

CITY OF LEBANON, MISSOURI

FINANCIAL STATEMENTS

FOR THE EIGHT MONTHS ENDED
JUNE 30, 2011

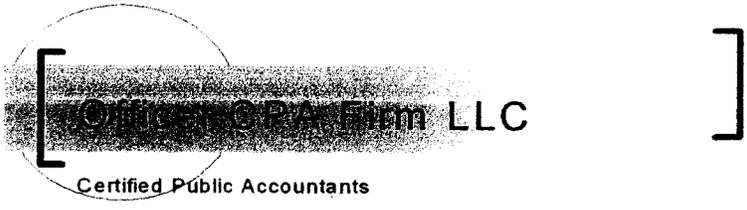
CITY OF LEBANON, MISSOURI
 Audit Report
 June 30, 2011

Table of Contents

	Page
Independent Auditor's Report	1 – 2
Management’s Discussion and Analysis (unaudited).....	3 – 11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis	12
Statement of Activities – Modified Cash Basis.....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis	14
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets – Modified Cash Basis	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities – Modified Cash Basis	17
Proprietary Funds:	
Statement of Net Assets – Modified Cash Basis	18
Statement of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis	19
Notes to the Basic Financial Statements.....	20 - 33
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund – Modified Cash Basis	34
Budgetary Comparison Schedule – Street Fund – Modified Cash Basis.....	35
Notes to Required Supplementary Information - Budget Comparisons	36

Other Supplementary Information:

Combining Balance Sheet – Modified Cash Basis – General Funds.....	37
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis– General Funds	38
Combining Balance Sheet – Modified Cash Basis – Internal Service Funds	39
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Modified Cash Basis – Internal Service Funds	40
Combining Balance Sheet – Modified Cash Basis – Proprietary Enterprise Funds ..	41 - 43
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Modified Cash Basis – Proprietary - Enterprise Funds	44 - 46
Combining Balance Sheet – Modified Cash Basis - Nonmajor Funds.....	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Nonmajor Funds	48



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 eight months ended June 30, 2011, 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 June 30, 2011, and the respective changes in financial position—modified cash basis, thereof for the period then ended in conformity with the basis of accounting described in Note 1.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 34 through 36 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 combining and individual nonmajor fund financial statements 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

January 24, 2012

Management Discussion and Analysis

This section of the City of Lebanon's annual financial report presents a review of the City's financial performance during the fiscal year that ended June 30, 2011. Reporting is in compliance with Government Accounting Standards Board (GASB) Statement Number 34, providing comparative information for the current and preceding fiscal years. Please read this in conjunction with the City's financial statements that follow this section.

Financial Highlights

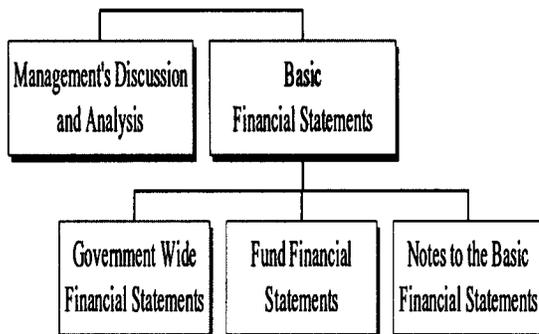
• <i>Phase six of Elm Street Improvements</i>	<i>\$484,596</i>
• <i>Purchase of six new Patrol Police Cars</i>	<i>\$145,222</i>
• <i>Improvements to the Cowan Civic Center</i>	<i>\$186,292</i>
• <i>Improvements to Fire Station One</i>	<i>\$15,521</i>
• <i>Upgrades to the Wastewater Treatment Facility</i>	<i>\$106,505</i>
• <i>Improvements to Copeland Warehouses</i>	<i>\$ 47,377</i>

Overview of Financial Statements

The implementation of GASB Statement No. 34 has changed the presentation and content of the financial statements. The financial reports consist of the management's discussion and analysis, the basic financial statements, required supplementary information and other supplementary information.

The primary focus of local government's financial statements prior to GASB Statement No. 34 had been to summarize fund type information on a current financial resource basis. The new basic financial statements include two kinds of statements that present different views of the City. The first statements are government-wide financials that provide both long-term and short-term information about the City's overall financial status. These statements are prepared on a full accrual basis of accounting to present information in a more corporate-like presentation on individual parts of the government. The remaining statements are the fund financials that focus on individual parts of the City government and report more detail.

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements in the basic financial statements are the government-wide financial statements (Statement of Net Assets and the Statement of Activities). The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The next statements are fund financial statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the fund financial statements: 1) the governmental funds statements; and 2) the proprietary funds statements.

The next section of the basic financial statements is the notes to the basic financial statements. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, required supplemental information is provided to show details about the City's performance relative to the budget. After the required supplemental information, supplemental information is provided to show details of the City's capital assets used in governmental activities.

Government-Wide Financial Statements

The government-wide financial statements present the financial picture of the City from the economic resources measurement focus using a modified cash basis of accounting. The statements present governmental activities and business type activities separately. These statements do not include certain infrastructure, but does state all known liabilities (including long-term debt). Additionally, certain elimination occurred as prescribed by the statement in regards to inter-fund activity, payables and receivables.

The statement of net assets and statement of activities, report the City's net assets and the resulting changes. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time increases and decreases in the City's net assets is one indicator of whether its financial health is improving or deteriorating. Other non-financial factors to consider are changes in the City's sales tax base and the condition of the City's capital assets (roads, buildings, and water and sewer lines) to assess the overall health of the City.

The statement of activities distinguishes the City's functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities).

Governmental activities - Most of the City's basic services are reported in this category, including General Fund, Capital Improvement, Street Fund and Special Revenue Fund. Sales taxes, franchise fees, user fees, interest income, and grants finance these activities.

Business-type activities – The City charges a fee to customers to cover most of the cost of services it provides. The Economic Development, Water, Sewer, Fiber and Electric Funds report this activity.

Fund Financial Statements

The City uses two types of funds to manage its resources: governmental funds and proprietary funds. A fund is a fiscal entity with a set of self-balancing accounts recording financial resources, together with all related current liabilities and residual equities and balances, and the changes therein. These

accounting entities are separated for the purpose of carrying on specific activities or attaining certain objectives in accordance with regulations, restrictions or limitations.

Governmental Funds – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified cash accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The relationships or differences of activities reported in the Governmental Fund Financial Statement versus that reported in the Government-Wide Financial Statements are explained in the reconciliation schedules following the Governmental Fund Financial Statements.

Proprietary Funds – When the City charges customers for the services it provides to cover the cost of operations, these activities are generally reported in enterprise funds. Enterprise funds are reported in the same way that all activities are reported in the statement of net assets and the statement of revenues, expenses, and changes in fund net assets. In fact, the City’s Enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information such as cash flows for Enterprise funds.

Notes to the Basic Financial Statements – The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning budgetary comparison schedules for the major governmental funds.

Government-Wide Financial Analysis

The largest portion of the City's net assets reflects its investment cash accounts. As of June 30, 2011 the City has not collected information on its capital assets.

