

CITY OF LEBANON, MISSOURI

FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
OCTOBER 31, 2010

CITY OF LEBANON, MISSOURI  
 Audit Report  
 October 31, 2010

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Independent Auditor's Report

Honorable Mayor and City Council  
City of Lebanon  
Lebanon, Missouri

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 Lebanon, Missouri, as of and for the year ended October 31, 2010, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lebanon'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, City of Lebanon, Missouri, prepares its financial statements on a modified cash basis, 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 financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Missouri, as of October 31, 2010, and the respective changes in financial position—modified cash basis, thereof 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 June 15, 2011, on our consideration of the City of Lebanon, Missouri'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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 24 through 26 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lebanon, Missouri's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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. This information has been subjected to the auditing procedures applied in the audit of the 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 financial statements taken as a whole.

*Officer CPA Firm LLC*

June 15, 2011

CITY OF LEBANON, MISSOURI  
Government-wide Statement of Net Assets - Modified Cash Basis  
October 31, 2010 with Comparative Data

	Governmental Activities	Business-Type Activities	Total October 31, 2010	Total October 31, 2009
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,804,849	\$ 9,528,133	\$ 13,332,982	10,575,913
Due from Other Funds		9,282,803	9,282,803	9,987,962
<b>Restricted Assets:</b>				
Investments	1,103,462	1,762,032	2,865,494	4,310,425
<b>Non-current assets:</b>				
Debt issuance costs, net of amortization		75,788	75,788	
Equity interest in joint venture		550,000	550,000	
<b>TOTAL ASSETS</b>	<u>4,908,311</u>	<u>21,198,756</u>	<u>26,107,067</u>	<u>24,874,300</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accrued expenses	13,978	91,766	105,744	71,248
Customer deposits		731,288	731,288	714,521
Short-term debt		320,833	320,833	
Current portion of long-term debt	808,326	754,999	1,563,325	1,359,637
Due to other funds	575,783	8,707,020	9,282,803	9,987,962
<b>Long-term liabilities, net of current portion</b>				
Long-term debt	7,461,168	6,320,001	13,781,169	10,202,574
Unamortized deferred gain on early retirement of debt		35,091	35,091	39,823
<b>TOTAL LIABILITIES</b>	<u>8,859,255</u>	<u>16,960,998</u>	<u>25,820,253</u>	<u>22,375,765</u>
<b>NET ASSETS</b>				
Unrestricted	(5,054,406)	4,237,758	(816,648)	(909,619)
Restricted	1,103,462		1,103,462	3,408,154
<b>TOTAL NET ASSETS</b>	<u>\$ (3,950,944)</u>	<u>\$ 4,237,758</u>	<u>\$ 286,814</u>	<u>\$ 2,498,535</u>

NOTE: For the year ended 10/31/10, the Public Works Fund is reported as an Internal Service Fund rather than an Enterprise Fund. For the year ended 10/31/09 the Economic Development Fund was shown as a governmental fund. For the year ended 10/31/10, the Economic Development Fund changed to a proprietary fund.

CITY OF LEBANON, MISSOURI  
Government-wide Statement of Activities - Modified Cash Basis  
Year Ended October 31, 2010 with Comparative Data

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Comparative Data October 31, 2009
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Governmental activities:</b>							
Administration	\$ 1,218,247	\$ 47,103		\$ (1,171,144)	\$	\$ (1,171,144)	\$ (2,941,935)
Public safety	4,955,443	332,739	968,524	(3,654,180)		(3,654,180)	(3,464,898)
Recreation	1,226,597	209,527	402	(1,016,668)		(1,016,668)	(1,068,964)
Transportation	2,221,921	37,344	81,273	(2,103,304)		(2,103,304)	(1,935,374)
Capital outlay	2,033,983	130,666		(1,903,317)		(1,903,317)	(2,543,148)
Economic development	281,999	117,678	42,903	(121,418)		(121,418)	(3,078,589)
Interest on long-term debt	409,110			(409,110)		(409,110)	(921,156)
Total governmental activities	12,347,300	875,057	1,093,102	(10,379,141)	-	(10,379,141)	(15,954,064)
<b>Business-Type activities</b>							
Electric	21,683,021	23,525,478	854		1,843,311	1,843,311	(492,447)
Water	1,379,051	2,287,468			908,417	908,417	310,389
Sewer	5,851,637	1,887,058	84,418		(3,880,161)	(3,880,161)	841,474
Economic development	2,425,313	1,286,036	400,000		(739,277)	(739,277)	
Public Works					-	-	(1,690,313)
Interest on long-term debt	98,596				(98,596)	(98,596)	(123,798)
Total Business-Type activities	31,437,618	28,986,040	485,272	-	(1,966,306)	(1,966,306)	(1,154,695)
Total primary government	\$ 43,784,918	\$ 29,861,097	\$ 1,578,374	\$ (10,379,141)	(1,966,306)	(12,345,447)	(17,108,759)
<b>General Revenues:</b>							
Taxes				9,423,628		9,423,628	9,013,870
Interest and investment earnings				62,520	603,973	666,493	791,260
Miscellaneous				144,722		144,722	58,692
Transfers in (out)				18,247	(18,247)	-	-
Total General Revenues				9,649,117	585,726	10,234,843	9,863,822
Change in Net Assets				(730,024)	(1,380,580)	(2,110,604)	(7,244,937)
Net Assets at Beginning of Year				(3,220,920)	5,618,338	2,397,418	9,743,469
Net Assets at End of Year				\$ (3,950,944)	\$ 4,237,758	\$ 286,814	\$ 2,498,532

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI  
 Balance Sheet - Modified Cash Basis  
 Governmental Funds  
 October 31, 2010 with Comparative Data

	General	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds October 31, 2010	Comparative Data October 31, 2009
<b>ASSETS</b>						
Unrestricted Assets:						
Cash and cash equivalents	\$ 477,071	\$ 1,193,663	\$ 938,214	\$ 453,349	\$ 3,062,297	\$ 3,514,993
Due from other funds					-	85,000
Restricted Assets:						
Investments		1,103,462			1,103,462	3,408,154
<b>TOTAL ASSETS</b>	<b>\$ 477,071</b>	<b>\$ 2,297,125</b>	<b>\$ 938,214</b>	<b>\$ 453,349</b>	<b>\$ 4,165,759</b>	<b>\$ 7,008,147</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accrued expenses	\$ 13,192			\$ 786	13,978	\$ 1,303
Due to other funds			395,000	180,783	575,783	10,072,963
<b>TOTAL LIABILITIES</b>	<b>13,192</b>	<b>-</b>	<b>395,000</b>	<b>181,569</b>	<b>589,761</b>	<b>10,074,266</b>
<b>FUND BALANCES:</b>						
Unreserved	463,879	1,193,663	543,214	271,780	2,472,536	(6,474,273)
Reserved	463,879	1,103,462			1,103,462	3,408,154
<b>TOTAL FUND BALANCES</b>	<b>463,879</b>	<b>2,297,125</b>	<b>543,214</b>	<b>271,780</b>	<b>3,575,998</b>	<b>(3,066,119)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 477,071</b>	<b>\$ 2,297,125</b>	<b>\$ 938,214</b>	<b>\$ 453,349</b>	<b>\$ 4,165,759</b>	<b>\$ 7,008,147</b>

NOTE: For the year ended 10/31/09, the Economic Development Fund was shown on this page as a governmental fund. For the year ended 10/31/10, the Economic Development Fund changed into a proprietary fund.

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI

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

Year Ended October 31, 2010

	October 31, 2010	October 31, 2009
Total fund balances - governmental funds	\$ 3,575,998	\$ (3,066,119)
<p>Amounts reported for <i>governmental activities</i> that the statement of net assets are different because:</p>		
Internal service funds are used by management to charge the costs of insurance and payroll expenses to individual funds. The net revenues (expense) of the internal service fund is reported with governmental activities	742,552	709,196
Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(8,269,494)	(9,047,210)
Net assets of governmental activities	<u>\$ (3,950,944)</u>	<u>\$ (11,404,133)</u>

