 1,283,053

CITY OF LISBON

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

For the Last Nine Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
RECEIPTS:					
Property tax	\$ 830,844	\$ 721,343	\$ 702,464	\$ 679,724	\$ 558,589
Tax increment financing collections	138,246	125,969	60,202	61,248	141,556
Other city tax	309,398	286,358	292,519	36,076	42,313
Licenses and permits	33,073	12,987	23,131	41,233	8,828
Use of money and property	8,902	14,102	19,177	22,474	46,156
Intergovernmental	244,924	374,834	228,903	211,142	336,634
Charges for service	39,985	38,282	42,531	34,950	36,199
Special assessments	12,618	17,702	40,116	38,442	262,112
Miscellaneous	<u>40,676</u>	<u>65,910</u>	<u>38,129</u>	<u>60,155</u>	<u>51,010</u>
Total	<u>\$ 1,658,666</u>	<u>\$ 1,657,487</u>	<u>\$ 1,447,172</u>	<u>\$ 1,185,444</u>	<u>\$ 1,483,397</u>
 DISBURSEMENTS:					
Operating:					
Public safety	\$ 320,503	\$ 306,569	\$ 277,787	\$ 264,077	\$ 306,448
Public works	282,998	272,782	218,040	238,007	240,445
Culture and recreation	228,347	233,748	319,457	238,914	214,118
Community and economic development	284,611	48,019	66,266	46,569	157,254
General government	285,181	229,401	202,027	187,851	203,592
Debt service	920,507	299,503	368,443	295,787	271,617
Capital projects	<u>1,405,898</u>	<u>262,455</u>	<u>202,870</u>	<u>422,993</u>	<u>343,768</u>
Total	<u>\$ 3,728,045</u>	<u>1,652,477</u>	<u>1,654,890</u>	<u>\$ 1,694,198</u>	<u>\$ 1,737,242</u>

Schedule 4

(Unaudited) <u>2007</u>	(Unaudited) <u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 587,725	\$ 560,163	\$ 548,523	\$ 530,740
148,196	147,427	130,893	122,886
28,443	223,653	245,892	76,749
17,564	22,869	5,849	4,322
68,112	44,140	21,842	15,575
793,044	332,530	191,636	198,177
41,110	27,050	23,067	21,729
31,792	121,537	64,308	82,403
<u>138,069</u>	<u>37,418</u>	<u>25,715</u>	<u>40,879</u>
<u>\$ 1,854,055</u>	<u>\$ 1,516,787</u>	<u>\$ 1,257,725</u>	<u>\$ 1,093,460</u>

\$ 215,210	\$ 209,709	\$ 248,620	\$ 130,346
140,351	153,656	141,293	133,261
205,703	139,076	128,650	108,870
308,783	44,964	373,325	46,096
147,964	153,210	145,303	125,774
423,273	374,572	256,924	224,467
<u>482,663</u>	<u>1,435,523</u>	<u>1,421,452</u>	<u>476,781</u>
<u>\$ 1,923,947</u>	<u>\$ 2,510,710</u>	<u>\$ 2,715,567</u>	<u>\$ 1,245,595</u>



**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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 22, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we have identified a deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Responses as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Responses as item II-B-12 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during 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, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the City's responses, we did not audit the City of Lisbon, Iowa'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 the City of Lisbon, Iowa and other parties to whom the City of Lisbon, Iowa may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
March 22, 2013

CITY OF LISBON

Schedule of Findings and Responses

Year Ended June 30, 2012

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

- (a) Unqualified opinions were 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) A significant deficiency and material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INTERNAL CONTROL DEFICIENCIES:

II-A-12: 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.

CITY OF LISBON

Schedule of Findings and Responses

Year Ended June 30, 2012

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

INTERNAL CONTROL DEFICIENCIES: (CONTINUED)

II-A-12: 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 have implemented various procedures to improve the City's checks and balances. We will continue to monitor the situation and segregate accounting duties where practical.

Conclusion:

Response accepted.

II-B-12: 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 prepare 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 and Responses

Year Ended June 30, 2012

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

INTERNAL CONTROL DEFICIENCIES: (CONTINUED)

II-B-12: 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. 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-12 Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- III-B-12 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-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-12 Business Transactions - We noted no business transactions between the City and City officials or employees.

CITY OF LISBON

Schedule of Findings and Responses

Year Ended June 30, 2012

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

III-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions.

III-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-12 Revenue Bonds - The City's water and sewer revenue bond resolutions require the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers that produce net operating revenues equal to at least 110% of the principal and interest coming due in each fiscal year. The City's fiscal year 2012 net water and sewer operating receipts were less than 110% of the water and sewer revenue bond principal and interest due during fiscal year 2012.

Recommendation - The City should review water and sewer rates and consult bond counsel to determine the disposition of the matter.

Response - The City will discuss adjustments to water and sewer rates in 2013.

Conclusion - Response accepted.

III-H-12 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-12 Financial Condition - The City had a deficit balance at June 30, 2012 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.