NET ASSETS

The following table reflects the condensed Statement of Net Assets as of June 30, 2011

**City of Lebanon
Statement of Net Assets**

	Governmental Activities	Business-type Activities	June 30, 2011 Totals	October 31, 2010 Totals
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,024,527	\$10,212,048	\$13,236,575	\$13,332,982
Due from other funds		\$8,390,254	\$8,390,254	\$9,282,803
Restricted assets	\$982,777	\$1,515,087	\$2,497,864	\$2,865,494
Debt issuance cost, Net of Amortization		\$174,152	\$174,152	\$75,788
Equity interest in Joint venture		\$550,000	\$550,000	\$550,000
Total assets	\$4,007,304	\$20,841,541	\$24,848,845	\$26,107,067
<u>LIABILITIES</u>				
Current liabilities	\$4,523	\$823,561	\$828,084	\$1,157,865
Short-term debt	\$833,794	\$930,000	\$1,763,794	\$1,563,325
Due to other funds	\$175,735	\$8,214,519	\$8,390,254	\$9,282,803
Long-term debt	\$6,633,264	\$5,420,360	\$12,053,624	\$13,816,260
Total liabilities	\$7,647,316	\$15,388,440	\$23,035,756	\$25,820,253
<u>NET ASSETS</u>				
Unrestricted	\$(6,304,247)	\$5,453,101	\$(851,146)	\$(816,648)
Restricted	\$2,664,235		\$2,664,235	\$1,103,462
Total net assets	\$(3,640,012)	\$5,453,101	\$1,813,089	\$286,814

The City's combined net assets totaled \$1,813,089, an increase of \$1,526,275. Net assets of the City's governmental activities was \$(3,640,012) an increase of \$310,932 over FY 2010 and the business-type activities was \$5,453,101 an increase of \$1,215,344 over FY 2010. The unrestricted net assets were \$(6,304,247), an increase of \$(1,249,841) over FY 2010 for governmental activities and \$5,453,101, an increase of \$1,215,343 for business-type activities.

The following table reflects the condensed schedule of changes in net assets as of June 30, 2011

**City of Lebanon
Statement of Changes in Net Assets**

	Governmental Activities	Business- type Activities	June 30, 2011 Totals	Oct. 31, 2010 Totals
<u>REVENUES</u>				
Program revenue:				
Charges for services	\$507,891	\$19,133,449	\$19,641,340	\$29,861,097
Operating grants & contributions	\$37,388	\$24,098	\$61,486	\$1,578,374
Capital grants & contributions	\$330,694		\$330,694	
General revenue:				
Real Estate Taxes	\$1,060,276		\$1,060,276	\$1,065,638
Sales Tax	\$3,904,089		\$3,904,089	\$6,021,695
Franchise Tax	\$326,275		\$326,275	\$481,093
Other Taxes	\$411,739		\$411,739	\$628,018
PILOT	\$820,136		\$820,136	\$1,227,184
Interest and Investment Earnings	\$43,485	\$371,448	\$414,933	\$666,493
Miscellaneous	\$83,450		\$83,450	\$144,722
Total Revenues	\$7,525,423	\$19,528,995	\$27,054,418	\$41,674,314
<u>EXPENSES</u>				
Administration	\$989,646		\$989,646	\$1,218,247
Public Safety	\$2,935,000		\$2,935,000	\$4,955,443
Recreation	\$867,586		\$867,586	\$1,226,597
Transportation	\$1,410,789		\$1,410,789	\$2,221,921
Capital outlay	\$836,492		\$836,492	\$2,033,983
Economic Development	\$206,859		\$206,859	\$281,999
Interest on Long Term Debt	\$198,660		\$198,660	\$507,706
Electric		\$14,667,113	\$14,667,113	\$21,683,021
Water		\$1,407,003	\$1,407,003	\$1,379,051
Sewer		\$1,369,757	\$1,369,757	\$5,851,637
Economic Development		\$639,237	\$639,237	\$2,425,313
Total Expenses	\$7,445,032	\$18,083,110	\$25,528,142	\$43,784,918
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	\$80,391	\$1,445,885	\$1,526,276	\$(2,110,604)
TRANSFERS	\$230,541	\$(230,541)		
INCREASE (DECREASE) IN NET ASSETS	\$310,932	\$1,215,344	\$1,526,276	\$(2,110,604)
NET ASSETS, beginning of year	\$(3,950,944)	\$4,237,757	\$286,813	\$2,397,417
NET ASSETS, end of year	\$(3,640,012)	\$5,453,101	\$1,813,089	\$286,813

The following statement of activities shows the costs of each major activity of the City. The purpose of this statement is to measure gross expenses against charges for services and grants and other funding.

Net Costs of Lebanon’s Governmental Activities

	<u>Total Costs of Services</u>	<u>Net Costs of Services</u>
Administration	\$989,646	\$(902,679)
Public Safety	\$2,935,000	\$(2,477,795)
Recreation	\$867,586	\$(754,600)
Transportation	\$1,410,789	\$(1,342,491)
Capital outlay	\$836,492	\$(776,992)
Economic Development	\$206,859	\$(115,842)
Interest on Long Term Debt	\$198,660	\$(198,660)
*TOTAL	\$7,445,032	\$(6,569,059)

*For comparison in FY ending October 31, 2010 Total Cost of Services was \$12,347,300 and Net Cost of Services was \$(10,379,141).

Financial Analysis of the City’s Major Funds

As noted earlier, the City of Lebanon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

General Fund This fund is the chief governmental operating fund of the City of Lebanon. The General Fund includes the departments of Administration, Court, Emergency Management, Police, Fire, and Recycling. All of these activities are provided to, and benefit all of the citizens equally and equitably. This area tends to work on the quality of life and the protection of the citizens and assets of the citizens as a group. At the end of the current fiscal year, the total fund balance of the General Fund was \$397,006, a decrease of \$66,873 over the beginning balance of \$463,879. The unreserved general fund balance at year-end was \$397,006.

General Fund Budget Highlights

- Total actual budgeted revenue was \$4,223,021 and actual revenue was \$4,294,641 a difference of \$71,620.
- Actual expenditures were under the budgeted amount by \$644,684.
- Excess of actual expenditures over actual revenues was \$(66,873).

Transportation Fund This Fund is established pursuant to the Missouri Constitution Article IV, Section 30(a) (2) [State Gas Tax], Revised Missouri Statutes 94.745 (City ½ cent sales tax). It is used for Transportation purposes within the City of Lebanon. This Fund provides for the maintenance and expansion of transportation needs of our citizens. Included in this Fund are repair and maintenance of existing public road system, upgrades to local transportation system. At the end of the current fiscal year

the total fund balance of the Transportation Fund was \$424,733, a decrease of \$118,481 over the beginning balance of \$543,214. The unreserved Transportation Fund balance at year-end was \$424,733.

Capital Improvement Tax Fund This Fund is established as required under the Revised Missouri Statutes 94.577. The monies collected here are from the ½ cent general sales tax. These funds are used for capital infrastructure and recreational projects. The pool, and City Hall improvements maintenance and repayment of the aquatic center financing are also paid from the Capital Improvement Tax Fund. At the close of the current fiscal year, the City of Lebanon’s capital improvement fund reported an ending fund balance of \$1,952,080, a decrease of \$345,045 over the beginning balance of \$2,297,125. The unrestricted Capital Improvement Fund balance at year-end was \$1,952,080.

Other Governmental Funds These Funds are made of the non-major funds of the City. The Cowan Civic Center, Lodging Tax (Tourism), Subdivision Development, CDBG Projects, Crime Victims Comp, Police Officers Training, Police Trust, Airport, Downtown Business District, Mills Park, Nelson Community Center, Parks and Recreation. The funds combined have a beginning fund balance of \$271,780 and an ending fund balance of \$287,422 an increase of \$15,642. Funds of greater significance beginning and ending balances are listed below.