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI

Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis

Governmental Funds

Year ended October 31, 2010 with Comparative Data

	General Fund	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds 2010	Comparative Data 2009
<b>Revenues</b>						
Taxes	\$ 5,354,025	\$ 1,474,660	\$ 1,937,536	\$ 657,407	\$ 9,423,628	\$ 9,013,870
Charges for services	12,972			500,537	513,509	1,502,163
Intergovernmental revenue	968,524		81,273	43,305	1,093,102	1,393,527
License and permits	34,131				34,131	41,782
Fines and court costs	327,417				327,417	330,191
Investment income	23,520	39,000			62,520	128,940
Other	58,936	7,949	38,064	39,773	144,722	212,677
<b>Total Revenues</b>	<b>6,779,525</b>	<b>1,521,609</b>	<b>2,056,873</b>	<b>1,241,022</b>	<b>11,599,029</b>	<b>12,623,150</b>
<b>Expenditures</b>						
Administration	1,192,769				1,192,769	2,872,008
Public safety	4,827,855			14,200	4,842,055	3,739,050
Recreation				1,052,992	1,052,992	1,348,817
Transportation			1,110,745	64,765	1,175,510	2,555,807
Capital outlay		1,576,994		82,896	1,659,890	2,543,148
Economic development				260,409	260,409	5,032,715
<b>Debt Service:</b>						
Principal payments		755,000		22,717	777,717	1,400,302
Interest and agent fees		407,206		1,904	409,110	805,081
<b>Total Expenditures</b>	<b>6,020,624</b>	<b>2,739,200</b>	<b>1,110,745</b>	<b>1,499,883</b>	<b>11,370,452</b>	<b>20,296,928</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>						
	<b>758,901</b>	<b>(1,217,591)</b>	<b>946,128</b>	<b>(258,861)</b>	<b>228,577</b>	<b>(7,673,778)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in (out)	(655,340)	(292,800)	(1,044,448)	222,914	(1,769,674)	1,106,617
Debt proceeds					-	8,848,925
<b>Total Other Financing Sources (Uses)</b>	<b>(655,340)</b>	<b>(292,800)</b>	<b>(1,044,448)</b>	<b>222,914</b>	<b>(1,769,674)</b>	<b>9,955,542</b>
<b>Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>						
	103,561	(1,510,391)	(98,320)	(35,947)	(1,541,097)	2,281,764
<b>Fund Balance, November 1</b>	<b>360,318</b>	<b>3,807,516</b>	<b>641,534</b>	<b>307,727</b>	<b>5,117,095</b>	<b>(5,347,882)</b>
<b>Fund Balance, October 31</b>	<b>\$ 463,879</b>	<b>\$ 2,297,125</b>	<b>\$ 543,214</b>	<b>\$ 271,780</b>	<b>\$ 3,575,998</b>	<b>\$ (3,066,118)</b>

NOTE: For the year ended 10/31/09, the Economic Development Fund was shown on this page as a governmental fund. For the year ended 10/31/10, the Economic Development Fund changed into a proprietary fund.

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balance of Governmental Funds to the Statement of Activities - Modified Cash Basis  
Year Ended October 31, 2010 with Comparative Data

	<u>October 31, 2010</u>	<u>October 31, 2009</u>
Net change in fund balances - total governmental funds	\$ (1,541,097)	\$ 2,281,764
Internal service funds are used by management to charge the costs of insurance and payroll expenses to individual funds. The net revenues (expense) of the certain activities of the internal service fund is reported with governmental activities	33,356	(363,010)
Bond proceeds and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	777,717	(7,564,698)
Changes in net assets of governmental activities	<u>\$ (730,024)</u>	<u>\$ (5,645,944)</u>

CITY OF LEBANON, MISSOURI  
Statement of Fund Net Assets - Modified Cash Basis  
Proprietary Funds  
October 31, 2010 with Comparative data

	Business-Type Activities - Enterprise Funds				Internal Service Funds	Totals	Totals
	Electric	Water	Sewer	Economic Development			
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 8,038,173	\$ 1,068,785	\$ 410,747	\$ 10,428	\$ 750,752	\$ 10,278,885	\$ 7,060,920
Due from Other Funds	9,207,801			\$ 75,000		9,282,801	9,987,962
Restricted assets:							
Investments	674,838	538,746	548,448			1,762,032	902,271
Total current assets	17,920,812	1,607,531	959,195	85,428	750,752	21,323,718	17,951,153
Noncurrent assets:							
Debt issuance costs, net of amortization		8,063	67,725			75,788	75,788
Equity interest in joint venture	550,000					550,000	550,000
Total noncurrent assets	550,000	8,063	67,725			625,788	
<b>TOTAL ASSETS</b>	18,470,812	1,615,594	1,026,920	85,428	750,752	21,949,506	17,951,153
<b>LIABILITIES</b>							
Current liabilities:							
Current portion of long term debt	605,000	15,957	134,042			754,999	580,000
Accrued expenses	89,323	210	2,231		\$ 8,200	99,964	69,945
Short term debt	320,833					320,833	
Meter deposits payable		731,288				731,288	714,521
Total current liabilities	1,015,156	747,455	136,273		8,200	1,907,084	1,364,466
Noncurrent liabilities:							
Due to other funds				8,707,020		8,707,020	
Unamortized deferred gain on early retirement of debt	35,091					35,091	39,823
Long term debt	1,330,000	530,852	4,459,149			6,320,001	1,935,000
Total noncurrent liabilities	1,365,091	530,852	4,459,149	8,707,020		15,062,112	1,974,823
<b>TOTAL LIABILITIES</b>	2,380,247	1,278,307	4,595,422	8,707,020	8,200	16,969,196	3,339,289
<b>NET ASSETS</b>							
Unrestricted	16,090,565	337,287	(3,568,502)	(8,621,592)	742,552	4,980,310	14,611,864
<b>TOTAL NET ASSETS</b>	\$ 16,090,565	\$ 337,287	\$ (3,568,502)	\$ (8,621,592)	\$ 742,552	\$ 4,980,310	\$ 14,611,864

NOTE: For the year ended 10/31/10, the Public Works Fund is reported as an Internal Service Fund rather than an Enterprise Fund. For the year ended 10/31/09 the Economic Development Fund was shown as a governmental fund. For the year ended 10/31/10, the Economic Development Fund changed to a proprietary fund.

CITY OF LEBANON, MISSOURI  
Statement of Revenues, Expenses and Changes in Fund Net Assets - Modified Cash Basis  
Proprietary Funds  
Year Ended October 31, 2010 with Comparative data

	Business - Type Activities - Enterprise Funds				Internal	Totals	Totals
	Electric	Water	Sewer	Economic Development			
Operating revenues							
Charges for services	\$ 23,482,323	\$ 2,254,214	\$ 1,877,847	\$ 1,275,608	\$ 3,628,638	\$ 32,518,630	\$ 24,951,427
Miscellaneous	43,155	33,254	9,211	10,428	35,247	\$ 131,295	500,589
Total operating revenues	<u>23,525,478</u>	<u>2,287,468</u>	<u>1,887,058</u>	<u>1,286,036</u>	<u>3,663,885</u>	<u>32,649,925</u>	<u>25,452,016</u>
Operating expenses:							
Personnel costs	1,103,030	101,900	558,723		3,678,022	5,441,675	6,352,281
Operation and maintenance	19,943,841	914,704	708,329		3,336,732	24,903,606	20,022,806
Economic development			2,094,308			2,094,308	20,022,806
Total operating expenses	<u>21,046,871</u>	<u>1,016,604</u>	<u>1,267,052</u>	<u>2,094,308</u>	<u>7,014,754</u>	<u>32,439,589</u>	<u>46,397,893</u>
Operating income (loss)	<u>2,478,607</u>	<u>1,270,864</u>	<u>620,006</u>	<u>(808,272)</u>	<u>(3,350,869)</u>	<u>210,336</u>	<u>(20,945,877)</u>
Non-Operating revenues (expenses)							
Interest income	597,730	4,683	1,560			603,973	662,320
Intergovernmental revenue	854		84,418	400,000	12,317	497,589	20,430
Capital outlay	(337,829)		(4,093,489)			(4,431,318)	(491,267)
Debt service:							
Interest and agent fees	(98,596)					(98,596)	(123,798)
Total non-operating revenues (expenses)	<u>162,159</u>	<u>4,683</u>	<u>(4,007,511)</u>	<u>400,000</u>	<u>12,317</u>	<u>(3,428,352)</u>	<u>67,685</u>
Income (loss) before transfers	2,640,766	1,275,547	(3,387,505)	(408,272)	(3,338,552)	(3,218,016)	(20,878,192)
Operating transfers in (out)	(455,849)	(458,002)	(557,158)	(30,107)	3,270,791	1,769,675	(1,106,618)
Change in net assets	<u>2,184,917</u>	<u>817,545</u>	<u>(3,944,663)</u>	<u>(438,379)</u>	<u>(67,761)</u>	<u>(1,448,341)</u>	<u>(21,984,810)</u>
Net assets at the beginning of year	13,905,645	(480,258)	376,164	(8,183,213)	810,313	6,428,651	16,573,869
Net assets at end of year	<u>\$ 16,090,562</u>	<u>\$ 337,287</u>	<u>\$ (3,568,499)</u>	<u>\$ (8,621,592)</u>	<u>\$ 742,552</u>	<u>\$ 4,980,310</u>	<u>\$ (5,410,941)</u>

NOTE: For the year ended 10/31/10, the Public Works Fund is reported as an Internal Service Fund rather than an Enterprise Fund. For the year ended 10/31/09 the Economic Development Fund was shown as a governmental fund. For the year ended 10/31/10, the Economic Development Fund changed to a proprietary fund.

CITY OF LEBANON, MISSOURI  
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**1. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The City of Lebanon is governed by local laws and ordinances and other laws of the state of Missouri and operates under a form of government that is comprised of an elected Board of Councilmen and an elected Mayor. Lebanon provides a range of municipal services, including general government administration, public safety, recreation, planning and community development, street maintenance, and electric, waterworks and wastewater. The City's significant accounting policies are described below.

The financial reporting entity includes all funds, functions, and organizations over which the City officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The City's reporting entity does not contain any component units as defined in GASB Statement No. 14 and GASB Statement No. 39.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**B. Basic Financial Statements**

The basic financial statements include both government-wide financial statements (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a modified cash basis, which incorporates long-term debt and obligations.

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

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.

CITY OF LEBANON, MISSOURI  
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Generally the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. The “doubling up” effect of internal service fund activity has been eliminated from the government-wide financial statements with the expenses shown in the various functions and programs on the Statement of Activities.