Fund	Fund Balance	Fund Balance
	October 31, 2010	June 30, 2011
Airport	\$(105,242)	\$(100,324)
Cowan Civic Center	\$11,967	\$
	Special Revenue Funds	
Downtown Business District	\$(63,455)	\$(66,791)
Lodging Tax	\$26,873	\$
Park and Recreation	\$176,717	\$380,801

Proprietary Funds

Electric Fund The Electric Fund, is made up of the Operating, Reserve, Fiber Operations, Debt Service and Capital Projects, is based on a User Fee system where the individuals and businesses utilizing the service pay a fee based upon a portion of the estimated cost of operation of the Electric Fund. At the end of the current fiscal year, the total net assets of the Electric Fund were \$16,893,829 an increase of \$803,265 over the beginning balance of \$16,090,564. The unrestricted Electric Fund balance at year-end was \$16,893,829.

Water Fund The Water Fund is based on a User Fee system where the individuals and businesses utilizing the service pay a fee based upon a portion of the estimated cost of operation of the Water Fund. At the end of the current fiscal year, the total net assets of the Water Fund were \$506,316, an increase of \$169,029 over the beginning balance of \$337,287. The unrestricted Water and Sewer Fund balance at year-end was \$506,316.

Sewer Fund The Sewer Fund is based on a User Fee system where the individuals and businesses utilizing the service pay a fee based upon a portion of the estimated cost of operation of the Sewer Fund. At the end of the current fiscal year, the total net assets of the Sewer Fund were \$(3,768,713), a decrease of \$200,211 over the beginning balance of \$(3,568,713). The unrestricted Water and Sewer Fund balance at year-end was \$(3,768,713).

Economic Development The Economic Development Fund is based on a rents received, and a PILOT from the metered service funds. At the end of the current fiscal year, the total net assets of the Economic Development Fund were \$(8,178,331), an increase of \$443,561 over the beginning balance of \$(8,621,592). The unrestricted Fund balance at year-end was \$(8,178,331).

Internal Service Funds These Funds are made of the internal services to the City. These departments provide services not related to a fund. These include Building and Ground, Garage, Tech Services, Purchasing, Public Works and Public Works Administration, and Infrastructure Maintenance. The funds combined do not maintain a fund balance; therefore do not have a beginning or ending fund balance.

Employee Benefits fund is based on premiums collected through payroll deductions. This fund manages the city's health insurance program along with other benefits provided by the City. It does hold a fund balance, as it collects revenue through premiums and pays claims and other liabilities. The fund had a beginning fund balance of \$621,159 and an ending fund balance of \$765,805 an increase of \$144,646. The City did make some plan changes in Fiscal Year 2010 which led to the increase in the fund balance.

Capital Asset and Debt Administration

Long Term Contracts

The City of Lebanon as a member of the Missouri Joint Municipal Utility Commission (MJMEUC) has a long term agreement to purchases its full energy requirements, but does not have any ownership in MJMEUC resources. In the event the City would cancel its agreement the City would be remain responsible for its allocated share of MJMEUC's Direct Cost associated with all resources obligations entered into by MJMEUC for MOPEP prior to the notice of cancellation.

Capital Asset

The City of Lebanon did not book any Capital Assets as of June 30, 2011.

Debt Administration

At the end of the current fiscal year, the City of Lebanon had \$13,787,057 in outstanding debt consisting of revenue bonds, capital leases, notes payable and Certificates of Participation 1999, 2003, 2008, 2010 (COP). All of the debt was secured by specific revenue sources. The City of Lebanon has due within one year a total of \$1,763,794 of outstanding obligations.

**City of Lebanon Outstanding Debt
June 30, 2011**

Governmental Activities	
Certificates of Participation – Series 2008	\$7,425,000
Lease/Purchase Agreements- Star Loan	\$42,057
<hr/> Total Governmental Activities	<hr/> \$7,467,057
Business-type Activities	
Certificates of Participation – Series 1999	\$1,025,000
Certificates of Participation – Series 2003	\$305,000
Certificates of Participation – Series 2010A	\$1,895,000
Certificates of Participation – Series 2010B	\$3,095,000
<hr/> Total Business-type Activities	<hr/> \$6,320,000
<hr/> TOTAL INDEBTEDNESS	<hr/> \$13,787,057

Economic Factors and next Year's Budget and Rates

In the Fiscal Year 2012 budget, the City of Lebanon will continue to plan for flat revenue and will be working toward increasing the fund balances that are under thirty percent of operating revenues. The City of Lebanon will work to better explain the operating cost of all departments. We will also be better assigning expenses to funds with operating revenues. The City will also begin the process of managing fixed assets. The City of Lebanon will be increasing Sewer rates in Fiscal Year 2012 as a result of the 2010 debt issuance.

Request for Information

This financial report is designed to provide the reader a general overview to the City's finances. Questions or requests for more information concerning any of the information provided in this report should be directed to the Offices of City Clerk and Finance, 401 South Jefferson, Lebanon, MO 65536 or visit us on the web at www.lebanonmo.org .

CITY OF LEBANON, MISSOURI
Government-wide Statement of Net Assets - Modified Cash Basis
June 30, 2011 with Comparative Data

	Governmental Activities	Business-Type Activities	Total June 30, 2011	Total October 31, 2010
ASSETS				
Cash and cash equivalents	\$ 3,024,527	\$ 10,212,048	\$ 13,236,575	13,332,982
Due from Other Funds		8,390,254	8,390,254	9,282,803
Restricted Assets:				
Investments	982,777	1,515,087	2,497,864	2,865,494
Non-current assets:				
Debt issuance costs, net of amortization		174,152	174,152	75,788
Equity interest in joint venture		550,000	550,000	550,000
TOTAL ASSETS	<u>4,007,304</u>	<u>20,841,541</u>	<u>24,848,845</u>	<u>26,107,067</u>
LIABILITIES				
Current liabilities				
Accrued expenses	4,523	80,196	84,719	105,744
Customer deposits		743,365	743,365	731,288
Short-term debt			-	320,833
Current portion of long-term debt	833,794	930,000	1,763,794	1,563,325
Due to other funds	175,735	8,214,519	8,390,254	9,282,803
Long-term liabilities, net of current portion				
Long-term debt	6,633,264	5,390,000	12,023,264	13,781,169
Unamortized deferred gain on early retirement of debt		30,360	30,360	35,091
TOTAL LIABILITIES	<u>7,647,316</u>	<u>15,388,440</u>	<u>23,035,756</u>	<u>25,820,253</u>
NET ASSETS				
Unrestricted	(6,304,247)	5,453,101	(851,146)	(816,648)
Restricted	2,664,235		2,664,235	1,103,462
TOTAL NET ASSETS	<u>\$ (3,640,012)</u>	<u>\$ 5,453,101</u>	<u>\$ 1,813,089</u>	<u>\$ 286,814</u>

CITY OF LEBANON, MISSOURI

Government-wide Statement of Activities - Modified Cash Basis
Eight Months Ended June 30, 2011 with Comparative Data

Program Activities	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Comparative Data October 31, 2010
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:								
Administration	\$ 989,646	\$ 70,295	\$ 16,672	223,870	\$ (902,679)	\$	\$ (902,679)	\$ (1,171,144)
Public safety	2,935,000	233,335			(2,477,795)		(2,477,795)	(3,654,180)
Recreation	867,586	112,986		47,324	(754,600)		(754,600)	(1,016,668)
Transportation	1,410,789	20,974		59,500	(1,342,491)		(1,342,491)	(2,103,304)
Capital outlay	836,492				(776,992)		(776,992)	(1,903,317)
Economic development	206,859	70,301	20,716		(115,842)		(115,842)	(121,418)
Interest on long-term debt	198,660				(198,660)		(198,660)	(409,110)
Total governmental activities	7,445,032	507,891	37,388	330,694	(6,569,059)	-	(6,569,059)	(10,379,141)
Business-Type activities								
Electric	14,667,113	15,363,941			696,828		696,828	1,843,311
Water	1,407,003	1,555,457			148,454		148,454	908,417
Sewer	1,369,757	1,256,125	24,098		(89,534)		(89,534)	(3,978,757)
Economic development	639,237	957,926			318,689		318,689	(739,277)
Total Business-Type activities	18,083,110	19,133,449	24,098	-	1,074,437		1,074,437	(1,966,306)
Total primary government	\$ 25,528,142	\$ 19,641,340	\$ 61,486	\$ 330,694	(6,569,059)	1,074,437	(5,494,622)	(12,345,447)
General Revenues:								
Taxes					6,522,515		6,522,515	9,423,628
Interest and investment earnings					43,485	371,448	414,933	666,493
Miscellaneous					83,450		83,450	144,722
Transfers in (out)					230,541	(230,541)	-	-
Total General Revenues					6,879,991	140,907	7,020,898	10,234,843
Change in Net Assets					310,932	1,215,344	1,526,276	(2,110,604)
Net Assets at Beginning of Year					(3,950,944)	4,237,757	286,813	2,397,417
Net Assets at End of Year					\$ (3,640,012)	\$ 5,453,101	\$ 1,813,089	\$ 286,813

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI
 Balance Sheet - Modified Cash Basis
 Governmental Funds
 June 30, 2011 with Comparative Data

	General	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds June 30, 2011	Comparative Data October 31, 2010
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	\$ 401,516	\$ 969,303	\$ 424,733	\$ 463,170	\$ 2,258,722	\$ 3,062,297
Restricted Assets:						
Investments		982,777			982,777	1,103,462
TOTAL ASSETS	\$ 401,516	\$ 1,952,080	\$ 424,733	\$ 463,170	\$ 3,241,499	\$ 4,165,759
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accrued expenses	\$ 4,510			\$ 13	4,523	\$ 13,978
Due to other funds				175,735	175,735	575,783
TOTAL LIABILITIES	4,510	-	-	175,748	180,258	589,761
FUND BALANCES:						
Unassigned	397,006				397,006	2,472,536
Assigned		1,952,080	424,733	287,422	2,664,235	1,103,462
TOTAL FUND BALANCES	397,006	1,952,080	424,733	287,422	3,061,241	3,575,998
TOTAL LIABILITIES AND FUND BALANCES	\$ 401,516	\$ 1,952,080	\$ 424,733	\$ 463,170	\$ 3,241,499	\$ 4,165,759

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

Eight Months Ended June 30, 2011 with Comparative Data

	June 30, 2011	October 31, 2010
Total fund balances - governmental funds	\$ 3,061,241	\$ 3,575,998
<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	765,805	742,552
Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(7,467,058)	(8,269,494)
Net assets of governmental activities	<u>\$ (3,640,012)</u>	<u>\$ (3,950,944)</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

Eight Months Ended June 30, 2011 with Comparative Data

	General Fund	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds June 30, 2011	Comparative Data Oct. 31, 2010
Revenues						
Taxes	\$ 3,700,525	\$ 954,186	\$1,258,526	\$ 609,278	\$ 6,522,515	\$ 9,423,628
Charges for services	5,233			212,857	218,090	513,509
Intergovernmental revenue	240,542	\$ 59,500	34,989	33,051	368,082	1,093,102
License and permits	65,062				65,062	34,131
Fines and court costs	224,739				224,739	327,417
Investment income	4,485	39,000			43,485	62,520
Other	54,055		16,571	12,824	83,450	144,722
Total Revenues	4,294,641	1,052,686	1,310,086	868,010	7,525,423	11,599,029
Expenditures						
Administration	1,069,435				1,069,435	1,192,769
Public safety	2,826,805			6,749	2,833,554	4,842,055
Recreation				785,693	785,693	1,052,992
Transportation			630,482	51,453	681,935	1,175,510
Capital outlay		613,510		121,978	735,488	1,659,890
Economic development				164,095	164,095	260,409
Debt Service:						
Principal payments		785,000		17,437	802,437	777,717
Interest and agent fees		197,631		1,029	198,660	409,110
Total Expenditures	3,896,240	1,596,141	630,482	1,148,434	7,271,297	11,370,452
Excess (Deficit) of Revenues Over Expenditures	398,401	(543,455)	679,604	(280,424)	254,126	228,577
Other Financing Sources (Uses)						
Transfers in (out)	(465,274)	198,410	(798,085)	296,066	(768,883)	(1,769,674)
Debt proceeds					-	-
Total Other Financing Sources (Uses)	(465,274)	198,410	(798,085)	296,066	(768,883)	(1,769,674)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(66,873)	(345,045)	(118,481)	15,642	(514,757)	(1,541,097)
Beginning Fund Balance	463,879	2,297,125	543,214	271,780	3,575,998	5,117,095
Ending Fund Balance	\$ 397,006	\$1,952,080	\$ 424,733	\$ 287,422	\$ 3,061,241	\$ 3,575,998

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
Eight Months Ended June 30, 2011 with Comparative Data

	<u>June 30, 2011</u>	<u>October 31, 2010</u>
Net change in fund balances - total governmental funds	\$ (514,757)	\$ (1,541,097)
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	23,253	33,356
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.	802,436	777,717
Changes in net assets of governmental activities	<u>\$ 310,932</u>	<u>\$ (730,024)</u>

CITY OF LEBANON, MISSOURI
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2011 with Comparative Data

	Business-Type Activities - Enterprise Funds				Internal Service Funds	Totals	Totals
	Electric	Water	Sewer	Economic Development			
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 8,794,291	\$ 1,234,405	\$ 222,164	\$ (38,812)	\$ 765,805	\$ 10,212,048	\$ 10,278,885
Due from Other Funds	8,315,254			\$ 75,000		8,390,254	9,282,801
Restricted assets:							
Investments	674,840	527,231	313,016			1,515,087	1,762,032
Total current assets	17,784,385	1,761,636	535,180	36,188	765,805	20,117,389	21,323,718
Noncurrent assets:							
Debt issuance costs, net of amortization		18,896	155,256			174,152	75,788
Equity interest in joint venture	550,000					550,000	550,000
Total noncurrent assets	550,000	18,896	155,256	-	-	724,152	625,788
TOTAL ASSETS	18,334,385	1,780,532	690,436	36,188	765,805	20,841,541	21,949,506
LIABILITIES							
Current liabilities:							
Current portion of long term debt	630,000	31,915	268,085			930,000	754,999
Accrued expenses	80,196					80,196	99,964
Short term debt						-	320,833
Meter deposits payable		743,365				743,365	731,288
Total current liabilities	710,196	775,280	268,085	-	-	1,753,561	1,907,084
Noncurrent liabilities:							
Due to other funds				8,214,519		8,214,519	8,707,020
Unamortized deferred gain							
on early retirement of debt	30,360					30,360	35,091
Long term debt	700,000	498,936	4,191,064			5,390,000	6,320,001
Total noncurrent liabilities	730,360	498,936	4,191,064	8,214,519		13,634,879	15,062,112
TOTAL LIABILITIES	1,440,556	1,274,216	4,459,149	8,214,519	-	15,388,440	16,969,196
NET ASSETS							
Unrestricted	16,893,829	506,316	(3,768,713)	(8,178,331)	765,805	5,453,101	4,980,310
TOTAL NET ASSETS	\$ 16,893,829	\$ 506,316	\$ (3,768,713)	\$ (8,178,331)	\$ 765,805	\$ 5,453,101	\$ 4,980,310

See accompanying notes to the financial statements.