The government-wide Statement of Net Assets reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities show in order of their relative liquidity. Net assets are required to be displayed in components: 1) restricted, and 2) unrestricted.

Also, part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other nonmajor funds, as well as the internal service funds, are combined in a single column on the fund financial statements.

The City distinguishes operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services in connection with the City’s principal ongoing operations. The principal operating receipts are charges to customers for water services. Operating disbursements include the costs of sales and services and administrative expenses. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

The City reports the following major funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Improvement Fund - This fund is used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Street Fund – This fund accounts for financial resources restricted for street construction and operations and maintenance.

Economic Development – This fund is used to report financial resources used for the promotion of economic development including capital acquisitions and the operations of those facilities.

Additionally, the government reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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The business-type fund types the City has are:

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs of providing goods or services to the general public are financed or recovered primarily through user charges.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis.

C. Measurement focus and Basis of Accounting

These financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of a modified cash basis of accounting, as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the economic resources” measurement focus, as applied to a modified cash basis of accounting, is used as appropriate.

All governmental funds utilize a “current financial resources” measurement focus. Only currently financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or non financial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

The accounts of the City are maintained, and the accompanying financial statements have been prepared and presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Property, plant and equipment are not capitalized and depreciation is not calculated.

D. Cash and Investments

Except for cash in certain restricted and special funds, the City consolidates cash balances from all funds to maximize investment earnings. For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as cash and cash equivalents. Statutes impose various restrictions on deposits and investments, these restrictions are summarized as follows:

*Deposits.* Certificates of deposits must be collateralized in an amount such that the market value of the collateral is at least 100% of the investment. The collateral must be held by the non-affiliated custodial facility.

*Investments.* The investments shall be diversified to minimize the risk of loss. The City is authorized to make investments in U.S. treasuries and securities, collateralized time and demand deposits, collateralized repurchase agreements, commercial paper and bankers' acceptances. The bankers' acceptances and commercial paper must be issued by domestic commercial banks and possess the highest rating issued by Moody's Investor services, Inc or Standard and Poor's Corporation.

E. Short-Term Interfund Receivables/Payables

During the course of operations, transactions occur which result in amounts owed to a particular fund by another fund, other than for goods provided or services rendered. These receivables and payables are due within a year and are classified as "due to/from other funds" on the balance sheet.

F. Compensated Absences

The City's policy on vacation and sick leave permits limited accruals of each type that can be used in a future year. No provision has been made to record this liability in the year incurred, but rather, when paid.

G. Property Tax

Property taxes are levied September 1 and payable by December 31. Taxes paid after December are subject to penalties. Laclede County bills and collects the City's property taxes.

H. Interfund Transactions

Transfers among funds are provided for as part of the annual budget process. They facilitate annual

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contributions from the operating budget to capital project funds. They also facilitate the allocation of administrative expenses among all funds.

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that should have been applied to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as operating transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

I. Net Assets

Net Assets represent the difference between assets and liabilities. Net assets are displayed in two different components: Restricted net assets and Unrestricted net assets. Restricted net assets are reported when there are limitations on the use by external restrictions, such as through creditors, grantors, contributors, laws or regulations. All other assets that do not meet the above definitions are unrestricted.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

2. Restricted Assets

The certificates of participation bond ordinances authorizing debt issues establish certain deposit requirements for bond and interest sinking funds, reserve funds, and depreciation and replacement funds. At October 31, 2010, the required deposits had been met.

Governmental Fund Types

The cash and fund balance have been restricted as follows:

	Restricted Cash	Restricted Net Assets
Capital Projects Fund		
Project funds	137,075	137,075
Debt Reserve Funds	966,387	966,387
	1,103,462	1,103,462

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Enterprise Fund Types

The cash and net assets have been restricted as follows:

	Restricted Investments	Restricted Net Assets
Electric Fund Debt Reserve	674,838	
Sewer project funds	318,788	
Sewer debt reserve funds	229,660	
Subtotal	548,448	
Water project funds	511,406	
Water debt reserve funds	27,340	
Subtotal	538,746	
Total	\$ 1,762,032	\$ -

**3. Cash, Equivalents and Investments**

The Board of Councilmen has adopted formal investment policies for City monies. The City Administrator is the designated investment officer, and has the responsibility of investing all City monies on a bid basis in institutions that offer full insurance. Monies may be invested in certificates of deposits or savings/money market accounts without City Council approval. Cash, equivalents and investments are recorded at cost.

Deposits

The City's deposits, including restricted assets, are stated at cost and are composed of the following:

	Year Ended October 31, 2010	
	Carrying Amounts	Bank Balance
Petty cash accounts	\$ 1,585	\$ -
U.S. Government Agency securities	\$ 7,436,851	7,457,446
Checking & money mkt accounts	1,289,088	1,615,957
Total	\$ 8,727,524	\$ 9,073,403
Held in Trust:		
U.S. Government Agency securities and bonds	7,470,952	7,470,952
Total Held in Trust	\$ 7,470,952	\$ 7,470,952
Grand Total	\$ 16,198,476	\$ 16,544,355

*Interest Rate Risk* – In accordance with its investment policy, the City manages its exposure to declines in fair values by holding investments to maturity.

*Custodial Credit Risk* – This is the risk that in the event of a bank failure, the City's deposits may not be returned to it.

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Of the total bank balance at October 31, 2010, \$1,615,957 was covered by federal depository insurance or by collateral securities held by the Custodial bank's safekeeping agent in the City's name. The remaining \$14,928,398 was invested in U.S. Government securities.

To protect the safety of the City deposits, Section 110.020, RSMo 1986, requires depositories to pledge collateral securities to secure City deposits not insured by the Federal Deposit Insurance Corporation. Obligations that may be pledged as collateral are obligations of the United States and its agencies. As the previous paragraph indicates, the City and its depository banks were in compliance with the Missouri law.

Section 95.355, RSMo 1986, requires the City to enter into agreements with the banks selected as depositories. The City does have formal depository contracts with the banks that hold City monies.

*Concentration of Credit Risk* – The City places no limit on the amount the City may invest in any one issuer.

**4. Short-Term Debt and Joint Venture**

The City entered into a contract to purchase an equity interest in the Missouri Joint Municipal Electric Utility Commission to purchase wholesale electric power. The asset and short-term debt is reported in the Electric Fund and is payable in 12 payments on a monthly basis at \$45,833.33 per month. No interest is assessed on this debt.

**5. Long-Term Debt**

The following is a summary of the City's long-term debt transactions for the year ended October 31, 2010:

	Long-term obligations at November 1, 2009	Additions	Deletions	Long-term obligations at October 31, 2010	Due within one year
<b>Governmental Activities</b>					
Bonds and notes payable:					
Airport (STAR) note payable	\$ 82,211		\$ 22,717	\$ 59,494	\$ 23,326
2008 Certificates of participation	8,965,000		755,000	8,210,000	785,000
Governmental activities long-term liabilities	<u>\$ 9,047,211</u>	<u>\$ -</u>	<u>\$ 777,717</u>	<u>\$ 8,269,494</u>	<u>\$ 808,326</u>
<b>Business-type Activities</b>					
Bonds and notes payable:					
2003 Electric Certificates of participation	\$ 885,000		\$ 285,000	\$ 600,000	\$ 295,000
1999 Electric Certificates of participation	1,630,000		295,000	1,335,000	310,000
2010A Water/Sewer Certificates of participation		2,045,000		2,045,000	149,999
2010B Water/Sewer Certificates of participation		3,095,000		3,095,000	-
Business-type activities long-term liabilities	<u>\$ 2,515,000</u>	<u>\$ 5,140,000</u>	<u>\$ 580,000</u>	<u>\$ 7,075,000</u>	<u>\$ 754,999</u>

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Governmental Activities

A. Airport STAR Loan

The promissory note dated March 28, 2003 was issued in the original amount of \$216,000. The interest rate is 2.65 percent and payments are made monthly. This debt is funded out of the airport fund using general revenues.

Year Ending October 31	Principal	Interest	Total
2011	23,386	1,243	24,629
2012	23,952	616	24,568
2013	12,156	67	12,223
	<u>\$ 59,494</u>	<u>\$ 1,926</u>	<u>\$ 61,420</u>

B. 2008 Certificates of Participation

The City is obligated under a lease accounted for as a capital lease. This debt is funded out of capital improvement sales tax revenues. Interest rates range from 3.40% to 5.20%. Principal is paid annually and interest is paid semi-annually. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease under payments as of October 31, 2010:

Year Ending October 31,	Principal	Interest	Total
2011	785,000	374,351	1,159,351
2012	810,000	342,230	1,152,230
2013	850,000	306,520	1,156,520
2014	885,000	267,465	1,152,465
2015	925,000	224,910	1,149,910
2016	965,000	178,585	1,143,585
2017	1,020,000	128,450	1,148,450
2018	1,970,000	51,220	2,021,220
	<u>\$ 8,210,000</u>	<u>\$ 1,873,731</u>	<u>\$ 10,083,731</u>

Business-Type Activities

A. 1999, 2003 and 2010 Certificates of Participation

The City is obligated under leases accounted for as capital leases. This debt is funded out of capital improvement sales tax revenues and utility electric, water and sewer user fees. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease under payments as of October 31, 2010:

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Year Ending October 31,	2003		1999		2010		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	295,000	15,843	310,000	57,545	150,000	103,064	755,000	176,452
2012	305,000	5,414	325,000	42,460	300,000	202,550	930,000	250,424
2013			340,000	26,330	305,000	198,050	645,000	224,380
2014			360,000	9,000	310,000	192,255	670,000	201,255
2015					320,000	185,435	320,000	185,435
2016-2025					3,755,000	1,119,397	3,755,000	1,119,397
<b>Total</b>	<b>\$ 600,000</b>	<b>\$21,257</b>	<b>\$ 1,335,000</b>	<b>\$135,335</b>	<b>\$ 5,140,000</b>	<b>\$2,000,751</b>	<b>\$7,075,000</b>	<b>\$2,157,343</b>

In the Enterprise Funds financial statements, unamortized debt issue costs and bond discounts are reported as deferred charges.