CITY OF LEBANON, MISSOURI

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

Eight Months Ended June 30, 2011 with Comparative Data

	Business -Type Activities - Enterprise Funds						Internal Service Funds	Totals June 30, 2011	Totals Oct. 31, 2010
	Economic			Storm					
	Electric	Water	Sewer	Development	Water	Totals			
Operating revenues									
Charges for services	\$15,340,760	\$1,502,850	\$1,222,433	\$952,300	\$	\$19,018,343	\$21,085,513	\$32,518,630	
Intergovernmental revenues						-	32,654		
Miscellaneous	23,181	52,607	33,692	5,626		115,106	133,145	131,295	
Total operating revenues	15,363,941	1,555,457	1,256,125	957,926	-	19,133,449	21,251,312	32,649,925	
Operating expenses:									
Personnel costs	699,040		328,714			1,027,754	2,929,560	5,441,675	
Operation and maintenance	13,652,382	943,637	416,931		2,358	15,015,308	2,306,612	24,903,606	
Economic development				503,126		503,126	503,126	2,094,308	
Total operating expenses	14,351,422	943,637	745,645	503,126	2,358	16,546,188	4,208,418	32,439,589	
Operating income (loss)	1,012,519	611,820	510,480	454,800	(2,358)	2,587,261	(2,090,555)	210,336	
Non-Operating revenues (expenses)									
Interest income	62,674	2,903	3,738			69,315	69,315	137,452	
Interest income from internal loans	302,133					302,133	302,133	466,521	
Intergovernmental revenue	(75,859)		24,098			24,098	24,098	497,589	
Capital outlay			(197,636)			(273,495)	(273,495)	(4,431,318)	
Debt service:									
Interest and agent fees	(45,979)	(10,964)	(92,100)			(149,043)	(149,043)	(98,596)	
Total non-operating revenues (expenses)	242,969	(8,061)	(261,900)	-	-	(26,992)	(26,992)	(3,428,352)	
Income (loss) before transfers	1,255,488	603,759	248,580	454,800	(2,358)	2,560,269	(2,090,555)	(3,218,016)	
Operating transfers in (out)	(452,223)	(434,730)	(448,791)	(11,539)	2,358	(1,344,925)	2,113,808	1,769,675	
Change in net assets	803,265	169,029	(200,211)	443,261	-	1,215,344	23,253	(1,448,341)	
Net assets at the beginning of year	16,090,564	337,287	(3,568,502)	(8,621,592)	-	4,237,757	742,552	6,428,650	
Net assets at end of year	\$16,893,829	\$506,316	\$(3,768,713)	\$(8,178,331)	\$-	\$5,453,101	\$765,805	\$4,980,309	

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies

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.

In defining the reporting entity for financial reporting purposes, management has considered potential component units by applying criteria set forth in Statement 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," as amended by Statement 39 of the Governmental Accounting Standards Board, "Determining Whether Certain Organizations are Component Units." For financial reporting purposes, the City includes all funds, agencies, boards, commissions and authorities that are controlled by or dependent on the City.

For the period ending June 30, 2011, the city council changed the year-end from October to June; therefore, these financial statements are for the short period of November 1, 2010 to June 30, 2011.

Government-Wide and Fund Financial Statements

In March 2009, the Governmental Accounting Standards Board (GASB) issued Statements No. 54 – *Fund Balance Reporting and Government Fund Type Definitions*. This Statement establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures. The City has implemented this standard effective November 1, 2010.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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.

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.

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.

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

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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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.

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.

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.

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.

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.

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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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.

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.

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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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 five years and are classified as "due to/from other funds" on the balance sheet.

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.

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.

Interfund Transactions

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

Fund Equity

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

constraints imposed by formal resolutions or ordinances of the city council - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the city council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The city councilmen have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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.

Debt Costs

In the proprietary funds, Debt issuance costs are included in noncurrent assets and are capitalized and amortized on a straight-line basis over the life of the bonds.

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 June 30, 2011 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		
Debt Reserve Funds	982,777	982,777
	982,777	982,777

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

Enterprise Fund Types

The cash and net assets have been restricted as follows:

	Restricted Investments	Restricted Net Assets
Electric Fund Debt Reserve	674,840	
Sewer project funds	83,357	
Sewer debt reserve funds	229,659	
Subtotal	313,016	
Water project funds	499,890	
Water debt reserve funds	27,341	
Subtotal	527,231	
Total	\$ 1,515,087	\$ -

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 June 30, 2011	
	Carrying Amounts	Bank Balance
Petty cash accounts	\$ 2,085	\$ -
U.S. Government Agency securities	\$ 7,491,385	7,491,385
Checking & money mkt accounts	5,743,105	5,807,508
Total	\$ 13,236,575	\$ 13,298,893
Held in Trust:		
U.S. Government Agency securities and bonds	2,497,863	2,497,863
Total Held in Trust	\$ 2,497,863	\$ 2,497,863
Grand Total	\$ 15,734,438	\$ 15,796,756

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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.

Of the total bank balance at June 30, 2011, \$5,807,508 was covered by federal depositary insurance or by collateral securities held by the Custodial bank’s safekeeping agent in the City’s name. The remaining \$9,989,248 was invested in U.S. Government securities.

To protect the safety of the City deposits, Section 110.020, RSMo 1986, requires depositaries 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 depositary 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 depositaries. The City does have formal depositary 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. Long-Term Debt

The following is a summary of the City’s long-term debt transactions for the eight months ended June 30, 2011:

	Long-term obligations at November 1, 2010	Additions	Deletions	Long-term obligations at June 30, 2011	Due within one year
Governmental Activities					
Bonds and notes payable:					
Airport (STAR) note payable	\$ 59,494		\$ 17,437	\$ 42,057	\$ 23,794
2008 Certificates of participation	8,210,000		785,000	7,425,000	810,000
Governmental activities long-term liabilities	<u>\$ 8,269,494</u>	<u>\$ -</u>	<u>\$ 802,437</u>	<u>\$ 7,467,057</u>	<u>\$ 833,794</u>
Business-type Activities					
Bonds and notes payable:					
2003 Electric Certificates of participation	\$ 600,000		\$ 295,000	\$ 305,000	\$ 305,000
1999 Electric Certificates of participation	1,335,000		310,000	1,025,000	325,000
2010A Water/Sewer Certificates of participation	2,045,000		150,000	1,895,000	300,000
2010B Water/Sewer Certificates of participation	3,095,000		-	3,095,000	-
Business-type activities long-term liabilities	<u>\$ 7,075,000</u>	<u>\$ -</u>	<u>\$ 755,000</u>	<u>\$ 6,320,000</u>	<u>\$ 930,000</u>

Governmental Activities

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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 June 30	Principal	Interest	Total
2012	23,794	830	24,624
2013	18,263	205	18,468
	\$ 42,057	\$ 1,035	\$ 43,092

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 June 30, 2011:

Year Ending June 30,	Principal	Interest	Total
2012	810,000	359,240	1,169,240
2013	850,000	325,220	1,175,220
2014	885,000	287,820	1,172,820
2015	925,000	247,110	1,172,110
2016	965,000	202,710	1,167,710
2017	1,020,000	154,460	1,174,460
2018	1,970,000	102,440	2,072,440
	\$ 7,425,000	\$ 1,679,000	\$ 9,104,000

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 June 30, 2011:

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

Year Ending October 31,	2003		1999		2010		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	305,000	5,414	325,000	50,260	300,000	202,550	930,000	258,224
2013			340,000	34,660	305,000	198,050	645,000	232,710
2014			360,000	18,000	310,000	192,255	670,000	210,255
2015					320,000	185,435	320,000	185,435
2016					325,000	177,755	325,000	177,755
2017-2025					3,430,000	941,642	3,430,000	941,642
Total	\$ 305,000	\$ 5,414	\$ 1,025,000	\$ 102,920	\$ 4,990,000	\$ 1,897,687	\$ 6,320,000	\$ 2,006,021

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

\$3,095,000 of the 2010 Certificates of Participation Bonds were issued through the Build America Bonds program that provide a 35% federal subsidy on the total interest requirements. The subsidy is paid to the City semi-annually once the debt service payments are paid.