Interest rates for the 2003 Certificates of Participation range from 2.85% to 3.55%. Interest rates for the 1999 Certificates of Participation range from 3.10% to 5.00%. Interest rates for the 2010 Certificates of Participation range from .875% to 5.625%. For all this debt, principal is paid annually and interest semi-annually.

**6. Advanced Debt Refunding**

During the year ended October 31, 2007, the City made an advance refunding of the final six years of the 2003 Certificates of participation which resulted in debt defeasance. The amount of bonds defeased is \$2,080,000 and the required cash to service these bonds is \$2,027,955. This resulted in an economic gain/cash flow benefit of \$52,045 which is being amortized over the remaining term.

**7. Risk Management**

The City's risk management activities are recorded in the Health Insurance Trust Fund. The purpose of the fund is to administer employee health insurance programs on a cost-reimbursement basis. This fund accounts for the risk financing of the City but does not constitute a transfer of risk from the City. Commercial insurance is carried for this fund for claims exceeding \$1,888,464 aggregate and \$60,000 individually. The City retains risk of loss up to these deductibles. No claims liabilities are recorded since the City reports its financial statements using the cash basis method. At October 31, 2010, \$621,159 is available in cash to cover claims.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; work related injuries to employees; and natural disaster. The City maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

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**8. Pension Plans**

**A. Plan Description**

The City of Lebanon participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri.

LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by state statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

**B. Funding Status**

Full-time employees of the City of Lebanon do not contribute to the pension plan. The June 30<sup>th</sup> statutorily required contribution rates are 12.0% (general), 9.7% (police) and 7.7% (fire) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

**C. Annual Pension Cost (APC) and Net Pension Obligation (NPO)**

The subdivision's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 576,881
Interest on net pension obligation	-
Adjustment to annual required contributor	-
Annual pension cost	<u>576,881</u>
Actual contributions	<u>576,881</u>
Increase (decrease) in NPO	-
NPO beginning of year	-
NPO end of year	<u><u>\$ -</u></u>

The annual required contribution (ARC) was determined as part of the February 28, 2007 and February 29, 2008 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to

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seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period as of February 28, 2007, was 17 years for the General division, 17 years for the Police division and 17 years for the Police division and 25 years for the Fire division. The amortization period as of February 29, 2008 was 16 years for the General division, 16 years for the Police division and 16 years for the Fire division.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	619,570	100%	-
2009	597,061	100%	-
2010	576,881	100%	-

REQUIRED SUPPLEMENTARY INFORMATION  
Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered
2/29/2008	6,812,256	9,195,719	2,383,463	74%	5,176,760	46%
2/29/2009	4,859,576	8,905,573	4,045,997	55%	5,201,409	78%
2/29/2010	5,201,741	8,803,662	3,601,921	59%	5,068,313	71%

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

**9. Deferred Compensation Plan**

City employees participate in a nation-wide deferred compensation plan. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. All deferred amounts are the property of the City and participant's interest in the plan is that of a general creditor of the City. It is the opinion of the City's management that the City and Board have no liability for losses under the plan, but do have the duty of due care that would be required of an ordinary prudent

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investor. Amounts on deposit with Nationwide Financial Company for the City of Lebanon participants at September 30, 2010 were approximately \$2,311,045.

**10. Deficit Fund Balance**

Airport, Downtown Business District and Economic Development Funds

At year end, the Airport, Downtown Business District and Economic Development Funds experienced a deficit fund balance of (\$105,242), (\$63,455) and (\$8,621,592) due to inter-fund loans.

Sewer Fund

The Sewer Fund had a deficit retained earnings of (\$3,568,499) resulting from capital improvements to the system and the City expenses capital improvements rather than posting as an asset and calculating depreciation.

**11. Interfund Loans**

To improve cash flow and minimize financing fees, the City has loaned money between funds for capital projects as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount	Project	Due
Electric Reserve	Economic Development	\$ 1,179,226	Dowco Building	2026
Electric Reserve	Economic Development	3,379,287	Copeland Building	2016
Electric Reserve	Airport	105,782	Hangers	2020
Electric Reserve	Street	395,000	Elm Street Project	2012
Electric Reserve	Economic Development	4,023,507	Detroit Tool Building	2025
Electric Reserve	Economic Development	125,000	Homestead Building	2016
Economic Development	Downtown Business Dist	75,000	Land Purchase	2019
		<u>\$ 9,282,802</u>		

The City charges a 5% interest rate on all of these loans.

**12. Long-Term Contracts**

The City is a member of the Missouri Joint Municipal Electric Utility Commission (MJMEUC). MJMEUC manages a power pool known as Missouri Public Energy Pool#1 (MoPEP). The City is a member of MoPEP. All MoPEP members (including the City) have an agreement (the MoPEP Agreement) with MJMEUC for the purchase of electric capacity and energy from MJMEUC. The MoPEP Agreement requires MJMEUC to supply the full energy requirements of the City and includes a procedure for the City to dedicate its capacity to MoPEP.

MoPEP operations are governed by a committee (Pool Committee) consisting of one representative from each MoPEP member and was comprised of 35 members as of December 31, 2010. The Pool Committee is charged with setting rates for all services provided by MJMEUC to MoPEP members. These rates include recovery of all of MJMEUC's costs (the

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Direct Costs) incurred in connection with acquiring, providing, arranging or financing the provision of full requirements service to MoPEP members. Such rates are based upon an annual budget and include, but are not limited to, all payments MJMEUC is required to make, or reserves or coverage MJMEUC is required to maintain, pursuant to any bond indenture, financing lease or loan agreement or other financial contract in order to procure, deliver, or finance resources intended to provide full requirements service, without regard to whether any particular resource is available to or used by any particular MoPEP member. Direct Costs also include amounts required to fund MoPEP capital and/or operating reserves as may be established from time to time by the Pool Committee.

The rates are established so as to charge each MoPEP member (including the City) its proportionate share of all costs associated with MJMEUC's performance under the MoPEP Agreement. Charges based on such rates are assessed and billed monthly. Rates are required to be established at least annually and adjusted to recognize variances between budgeted and actual costs at least every six months.

To meet the power and energy requirements of the City and the other MoPEP members, MJMEUC presently obtains power and energy from the following resources: (i) power purchased under long-term firm energy contracts, unit-contingent energy contracts and interruptible contracts; (ii) MJMEUC owned generation; (iii) member capacity; and (iv) spot market purchases. The City purchases its full energy requirements from MJMEUC pursuant to the MoPEP Agreement, but does not have any ownership interest in MJMEUC's resources.

In the event a MoPEP member would cancel the MoPEP Agreement, the member would remain responsible for its allocated share of MJMEUC's Direct Costs associated with all resource obligations entered into by MJMEUC for MoPEP prior to the notice of cancellation. MJMEUC would utilize or sell the member's allocated share of output in exchange for providing the member a credit or offset equal to the fair market value of the output up to the amount of the member's obligation. As a result, the member would have a financial obligation after cancellation in the event that the fair market value of the output is less than the member's allocated share of MJMEUC's Direct Costs with respect to the resource obligations at the time of cancellation. Since the amount of the cancelling member's obligation would depend on MJMEUC's Direct Costs after cancellation and the fair market value of the output at such times in the future, the amount of the obligation is not reasonably determinable. Currently, the City of Lebanon has no plans or intentions to begin cancellation proceedings.

SUPPLEMENTARY INFORMATION

CITY OF LEBANON, MISSOURI

Budgetary Comparison Schedule - General Fund-Modified Cash Basis

Year Ended October 31, 2010

	Original Budget	Budget as Amended	Actual	Variance from amended Positive (Negative)
<b>Resources (inflows):</b>				
Taxes	\$ 4,981,735	\$ 5,084,135	\$ 5,354,025	\$ 269,890
Charge for services	\$ 33,000	\$ 17,500	\$ 12,972	(4,528)
Intergovernmental revenue	16,879	1,411,097	968,524	(442,573)
License and permits	20,000	20,000	34,131	14,131
Fines and forfeitures	360,500	360,500	327,417	(33,083)
Interest income	50,000	50,000	23,520	(26,480)
Miscellaneous income	46,000	62,063	58,936	(3,127)
Total Resources (inflows)	<u>5,508,114</u>	<u>7,005,295</u>	<u>6,779,525</u>	<u>(225,770)</u>
<b>Charges to appropriations (outflows):</b>				
Public safety	2,082,333	5,387,706	4,827,855	559,851
Administration	1,266,282	1,304,536	1,192,769	111,767
Total charges to appropriations	<u>3,348,615</u>	<u>6,692,242</u>	<u>6,020,624</u>	<u>671,618</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in (out)	<u>(2,156,848)</u>	<u>(443,427)</u>	<u>(655,340)</u>	<u>(211,913)</u>
Total Other Financing Sources (Uses)	<u>(2,156,848)</u>	<u>(443,427)</u>	<u>(655,340)</u>	<u>(211,913)</u>
Net Change in Fund Balances	2,651	(130,374)	103,561	233,935
Fund Balance, November 1	<u>360,318</u>	<u>360,318</u>	<u>360,318</u>	<u>-</u>
Fund Balance, October 31	<u>\$ 362,969</u>	<u>\$ 229,944</u>	<u>\$ 463,879</u>	<u>\$ 233,935</u>

CITY OF LEBANON, MISSOURI  
 Budgetary Comparison Schedule - Major Special Revenue Funds - Modified Cash Basis  
 Year Ended October 31, 2010

<b>Street Fund</b>	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)
<b>Resources (inflows):</b>				
Taxes	\$ 1,836,500	\$ 1,858,500	\$ 1,937,536	\$ 79,036
Intergovernmental	\$ 711,155	\$ 127,652	81,273	(46,379)
Other		62,317	38,064	(24,253)
Total resources	<u>2,547,655</u>	<u>2,048,469</u>	<u>2,056,873</u>	<u>8,404</u>
<b>Charges to appropriations (outflows):</b>				
Transportation	2,345,458	1,445,184	1,315,745	129,439
Total charges to appropriations	<u>2,345,458</u>	<u>1,445,184</u>	<u>1,315,745</u>	<u>129,439</u>
<b>Other Financing Sources (Uses)</b>				
Transfer in (out)	(1,317,429)	(1,309,203)	(1,044,448)	264,755
Total Other Financing Sources (Uses)	<u>(1,317,429)</u>	<u>(1,309,203)</u>	<u>(1,044,448)</u>	<u>264,755</u>
Net Change in Fund Balance	(1,115,232)	(705,918)	(303,320)	402,598
Fund Balance, November 1	641,534	643,534	641,534	(2,000)
Fund Balance, October 31, Budget Basis	<u>\$ (473,698)</u>	<u>\$ (62,384)</u>	\$ 338,214	<u>\$ 400,598</u>
<b>Reconciliation from budget basis to modified cash basis:</b>				
Interfund loan payments recorded as expenses			205,000	
Fund Balance, October 31, Modified Cash Basis			<u>543,214</u>	

<b>Economic Development</b>	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)
<b>Resources (inflows):</b>				
Charge for services	\$ 1,413,120	\$ 1,324,320	\$ 1,410,608	86,288
Intergovernmental revenues		375,309	400,000	
Other		13,800	10,428	(3,372)
Total resources	<u>1,413,120</u>	<u>1,713,429</u>	<u>1,821,036</u>	<u>82,916</u>
<b>Charges to appropriations (outflows):</b>				
Economic development	1,475,750	2,108,525	2,787,363	(678,838)
Total charges to appropriations	<u>1,475,750</u>	<u>2,108,525</u>	<u>2,787,363</u>	<u>(678,838)</u>
<b>Other Financing Sources (Uses)</b>				
Transfer in (out)	(1,063,833)	(611,766)	(30,107)	581,659
Total Other Financing Sources (Uses)	<u>(1,063,833)</u>	<u>(611,766)</u>	<u>(30,107)</u>	<u>581,659</u>
Net Change in Fund Balance	(1,126,463)	(1,006,862)	(996,434)	(14,263)
Fund Balance, November 1	(8,183,213)	(8,183,213)	(8,183,213)	-
Fund Balance, October 31, Budget Basis	<u>\$ (9,309,676)</u>	<u>\$ (9,190,075)</u>	\$ (9,179,647)	<u>\$ (14,263)</u>
<b>Reconciliation from budget basis to modified cash basis:</b>				
Interfund loan payments recorded as revenues			(135,000)	
Interfund loan payments recorded as expenses			693,055	
Fund Balance, October 31, Modified Cash Basis			<u>(8,621,592)</u>	

CITY OF LEBANON, MISSOURI

Notes to the Required Supplementary Information - Budget Comparisons

October 31, 2010

**1. Budgetary Basis**

Annual budgets are adopted on a modified cash basis of accounting where revenues are reported as collected and expenditures when paid except for recording inter-fund loan payments. A reconciliation is included on the budget schedules identifying this exception. All annual appropriations lapse at year-end.

**2. Budgetary Information**

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level.

All budget revisions at this level are subject to final review by the City Councilmen. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made several times throughout the year.

**3. Excess of Expenditures over Appropriations**

None.

CITY OF LEBANON, MISSOURI  
 Combining Balance Sheet - Modified Cash Basis  
 General Funds  
 October 31, 2010 with Comparative data

	October 31,							Totals 2009	
	General	Court	Emergency Mgt	Fire	Police	Recycling	Admin.		Totals 2010
<b>ASSETS</b>									
Unrestricted Assets:									
Cash and cash equivalents	\$ 349,246	\$ 137		\$ 3,568	\$ 13,360	\$ 1,064	\$ 109,696	\$ 477,071	\$ 361,617
<b>TOTAL ASSETS</b>	<b>\$ 349,246</b>	<b>\$ 137</b>	<b>\$ -</b>	<b>\$ 3,568</b>	<b>\$ 13,360</b>	<b>\$ 1,064</b>	<b>\$ 109,696</b>	<b>\$ 477,071</b>	<b>\$ 361,617</b>
<b>LIABILITIES</b>									
Accrued expenses	1550	137		3568	6131		1,806	13,192	1,298
<b>EQUITY:</b>									
Fund balance:									
Unreserved	\$ 347,696	\$ -	\$ -	\$ -	\$ 7,229	\$ 1,064	\$ 107,890	\$ 463,879	\$ 360,319
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 349,246</b>	<b>\$ 137</b>	<b>\$ -</b>	<b>\$ 3,568</b>	<b>\$ 13,360</b>	<b>\$ 1,064</b>	<b>\$ 109,696</b>	<b>\$ 477,071</b>	<b>\$ 361,617</b>

CITY OF LEBANON, MISSOURI  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis  
 General Funds  
 Year Ended October 31, 2010

	General	Court	Emergency			October 31,			
			Mgt	Fire	Police	Recycling	Admin.	2010 Total	2009 Total
REVENUES									
Taxes	\$5,354,025								\$ 4,992,924
Intergovernmental revenue			\$ 1,973	\$ 946,829		\$19,722			968,524
Charge for services				\$ 12,502		\$ 470			12,972
Licenses and permits	34,131								34,131
Fines and court costs	3,547	323,870							327,417
Investment earnings	23,520								23,520
Other	49,525			3,649	4,243			\$ 1,519	57,551
TOTAL REVENUES	5,464,748	323,870	-	5,622	963,574	20,192		1,519	6,779,525
EXPENDITURES									
Public safety		298,197	2,187	1,286,835	3,240,636				4,827,855
Administration	254,220							927,108	1,192,769
Transportation									-
TOTAL EXPENDITURES	254,220	298,197	2,187	1,286,835	3,240,636	11,441		927,108	6,020,624
EXCESS OF REVENUE OVER (UNDER)	5,210,528	25,673	(2,187)	(1,281,213)	(2,277,062)	8,751		(925,589)	758,901
EXPENDITURES									(857,926)
OTHER FINANCING SOURCES (USES)									
Operating transfers in (out)	(5,082,168)	(25,673)	2,187	1,281,213	2,284,291	(7,687)		892,497	(655,340)
Total Other Financing Sources (Uses)	(5,082,168)	(25,673)	2,187	1,281,213	2,284,291	(7,687)		892,497	(655,340)
EXCESS OF REVENUES AND									
OTHER SOURCES OVER (UNDER)	128,360	-	-	-	7,229	1,064		(33,092)	103,561
EXPENDITURES AND OTHER USES	219,336							140,982	360,318
FUND BALANCE, November 1	\$ 347,696	\$ -	\$ -	\$ -	\$ 7,229	\$ 1,064		\$ 107,890	\$ 463,879
FUND BALANCE, October 31									\$ 360,318

CITY OF LEBANON, MISSOURI  
 Combining Balance Sheet - Modified Cash Basis  
 Internal Service Funds  
 October 31, 2010 with Comparative data

	Buildings Grounds	Garage	Tech Services	Purchasing Warehouse	Public Works Admin	Community Develop.	Employee Benefits	Public Works	October 31, Totals 2010	Totals 2009
<b>ASSETS</b>										
Unrestricted Assets:										
Cash and cash equivalents	\$ 50,429	\$ 11,903	\$ 10,204	\$ 310	\$ 13,414	\$ 777	\$ 621,159	\$ 42,556	\$ 750,752	\$ 709,196
<b>TOTAL ASSETS</b>	<u>\$ 50,429</u>	<u>\$ 11,903</u>	<u>\$ 10,204</u>	<u>\$ 310</u>	<u>\$ 13,414</u>	<u>\$ 777</u>	<u>\$ 621,159</u>	<u>\$ 42,556</u>	<u>\$ 750,752</u>	<u>\$ 709,196</u>
<b>LIABILITIES</b>										
Accrued expenses	1064	265	1,343	310	789	777		3,652	8,200	
<b>NET ASSETS</b>										
Unreserved	\$ 49,365	\$ 11,638	\$ 8,861	\$ -	\$ 12,625	\$ -	\$ 621,159	\$ 38,904	\$ 742,552	\$ 709,196
<b>TOTAL NET ASSETS</b>	<u>\$ 49,365</u>	<u>\$ 11,638</u>	<u>\$ 8,861</u>	<u>\$ -</u>	<u>\$ 12,625</u>	<u>\$ -</u>	<u>\$ 621,159</u>	<u>\$ 38,904</u>	<u>\$ 742,552</u>	<u>\$ 709,196</u>

NOTE: For year ended October 31, 2009, Public Works had been reported under Enterprise funds.