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.

5. 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.

6. 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 \$2,062,779 aggregate and \$60,000 individually. The City retains risk of loss up to these deductibles. No claims liabilities are recorded since the City reports it financial statements using the cash basis method. At June 30, 2011, \$705,865 is available in cash to cover claims.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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.

7. 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 30th statutorily required contribution rates are 13.0% (general), 10.7% (police) and 8.7% (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	\$ 669,608
Interest on net pension obligation	-
Adjustment to annual required contributor	-
Annual pension cost	<u>669,608</u>
Actual contributions	<u>630,771</u>
Increase (decrease) in NPO	38,837
NPO beginning of year	-
NPO end of year	<u><u>\$ 38,837</u></u>

The annual required contribution (ARC) was determined as part of the February 28, 2009 annual actuarial valuation using the entry age actuarial cost method. The actuarial

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

assumptions as of February 28, 2011 included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.50% 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 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 105% of the 1994 Group Annuity Mortality table set back 0 year for men and 0 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 an open basis. The amortization period as of February 28, 2009, was 27 years for the General division, 30 years for the Police division and 30 years for and 30 years for the Fire division.

Three-Year Trend Information			
Fiscal Year	Annual Pension	Percentage of APC	Net Pension
<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
2009	597,061	100%	-
2010	576,881	100%	-
2011	669,608	94%	38,837

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a Percentage of Covered
2/28/2009	4,859,576	8,905,573	4,045,997	55%	5,201,409	78%
2/28/2010	5,201,741	8,803,662	3,601,921	59%	5,068,313	71%
2/28/2011	5,761,622	9,711,277	3,949,655	59%	5,395,231	73%

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, 2011 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

8. 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 OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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 investor. Amounts on deposit with Nationwide Financial Company for the City of Lebanon participants at June 30, 2011 were approximately \$1,835,952.

9. Deficit Fund Balance

At the eight months ended, the following funds experienced deficit fund balances/retained earnings due to inter-fund loans and/or lack of capitalizing property, plant and equipment.

Fund	Deficit Fund Balance/ Retained Earnings
Sewer	\$ (3,768,713)
Airport	(100,324)
Downtown Business Distric	(66,791)
Economic Development	(8,178,331)

10. Interfund Loans

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

Receivable Fund	Payable Fund	Amount	Project	Due
Electric Reserve	Economic Development	\$ 1,145,122	Dowco Building	2026
Electric Reserve	Economic Development	3,054,415	Copeland Building	2016
Electric Reserve	Airport	100,735	Hangers	2020
Electric Reserve	Economic Development	3,889,982	Detroit Tool Building	2025
Electric Reserve	Economic Development	125,000	Homestead Building	2016
Economic Development	Downtown Business Dist	75,000	Land Purchase	2019
		\$ 8,390,254		

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

11. 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

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2011

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 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

Eight Months Ended June 30, 2011

	Original Budget	Budget as Amended	Actual	Variance from amended Positive (Negative)
Resources (inflows):				
Taxes	\$ 3,691,050	\$ 3,691,050	\$ 3,700,525	\$ 9,475
Charge for services	\$ 2,450	\$ 2,450	\$ 5,233	2,783
Intergovernmental revenue	267,121	267,121	240,542	(26,579)
License and permits	19,500	19,500	65,062	45,562
Fines and forfeitures	206,200	206,200	224,739	18,539
Interest income	17,800	17,800	4,485	(13,315)
Miscellaneous income	18,900	18,900	54,055	35,155
Total Resources (inflows)	4,223,021	4,223,021	4,294,641	71,620
Charges to appropriations (outflows):				
Public safety	2,704,576	3,132,380	2,826,805	305,575
Administration	1,167,938	1,258,541	1,069,435	189,106
Total charges to appropriations	3,872,514	4,390,921	3,896,240	494,681
Other Financing Sources (Uses)				
Transfers in (out)	(267,897)	(615,277)	(465,274)	150,003
Total Other Financing Sources (Uses)	(267,897)	(615,277)	(465,274)	150,003
Net Change in Fund Balances	82,610	(783,177)	(66,873)	716,304
Fund Balance, November 1	463,879	463,879	463,879	-
Fund Balance, June 30	\$ 546,489	\$ (319,298)	\$ 397,006	\$ 716,304

CITY OF LEBANON, MISSOURI
 Budgetary Comparison Schedule - Major Special Revenue Funds - Modified Cash Basis
 Eight Months Ended June 30, 2011

Street Fund	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance from Amended Positive (Negative)</u>
Resources (inflows):				
Taxes	\$ 1,238,500	\$ 1,238,500	\$ 1,258,526	\$ 20,026
Intergovernmental	450,000	450,000	34,989	(415,011)
Other			16,571	16,571
Total resources	<u>1,688,500</u>	<u>1,688,500</u>	<u>1,310,086</u>	<u>(378,414)</u>
Charges to appropriations (outflows):				
Transportation	720,200	813,605	630,482	183,123
Total charges to appropriations	<u>720,200</u>	<u>813,605</u>	<u>630,482</u>	<u>183,123</u>
Other Financing Sources (Uses)				
Transfer in (out)	(1,272,548)	(1,453,414)	(798,085)	655,329
Total Other Financing Sources (Uses)	<u>(1,272,548)</u>	<u>(1,453,414)</u>	<u>(798,085)</u>	<u>655,329</u>
Net Change in Fund Balance	(304,248)	(578,519)	(118,481)	460,038
Beginning Fund Balance	543,214	543,214	543,214	-
Ending Fund Balance	<u>\$ 238,966</u>	<u>\$ (35,305)</u>	<u>\$ 424,733</u>	<u>\$ 460,038</u>

CITY OF LEBANON, MISSOURI

Notes to the Required Supplementary Information - Budget Comparisons

June 30, 2011

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. 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.

4. Negative Fund Balance

The amended budget for the Street Fund and the Combined General Fund reported negative fund balances of \$319,298 and \$35,305 because revenues were not amended when the expenses were increased.