CITY OF LEBANON, MISSOURI  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis  
Internal Service Funds  
Year Ended October 31, 2010

	Public Works					October 31,			
	Buildings Grounds	Tech Services	Purchasing & Warehouse	Admin	Community Develop.	Employee Benefits	Public Works	2010 Total	2009 Total
<b>REVENUES</b>									
Charge for services		\$ 185		\$ 5,087		\$ 3,600,913		\$ 3,600,913	\$ 3,000,787
Intergovernmental revenues	7,045							12,317	
License and permits					\$ 27,725				
Other	4,223	2,616	1,068		1,678		\$ 24,277	27,725	
<b>TOTAL REVENUES</b>	<b>11,268</b>	<b>2,801</b>	<b>1,068</b>	<b>5,087</b>	<b>29,403</b>	<b>3,600,913</b>	<b>24,277</b>	<b>3,676,202</b>	<b>3,000,787</b>
<b>EXPENDITURES</b>									
Operations and maintenance	548,091	618,848	91,293	305,011	168,418		1,490,532	3,336,732	
Employee benefits						3,678,022		3,678,022	3,363,798
<b>TOTAL EXPENDITURES</b>	<b>548,091</b>	<b>618,848</b>	<b>91,293</b>	<b>305,011</b>	<b>168,418</b>	<b>3,678,022</b>	<b>1,490,532</b>	<b>7,014,754</b>	<b>3,363,798</b>
<b>EXCESS OF REVENUE OVER (UNDER)</b>									
<b>EXPENDITURES</b>	<b>(536,823)</b>	<b>(616,047)</b>	<b>(90,225)</b>	<b>(299,924)</b>	<b>(139,015)</b>	<b>(77,109)</b>	<b>(1,466,255)</b>	<b>(3,338,552)</b>	<b>(363,011)</b>
<b>OTHER FINANCING SOURCES (USES)</b>									
Operating transfers in (out)	586,188	624,908	90,225	312,549	139,015	(10,928)	1,404,042	3,270,791	
Total Other Financing Sources (Uses)	586,188	624,908	90,225	312,549	139,015	(10,928)	1,404,042	3,270,791	-
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)</b>									
<b>EXPENDITURES AND OTHER USE</b>	49,365	8,861	-	12,625	-	(88,037)	(62,213)	(67,761)	(363,011)
<b>NET ASSETS, November 1</b>						709,196	101,117	810,313	1,072,207
<b>NET ASSETS, October 31</b>	<b>\$ 49,365</b>	<b>\$ 11,638</b>	<b>\$ -</b>	<b>\$ 12,625</b>	<b>\$ -</b>	<b>\$ 621,159</b>	<b>\$ 38,904</b>	<b>\$ 742,552</b>	<b>\$ 709,196</b>

NOTE: For year ended October 31, 2009, Public Works had been reported under Enterprise funds.

CITY OF LEBANON, MISSOURI  
 Combining Balance Sheet - Modified Cash Basis  
 Proprietary - Enterprise Funds  
 October 31, 2010 with Comparative data

Electric						
	Operating	Reserve	Fiber Operations	Debt Service	Capital Project	Total
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	\$ 926,087	\$ 6,215,646	\$ 341,563	\$ 544,295	\$ 10,582	\$ 8,038,173
Due from Other Funds		9,207,801				9,207,801
Restricted Assets:						
Investments				674,838		674,838
Debt issuance costs, net of amortization						
Equity interest in joint venture	550,000					550,000
<b>TOTAL ASSETS</b>	<u>\$ 1,476,087</u>	<u>\$ 15,423,447</u>	<u>\$ 341,563</u>	<u>\$ 1,219,133</u>	<u>\$ 10,582</u>	<u>\$ 18,470,812</u>
LIABILITIES:						
Current Liabilities:						
Current portion of long term debt				\$ 605,000		\$ 605,000
Accrued expenses	\$ 89,323					89,323
Short term debt	\$ 320,833					320,833
Meter deposits payable						
Total Current Liabilities	410,156	-	-	605,000	-	1,015,156
Noncurrent Liabilities:						
Due to other funds						
Unamortized deferred gain on early retirement of debt				35,091		35,091
Long term debt				1,330,000		1,330,000
<b>TOTAL NONCURRENT LIABILITIES</b>	-	-	-	1,365,091	-	1,365,091
<b>TOTAL LIABILITIES</b>	410,156	-	-	1,970,091	-	2,380,247
NET ASSETS:						
Restricted						
Unrestricted	1,065,931	15,423,447	341,563	(750,958)	10,582	16,090,565
<b>TOTAL NET ASSETS</b>	<u>1,065,931</u>	<u>15,423,447</u>	<u>341,563</u>	<u>(750,958)</u>	<u>10,582</u>	<u>16,090,565</u>

NOTE: For the year ended 10/31/10, the Public Works Fund is reported as an Internal Service Fund rather than an Enterprise Fund as compared to the previous year.

CITY OF LEBANON, MISSOURI  
 Combining Balance Sheet - Modified Cash Basis  
 Proprietary - Enterprise Funds  
 October 31, 2010 with Comparative data

	Water			Sewer			
	Operating	Meter Deposit	Total	Operating	Maint	Reserve	Total
<b>ASSETS</b>							
Unrestricted Assets:							
Cash and cash equivalents	\$ 339,054	\$ 729,731	\$ 1,068,785	\$ 300,188	\$ 50,508	\$ 60,051	\$ 410,747
Due from Other Funds							
Restricted Assets:							
Investments	538,746		538,746	548,448			548,448
Debt issuance costs, net of amortization							
Equity interest in joint venture	8,063		8,063	67,725			67,725
<b>TOTAL ASSETS</b>	<b>\$ 885,863</b>	<b>\$ 729,731</b>	<b>\$ 1,615,594</b>	<b>\$ 916,361</b>	<b>\$ 50,508</b>	<b>\$ 60,051</b>	<b>\$ 1,026,920</b>
<b>LIABILITIES:</b>							
Current Liabilities:							
Current portion of long term debt	\$ 15,957	\$	\$ 15,957	134,042			134,042
Accrued expenses	\$ 210		210	1,148	\$ 1,083		2,231
Short term debt							
Meter deposits payable		\$ 731,288	731,288				
Total Current Liabilities	16,167	731,288	747,455	135,190	1,083	-	136,273
Noncurrent Liabilities:							
Due to other funds							
Unamortized deferred gain on early retirement of debt							
Long term debt	530,852		530,852	4,459,149			4,459,149
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>530,852</b>	<b>-</b>	<b>530,852</b>	<b>4,459,149</b>	<b>-</b>	<b>-</b>	<b>4,459,149</b>
<b>TOTAL LIABILITIES</b>	<b>547,019</b>	<b>731,288</b>	<b>1,278,307</b>	<b>4,594,339</b>	<b>1,082</b>	<b>-</b>	<b>4,595,422</b>
<b>NET ASSETS:</b>							
Restricted							
Unrestricted	338,844	(1,557)	337,287	(3,677,978)	49,426	60,050	(3,568,502)
<b>TOTAL NET ASSETS</b>	<b>338,844</b>	<b>(1,557)</b>	<b>337,287</b>	<b>(3,677,978)</b>	<b>49,426</b>	<b>60,050</b>	<b>(3,568,502)</b>

CITY OF LEBANON, MISSOURI  
 Combining Balance Sheet - Modified Cash Basis  
 Proprietary - Enterprise Funds  
 October 31, 2010 with Comparative data

	Economic Development	Total Enterprise Funds October 31, 2010	Total Enterprise Funds October 31, 2009
<b>ASSETS</b>			
Unrestricted Assets:			
Cash and cash equivalents	\$ 10,428	\$ 9,528,133	\$ 6,351,724
Due from Other Funds	\$ 75,000	9,282,801	9,987,962
Restricted Assets:			
Investments		1,762,032	902,271
Debt issuance costs, net of amortization		75,788	
Equity interest in joint venture		550,000	
<b>TOTAL ASSETS</b>	<b>\$ 85,428</b>	<b>\$ 21,198,754</b>	<b>\$ 17,241,957</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Current portion of long term debt		754,999	\$ 580,000
Accrued expenses		91,764	69,945
Short term debt		320,833	
Meter deposits payable		731,288	714,521
Total Current Liabilities	-	1,898,884	1,364,466
Noncurrent Liabilities:			
Due to other funds	8,707,020	8,707,020	
Unamortized deferred gain on early retirement of debt		35,091	39,823
Long term debt		6,320,001	1,935,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>8,707,020</b>	<b>15,062,112</b>	<b>1,974,823</b>
<b>TOTAL LIABILITIES</b>	<b>8,707,020</b>	<b>16,960,996</b>	<b>3,339,289</b>
<b>NET ASSETS:</b>			
Restricted			
Unrestricted	(8,621,592)	4,237,758	13,902,668
<b>TOTAL NET ASSETS</b>	<b>(8,621,592)</b>	<b>4,237,758</b>	<b>13,902,668</b>

See Independent Auditor's Report.

CITY OF LEBANON, MISSOURI  
 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets-Modified Cash Basis  
 Proprietary - Enterprise Funds  
 Year Ended October 31, 2010 with Comparative data

	Electric					
	Operating	Reserve	Fiber Operations	Debt Service	Capital Project	Total
Operating revenues						
Charges for services	\$ 23,379,034	\$ 103,289				\$ 23,482,323
Miscellaneous	37,211	5,875	69			43,155
Total operating revenues	23,416,245	5,875	103,358	-	-	23,525,478
Operating expenses:						
Personnel costs	1,103,026					1,103,026
Operations and maintenance	19,909,968		33,873			19,943,841
Total operating expenses	21,012,994	-	33,873	-	-	21,046,867
Operating income (loss)	2,403,251	5,875	69,485	-	-	2,478,611
Nonoperating revenues (expenses)						
Interest income	126,426			4,783		131,209
Interest income - interfund loans		466,521				466,521
Intergovernmental revenue	850					850
Capital outlay	(337,829)					(337,829)
Debt service:						
Interest and agent fees						
Total non-operating revenues (expenses)	(210,553)	466,521	-	(98,596)	-	(98,596)
Income (loss) before transfers	2,192,698	472,396	69,485	(93,813)	-	2,640,766
Operating transfers in (out)	(1,354,606)	(613)	123,234	776,136	-	(455,849)
Change in net assets	838,092	471,783	192,719	682,323	-	2,184,917
Net assets at the beginning of year	227,835	14,951,664	148,844	(1,433,281)	10,583	13,905,645
Net assets at end of year	\$ 1,065,927	\$ 15,423,447	\$ 341,563	\$ (750,958)	\$ 10,583	\$ 16,090,562

NOTE: For the year ended 10/31/10, the Public Works Fund is reported as an Internal Service Fund rather than an Enterprise Fund as compared to the previous year.  
 The Economic Development Fund is reported as a proprietary fund as compared to a special revenue fund in the prior year.

CITY OF LEBANON, MISSOURI  
 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets-Modified Cash Basis  
 Proprietary - Enterprise Funds  
 Year Ended October 31, 2010 with Comparative data

	Water			Sewer			
	Operating	Meter Deposit	Total	Operating	Maint	Reserve	Total
Operating revenues							
Charges for services	\$ 2,254,214		\$ 2,254,214	\$ 1,877,847			\$ 1,877,847
Miscellaneous	33,254		33,254	6,305	\$ 2,906		9,211
Total operating revenues	2,287,468	-	2,287,468	1,884,152	2,906	-	1,887,058
Operating expenses:							
Personnel costs	101,900		101,900	292,259	266,464		558,723
Operations and maintenance	914,704		914,704	595,417	112,912		708,329
Total operating expenses	1,016,604	-	1,016,604	887,676	379,376	-	1,267,052
Operating income (loss)	1,270,864	-	1,270,864	996,476	(376,470)	-	620,006
Nonoperating revenues (expenses)							
Interest income	4,683		4,683	1,560			1,560
Interest income - interfund loans			-				-
Intergovernmental revenue				9,807	74,611		84,418
Capital outlay				(4,085,966)	(7,523)		(4,093,489)
Debt service:							
Interest and agent fees							-
Total non-operating revenues (expenses)	4,683	-	4,683	(4,074,599)	67,088	-	(4,007,511)
Income (loss) before transfers	1,275,547		1,275,547	(3,078,123)	(309,382)		(3,387,505)
Operating transfers in (out)	(458,002)		(458,002)	(820,505)	263,347		(557,158)
Change in net assets	817,545	-	817,545	(3,898,628)	(46,035)		(3,944,663)
Net assets at the beginning of year	(478,701)	(1,557)	(480,258)	220,652	95,461	60,051	376,164
Net assets at end of year	\$ 338,844	\$ (1,557)	\$ 337,287	\$ (3,677,976)	\$ 49,426	\$ 60,051	\$ (3,568,499)

CITY OF LEBANON, MISSOURI

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets-Modified Cash Basis

Proprietary - Enterprise Funds

Year Ended October 31, 2010 with Comparative data

	Economic Development	Total Enterprise Funds October 31, 2010	Totals Enterprise Funds October 31, 2009
Operating revenues			
Charges for services	\$ 1,275,608	\$ 28,889,992	21,950,640
Miscellaneous	10,428	96,048	500,589
Total operating revenues	<u>1,286,036</u>	<u>28,986,040</u>	<u>22,451,229</u>
Operating expenses:			
Personnel costs		1,763,649	2,988,483
Operations and maintenance	2,094,308	23,661,182	20,022,806
Total operating expenses	<u>2,094,308</u>	<u>25,424,831</u>	<u>23,011,289</u>
Operating income (loss)	<u>(808,272)</u>	<u>3,561,209</u>	<u>(560,060)</u>
Nonoperating revenues (expenses)			
Interest income		137,452	662,320
Interest income - interfund loans		466,521	
Intergovernmental revenue	400,000	485,268	20,430
Capital outlay		(4,431,318)	(491,267)
Debt service:			
Interest and agent fees		(98,596)	(123,798)
Total non-operating revenues (expenses)	<u>400,000</u>	<u>(3,440,673)</u>	<u>67,685</u>
Income (loss) before transfers	(408,272)	120,536	(492,375)
Operating transfers in (out)	(30,107)	(1,501,116)	(1,106,618)
Change in net assets	<u>(438,379)</u>	<u>(1,380,580)</u>	<u>(1,598,993)</u>
Net assets at the beginning of year	(8,183,213)	5,618,338	15,501,662
Net assets at end of year	<u>\$ (8,621,592)</u>	<u>\$ 4,237,758</u>	<u>\$ 13,902,669</u>

See Independent Auditor's Report.

CITY OF LEBANON, MISSOURI  
 Combining Balance Sheet - Modified Cash Basis  
 Nonmajor Funds  
 October 31, 2010 with Comparative Data

	Special Revenue Funds											Total Nonmajor Funds 2010	Comparative Data 2009		
	Cowan Civic Center	Lodging Tax	Subdivision Development	CDBG Project Income	Crime Victims Comp.	Police Officers Training	Police Trust	Airport	Downtown Business District	Mills Park	Nelson Community Center			Parks and Recreation	
Unrestricted Assets:															
Cash and cash equivalents	\$ 12,442	\$ 26,873	\$ 138,252	\$ 23,963	\$ 2,488	\$ 13,336	\$ 3,324	\$ 541	\$ 11,545	\$ 43,555	\$ 177,030	\$ 453,349	\$ 505,620		
<b>TOTAL ASSETS</b>	<b>\$ 12,442</b>	<b>\$ 26,873</b>	<b>\$ 138,252</b>	<b>\$ 23,963</b>	<b>\$ 2,488</b>	<b>\$ 13,336</b>	<b>\$ 3,324</b>	<b>\$ 541</b>	<b>\$ 11,545</b>	<b>\$ 43,555</b>	<b>\$ 177,030</b>	<b>\$ 453,349</b>	<b>\$ 505,620</b>		
<b>LIABILITIES:</b>															
Due to other funds								\$ 105,783	\$ 75,000			\$ 180,783	\$ 197,888		
Accrued expenses	\$ 474										\$ 312	786	5		
Total liabilities	474	-	-	-	-	-	-	105,783	75,000	-	312	181,569	197,893		
<b>EQUITY:</b>															
Fund balance:															
Unreserved	11,968	26,873	138,252	23,963	2,488	13,336	3,324	(105,242)	(63,455)	43,555	176,718	271,780	307,727		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 12,442</b>	<b>\$ 26,873</b>	<b>\$ 138,252</b>	<b>\$ 23,963</b>	<b>\$ 2,488</b>	<b>\$ 13,336</b>	<b>\$ 3,324</b>	<b>\$ 541</b>	<b>\$ 11,545</b>	<b>\$ 43,555</b>	<b>\$ 177,030</b>	<b>\$ 453,349</b>	<b>\$ 505,620</b>		

CITY OF LEBANON, MISSOURI  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis  
 Nonmajor Funds  
 Year Ended October 31, 2010 with Comparative Data