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 General Funds
 June 30, 2011 with Comparative data

	General	Court	Emergency Mgt	Fire	Police	Recycling	Admin.	June 30, 2011 Totals	October 31, 2010 Totals
ASSETS									
Unrestricted Assets:									
Cash and cash equivalents	\$ 376,460	\$ 25,056	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 401,516	\$ 477,071
TOTAL ASSETS	\$ 376,460	\$ 25,056	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 401,516	\$ 477,071
LIABILITIES									
Accrued expenses	1707	2803						4,510	13,192
EQUITY:									
Fund balance:									
Unassigned	\$ 374,753	\$ 22,253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 397,006	\$ 463,879
TOTAL LIABILITIES AND EQUITY	\$ 376,460	\$ 25,056	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 401,516	\$ 477,071

CITY OF LEBANON, MISSOURI
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
 General Funds
 Eight Months Ended June 30, 2011

	General	Court	Emergency Mgt	Fire	Police	Recycling	Admin.	June 30, 2011 Total	October 31, 2010 Total
REVENUES									
Taxes	\$ 3,700,525							\$3,700,525	\$ 5,354,025
Intergovernmental revenue			\$	\$ 59,375	\$ 164,495	\$16,672		240,542	968,524
Charge for services					\$ 4,458	\$ 775		5,233	12,972
Licenses and permits	65,062							65,062	34,131
Fines and court costs	1,860	222,879						224,739	327,417
Investment earnings	4,304	181						4,485	23,520
Other	40,533			2,402	7,884		\$ 3,236	54,055	58,936
TOTAL REVENUES	3,812,284	223,060	-	61,777	176,837	17,447	3,236	4,294,641	6,779,525
EXPENDITURES									
Public safety		243,907	8,569	968,508	1,605,821			2,826,805	4,827,855
Administration	280,298					16,337	772,800	1,069,435	1,192,769
TOTAL EXPENDITURES	280,298	243,907	8,569	968,508	1,605,821	16,337	772,800	3,896,240	6,020,624
EXCESS OF REVENUE OVER (UNDER)									
EXPENDITURES	3,531,986	(20,847)	(8,569)	(906,731)	(1,428,984)	1,110	(769,564)	398,401	758,901
OTHER FINANCING SOURCES (USES)									
Operating transfers in (out)	(3,504,929)	43,100	8,569	906,731	1,421,755	(2,174)	661,674	(465,274)	(655,340)
Total Other Financing Sources (Uses)	(3,504,929)	43,100	8,569	906,731	1,421,755	(2,174)	661,674	(465,274)	(655,340)
EXCESS OF REVENUES AND									
OTHER SOURCES OVER (UNDER)	27,057	22,253	-	-	(7,229)	(1,064)	(107,890)	(66,873)	103,561
EXPENDITURES AND OTHER USES									
FUND BALANCE, Beginning of Period	347,696	-	-	-	7,229	1,064	107,890	463,879	360,318
FUND BALANCE, End of Period	\$ 374,753	\$ 22,253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 397,006	\$ 463,879

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Internal Service Funds
 June 30, 2011 with Comparative Data

	Buildings Grounds	Garage	Tech Services	Purchasing Warehouse	Public Works Admin	Community Develop.	Employee Benefits	Public Works	June 30, 2011 Totals	October 31, 2010 Totals
ASSETS										
Unrestricted Assets:										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 765,805	\$ -	\$ 765,805	\$ 750,752
TOTAL ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 765,805	\$ -	\$ 765,805	\$ 750,752
LIABILITIES										
Accrued expenses									-	8,200
NET ASSETS										
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 765,805	\$ -	\$ 765,805	\$ 742,552
TOTAL NET ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 765,805	\$ -	\$ 765,805	\$ 742,552

CITY OF LEBANON, MISSOURI
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
 Internal Service Funds
 Eight Months Ended June 30, 2011 with Comparative Data

	Buildings			Tech		Purchasing & Warehouse		Public Works		Community Develop.	Employee Benefits	Public Works	Infrastructure Maintenance	June 30, 2011		October 31, 2010	
	Grounds	Garage	Services	Services	Warehouse	Admin	Works	Total	Total								
REVENUES																	
Charge for services										\$ 20,188	\$ 2,046,982			\$ 2,067,170	\$ 3,600,913		
Intergovernmental revenues														32,654	12,317		
License and permits														-	27,725		
Other	4,792	927	2,993	2,993	751	575				3,577	\$ 4,424			18,039	35,247		
TOTAL REVENUES	<u>4,792</u>	<u>927</u>	<u>2,993</u>	<u>2,993</u>	<u>751</u>	<u>33,229</u>				<u>23,765</u>	<u>2,046,982</u>			<u>2,117,863</u>	<u>3,676,202</u>		
EXPENDITURES																	
Operations and maintenance	361,894	84,999	406,458	43,426	43,426	263,973				116,028				343,779	2,306,612	3,336,732	
Employee benefits											1,901,806				1,901,806	3,678,022	
TOTAL EXPENDITURES	<u>361,894</u>	<u>84,999</u>	<u>406,458</u>	<u>43,426</u>	<u>43,426</u>	<u>263,973</u>				<u>116,028</u>	<u>1,901,806</u>			<u>343,779</u>	<u>4,208,418</u>	<u>7,014,754</u>	
EXCESS OF REVENUE OVER (UNDER)																	
EXPENDITURES	<u>(357,102)</u>	<u>(84,072)</u>	<u>(403,465)</u>	<u>(42,675)</u>	<u>(42,675)</u>	<u>(230,744)</u>				<u>(92,263)</u>	<u>145,176</u>			<u>(343,779)</u>	<u>(2,090,555)</u>	<u>(3,338,552)</u>	
OTHER FINANCING SOURCES (USES)																	
Operating transfers in (out)	307,737	72,434	394,604	42,675	42,675	218,119				92,263	(530)			343,779	2,113,808	3,270,791	
Total Other Financing Sources (Uses)	<u>307,737</u>	<u>72,434</u>	<u>394,604</u>	<u>42,675</u>	<u>42,675</u>	<u>218,119</u>				<u>92,263</u>	<u>(530)</u>			<u>343,779</u>	<u>2,113,808</u>	<u>3,270,791</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)																	
EXPENDITURES AND OTHER USE	<u>(49,365)</u>	<u>(11,638)</u>	<u>(8,861)</u>	<u>(8,861)</u>	<u>-</u>	<u>(12,625)</u>				<u>-</u>	<u>144,646</u>			<u>-</u>	<u>23,253</u>	<u>(67,761)</u>	
NET ASSETS, Beginning of Period	<u>49,365</u>	<u>11,638</u>	<u>8,861</u>	<u>8,861</u>	<u>-</u>	<u>12,625</u>				<u>-</u>	<u>621,159</u>			<u>-</u>	<u>742,552</u>	<u>810,313</u>	
NET ASSETS, End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ -</u>	<u>\$ 765,805</u>			<u>\$ -</u>	<u>\$ 765,805</u>	<u>\$ 742,552</u>	

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Proprietary - Enterprise Funds
 June 30, 2011 with Comparative Data

Electric						
	Operating	Reserve	Fiber Operations	Debt Service	Capital Project	Total
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	\$ 712,185	\$ 7,408,823	\$ 386,718	\$ 286,565		\$ 8,794,291
Due from Other Funds		8,315,254				8,315,254
Restricted Assets:						
Investments				674,840		674,840
Debt issuance costs, net of amortization						
Equity interest in joint venture	550,000					550,000
TOTAL ASSETS	<u>\$ 1,262,185</u>	<u>\$ 15,724,077</u>	<u>\$ 386,718</u>	<u>\$ 961,405</u>	<u>\$ -</u>	<u>\$ 18,334,385</u>
LIABILITIES:						
Current Liabilities:						
Current portion of long term debt				\$ 630,000		\$ 630,000
Accrued expenses	\$ 80,196					80,196
Short term debt						-
Meter deposits payable						
Total Current Liabilities	<u>80,196</u>	<u>-</u>	<u>-</u>	<u>630,000</u>	<u>-</u>	<u>710,196</u>
Noncurrent Liabilities:						
Due to other funds						
Unamortized deferred gain on early retirement of debt				30,360		30,360
Long term debt				700,000		700,000
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>730,360</u>	<u>-</u>	<u>730,360</u>
TOTAL LIABILITIES	<u>80,196</u>	<u>-</u>	<u>-</u>	<u>1,360,360</u>	<u>-</u>	<u>1,440,556</u>
NET ASSETS:						
Restricted						
Unrestricted	1,181,989	15,724,077	386,718	(398,955)	-	16,893,829
TOTAL NET ASSETS	<u>1,181,989</u>	<u>15,724,077</u>	<u>386,718</u>	<u>(398,955)</u>	<u>-</u>	<u>16,893,829</u>

See Independent Auditor's Report.