	Special Revenue Funds											Total Nonmajor Funds 2010	Comparative Data 2009	
	Cowan Civic Center	Lodging Tax	Subdivision Development	CDBG Project Income	Crime Victims Comp.	Police Officers Training	Police Trust	Airport	Downtown Business District	Mills Park	Nelson Community Center			Parks and Recreation
REVENUES														
Taxes		\$ 112,166												
Charges for services	\$ 133,776		\$ 130,666			\$ 5,322	\$ 37,344	\$ 24,844			\$ 520,397		\$ 657,407	\$ 659,787
Intergovernmental revenues		42,903						4,500	30,868	82,310	75,751		500,537	642,366
Other	2,672	18,072			\$ 12,637			6,392			402		43,305	1,109,162
TOTAL REVENUES	136,448	173,141	130,666	-	12,637	5,322	37,344	35,736	30,868	82,310	596,550		1,241,022	2,451,044
EXPENDITURES														
Public safety					12,452	1,748							14,200	15,531
Recreation	686,052						64,765		366,940				1,052,992	1,348,817
Transportation			82,896										64,765	233,353
Capital outlay								26,246	26,978	52,144			82,896	331,648
Economic Development		155,041											260,409	1,020,401
Debt principal payments							22,717						22,717	20,302
Debt interest payments							1,904						1,904	2,268
TOTAL EXPENDITURES	686,052	155,041	82,896	-	12,452	1,748	89,386	26,246	26,978	52,144	366,940		1,499,883	2,972,320
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(549,604)	18,100	47,770	-	185	3,574	(52,042)	9,490	3,890	30,166	229,610		(258,861)	(521,276)
OTHER FINANCING SOURCES (USES)														
Operating transfers in (out)	461,346	(41,328)	(24,560)		(438)	(413)	38,903	(15,406)	(3,890)	(47,532)	(143,768)		222,914	829,000
Total Other Financing Sources (Uses)	461,346	(41,328)	(24,560)	-	(438)	(413)	38,903	(15,406)	(3,890)	(47,532)	(143,768)		222,914	829,000
EXCESS OF REVENUES AND SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(88,258)	(23,228)	23,210	-	(253)	3,161	(13,139)	(5,916)	-	(17,366)	85,842		(35,947)	307,724
FUND BALANCE, November 1	100,226	50,101	115,042	23,963	2,741	10,175	(92,103)	(57,539)	-	60,921	90,876		307,727	3
FUND BALANCE, October 31	\$ 11,968	\$ 26,873	\$ 138,252	\$ 23,963	\$ 2,488	\$ 13,336	\$ 3,324	\$ (63,455)	\$ -	\$ 43,555	\$ 176,718		\$ 271,780	\$ 307,727

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

Honorable Mayor and Council  
City of Lebanon, Missouri

Compliance

We have audited City of Lebanon, Missouri's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Lebanon's major federal programs for the year ended October 31, 2010. The City of Lebanon, Missouri's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Lebanon, Missouri's management. Our responsibility is to express an opinion on the City of Lebanon, Missouri's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the City of Lebanon, Missouri's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lebanon, Missouri's compliance with those requirements.

As described in item C (1) in the accompanying schedule of findings and questioned costs, City of Lebanon, Missouri, did not comply with requirements regarding cash management that are applicable to its Public Safety Partnership and Community Policing Grant. Compliance with such requirements is necessary, in our opinion, for City of Lebanon, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, City of Lebanon, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2010.

#### Internal Control Over Compliance

The management of the City of Lebanon, Missouri is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lebanon, Missouri's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lebanon, Missouri's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item C(1) to be material weaknesses.

City of Lebanon's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Lebanon's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the City Council, others within the entity, 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.

*Officer CPA Firm LLC*  
Springfield, Missouri  
June 15, 2011

CITY OF LEBANON, MISSOURI  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - MODIFIED CASH BASIS  
 Year Ended October 31, 2010

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through the Missouri State Emergency Management Agency			
Public Assistance Grant	97.036	FEMA MO DR 1847	\$ 45,483
<u>U.S. DEPARTMENT OF ENERGY</u>			
Passed through the Missouri Department of Natural Resources			
Energize Missouri Communities	81.128	G10-EECBG-04-095494084	867
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Surveys - Studies - Investigations	66.418	XP-98715901-0	74,611
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through Missouri Department of Transportation			
Highway Planning and Construction	20.205	STP-3800(801)	55,321
State and Community Highway Safety	20.600	10-PT-02-136	1,588
Alcohol Traffic Safety and Drunk Driving Prevention and Incentive Grant			
Youth Alcohol Enforcement Grant	20.601	10-K8-03-71	3,421
DWI Enforcement	20.601	LKK073-NHTSA	2,495
Subtotal for CFDA 20.601			<u>5,916</u>
Subtotal for Highway Safety Cluster			<u>7,504</u>
Alcohol Open Container Requirements			
Sobriety Checkpoint	20.607	10-154-AL-78	6,835
DWI Enforcement	20.607	10-154-AL-79	11,851
Subtotal for CFDA 20.607			<u>18,686</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Public Safety Partnership and Community Policing Grant	16.810	ARRA-2009-SD-B9-0104	903,756
Edward Byrne Memorial State and Local Law Enforcement			
Justice Assistance Grant Program	16.738	2009-SB-B9-2653	15,845
Justice Assistance Grant Program	16.738	2009-LBGJ-031	4,347
Subtotal for CFDA 16.738			<u>20,192</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Missouri Department of Economic Development			
Community Development Block Grant Program	14.228	2009MO03	400,000
Total			<u>\$ 1,526,420</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards is a summary of the activity of the City's federal award programs presented on A modified cash basis of accounting which is consistent with the financial statement presentation.

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

Honorable Mayor and Council  
City of Lebanon, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lebanon, Missouri as of and for the year ended October 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 15, 2011. These financial statements were prepared using a modified cash 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 Lebanon, Missouri'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 of Lebanon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lebanon's internal control over financial reporting.

*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 combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the City of Lebanon's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Lebanon, Missouri in a separate letter dated June 15, 2011.

This report is intended solely for the information and use of the management, City Council, others within the entity, and 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.

*Officer CPA Firm LLC*

Springfield, Missouri  
June 15, 2011

CITY OF LEBANON, MISSOURI  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended October 31, 2010

**A. SUMMARY OF AUDITOR'S RESULTS**

Financial Statements:

Type of Auditor's Report Issued: Unqualified modified cash basis  
 Internal Control over Financial Reporting:  
 Material weaknesses identified?  Yes  No  
 Significant deficiencies identified not considered to be material weaknesses?  Yes  None reported  
 Noncompliance material to financial statements noted?  Yes  No

Federal Awards:

Internal Control over Major Programs:  
 Significant deficiencies identified?  Yes  No  
 Significant deficiencies identified considered to be material weaknesses?  Yes  No

Type of Auditor's Report Issued on Compliance for Major Programs: Qualified

Any audit findings disclosed that required to be reported in accordance with section 510(A) of Circular A-133?  Yes  No

The programs tested as major programs included:

<u>Name</u>	<u>CFDA Number</u>
Public Safety Partnership and Community Policing Grant	16.810

The threshold for distinguishing Types A and B programs was \$300,000.  
 The City of Lebanon, Missouri, was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

1. Public Safety Partnership and Community Policing Grant –CFDA No. 16.810, Grant  
 Period: Year ended October 31, 2010

Criteria: Cash management for the program requires timely use of grant funds and reports to be prepared with accurate incurred costs.

Statement of Condition: Grant funds were held in the grantees bank account for several days before cost reimbursement.

Perspective Information: Grant funds sat idle in the account 174 days out of 305 days available during the audit period.

Cause: The City hired an outside consultant that specialized in grant administration. The consultant drew down federal funds before expenditures were incurred including annual salaries. Reports indicated the expenditures had been incurred but in reality, they had not been spent such as future salaries.

Effect: Excess draws were required to be returned to the federal government.

Recommendation: The City needs to follow grant guidelines on timely cost reimbursements and accurate reporting of such costs.

Views of Responsible Officials: The City agrees with the findings and will re-evaluate the process for hiring outside consultants.

**D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None

# Officer CPA Firm LLC

Certified Public Accountants

To the City Council,  
Lebanon, Missouri

During the performance of our audit we observed areas of your operations for which we have a suggestion that hopefully will improve the efficiency and accuracy of your financial and statistical records.

## Court Tickets

To ensure that all monies are collected on each court ticket, it is important to track all tickets by their chronological numbers. During our random sample of tickets, we found several tickets initially missing. Upon further investigation, many of these tickets had been entered into the system with inaccurate numbers. We recommend that procedures be implemented to ensure all tickets have been accounted for.

## Ordinance 4606 and 4607

This ordinance requires reserve levels to be maintained for the electric, water and sewer funds. As of October 31, 2010, none of these reserve requirements had been met.

## Property and Equipment

Governmental Accounting Standards and specifically GASB 34 require that the City's debt and fixed assets be recorded to reflect an accurate financial picture. Currently, the City does not record the property and equipment causing the liabilities to be much higher than the assets and in some cases, creating a negative fund balance. We recommend recording the property and equipment at cost and calculating annual depreciation expense.

This communication is intended solely for the information and use of management, the board of trustees and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Officer CPA Firm LLC*

Springfield, MO  
June 15, 2011

[ Officer CPA Firm LLC ]

Certified Public Accountants

To the City Council  
Lebanon, Missouri

We have audited the cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon for the year ended October 31, 2010, and has issued our report thereon dated June 15, 2010. Professional standards require that we provide you with the following information related to our audit.

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with a modified cash basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

We received full cooperation from the City's personnel.

Professional standards require us to accumulate all known and likely misstatements identified during the audit and communicate them to the appropriate level of management. Management has corrected all such misstatements. None of the misstatements were material to the financial statements.

We had no disagreements with management on financial, accounting and reporting matters which would have a material impact on the City's basic financial statements.

We noted one material weaknesses in the City's internal control structure over federal grant programs.

We noted no indications of fraud.

We have requested certain representations from management that are included in the management representation letter.

We are aware of no situations where management has consulted with other accountants.

This information is intended solely for the use of the City Council and management of the City of Lebanon and is not intended to be and should not be used by anyone other than these specified parties.

Very truly Yours,

*Officer CPA Firm LLC*

June 15, 2011