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Proprietary - Enterprise Funds
 June 30, 2011 with Comparative Data

	Water		Sewer				
	Operating	Deposit	Total	Operating	Maint	Reserve	Total
ASSETS							
Unrestricted Assets:							
Cash and cash equivalents	\$ 492,597	\$ 741,808	\$ 1,234,405	\$ 162,113		\$ 60,051	\$ 222,164
Due from Other Funds							
Restricted Assets:							
Investments	527,231		527,231	313,016			313,016
Debt issuance costs, net of amortization	18,896		18,896	155,256			155,256
Equity interest in joint venture							
TOTAL ASSETS	<u>\$1,038,724</u>	<u>\$ 741,808</u>	<u>\$ 1,780,532</u>	<u>\$ 630,385</u>	<u>\$ -</u>	<u>\$ 60,051</u>	<u>\$ 690,436</u>
LIABILITIES:							
Current Liabilities:							
Current portion of long term debt	\$ 31,915		\$ 31,915	268,085			268,085
Accrued expenses							
Short term debt							
Meter deposits payable		\$ 743,365	743,365				
Total Current Liabilities	<u>31,915</u>	<u>743,365</u>	<u>775,280</u>	<u>268,085</u>	<u>-</u>	<u>-</u>	<u>268,085</u>
Noncurrent Liabilities:							
Due to other funds							
Unamortized deferred gain on early retirement of debt							
Long term debt	498,936		498,936	4,191,064			4,191,064
TOTAL NONCURRENT LIABILITIES	<u>498,936</u>	<u>-</u>	<u>498,936</u>	<u>4,191,064</u>	<u>-</u>	<u>-</u>	<u>4,191,064</u>
TOTAL LIABILITIES	<u>530,851</u>	<u>743,365</u>	<u>1,274,216</u>	<u>4,459,149</u>	<u>-</u>	<u>-</u>	<u>4,459,149</u>
NET ASSETS:							
Restricted							
Unrestricted	507,873	(1,557)	506,316	(3,828,764)		60,051	(3,768,713)
TOTAL NET ASSETS	<u>507,873</u>	<u>(1,557)</u>	<u>506,316</u>	<u>(3,828,764)</u>	<u>-</u>	<u>60,051</u>	<u>(3,768,713)</u>

See Independent Auditor's Report.

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Proprietary - Enterprise Funds
 June 30, 2011 with Comparative Data

	Economic Development	Total Enterprise Funds June 30, 2011	Total Enterprise Funds October 31, 2010
ASSETS			
Unrestricted Assets:			
Cash and cash equivalents	\$ (38,812)	\$ 10,212,048	\$ 9,528,133
Due from Other Funds	\$ 75,000	8,390,254	9,282,801
Restricted Assets:			
Investments		1,515,087	1,762,032
Debt issuance costs, net of amortization		174,152	75,788
Equity interest in joint venture		550,000	550,000
TOTAL ASSETS	\$ 36,188	\$ 20,841,541	\$ 21,198,754
LIABILITIES:			
Current Liabilities:			
Current portion of long term debt		930,000	\$ 754,999
Accrued expenses		80,196	91,764
Short term debt		-	320,833
Meter deposits payable		743,365	731,288
Total Current Liabilities	-	1,753,561	1,898,884
Noncurrent Liabilities:			
Due to other funds	8,214,519	8,214,519	8,707,020
Unamortized deferred gain on early retirement of debt		30,360	35,091
Long term debt		5,390,000	6,320,001
TOTAL NONCURRENT LIABILITIES	8,214,519	13,634,879	15,062,112
TOTAL LIABILITIES	8,214,519	15,388,440	16,960,996
NET ASSETS:			
Restricted			
Unrestricted	(8,178,331)	5,453,101	4,237,758
TOTAL NET ASSETS	(8,178,331)	5,453,101	4,237,758

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
 Eight Months Ended June 30, 2011 with Comparative Data

	Electric					
	Operating	Reserve	Fiber Operations	Debt Service	Capital Project	Total
Operating revenues						
Charges for services	\$ 15,281,998	\$ 58,762				\$ 15,340,760
Miscellaneous	22,581	600				23,181
Total operating revenues	15,304,579	-	59,362	-	-	15,363,941
Operating expenses:						
Personnel costs	699,040					699,040
Operations and maintenance	13,646,697		5,685			13,652,382
Total operating expenses	14,345,737	-	5,685	-	-	14,351,422
Operating income (loss)	958,842	-	53,677	-	-	1,012,519
Nonoperating revenues (expenses)						
Interest income	57,923			4,751		62,674
Interest income - interfund loans		302,133				302,133
Intergovernmental revenue						-
Capital outlay	(75,859)					(75,859)
Debt service:						
Interest and agent fees				(45,979)		(45,979)
Total non-operating revenues (expenses)	(17,936)	302,133	-	(41,228)	-	242,969
Income (loss) before transfers	940,906	302,133	53,677	(41,228)	-	1,255,488
Operating transfers in (out)	(824,848)	(1,504)	(8,521)	393,232	(10,582)	(452,223)
Change in net assets	116,058	300,629	45,156	352,004	(10,582)	803,265
Beginning net assets	1,065,931	15,423,448	341,562	(750,959)	10,582	16,090,564
Ending net assets	\$ 1,181,989	\$ 15,724,077	\$ 386,718	\$ (398,955)	\$ -	\$ 16,893,829

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
 Eight Months Ended June 30, 2011 with Comparative Data

	Water			Sewer		
	Meter		Total	Meter		Total
	Operating	Deposit		Operating	Maint	
Operating revenues						
Charges for services	\$ 1,502,850	\$ 1,502,850	\$ 1,222,433			\$ 1,222,433
Miscellaneous	52,607	52,607	31,704	\$ 1,988		33,692
Total operating revenues	1,555,457	1,555,457	1,254,137	1,988	-	1,256,125
Operating expenses:						
Personnel costs		-	159,493	169,221		328,714
Operations and maintenance	943,637	943,637	377,267	39,664		416,931
Total operating expenses	943,637	943,637	536,760	208,885	-	745,645
Operating income (loss)	611,820	611,820	717,377	(206,897)	-	510,480
Nonoperating revenues (expenses)						
Interest income	2,903	2,903	3,738			3,738
Interest income - interfund loans		-				-
Intergovernmental revenue		-	24,098			24,098
Capital outlay		-	(197,636)			(197,636)
Debt service:						
Interest and agent fees	(10,964)	(10,964)	(92,100)			(92,100)
Total non-operating revenues (expenses)	(8,061)	(8,061)	(261,900)	-	-	(261,900)
Income (loss) before transfers	603,759	603,759	455,477	(206,897)	-	248,580
Operating transfers in (out)	(434,730)	(434,730)	(606,263)	157,472	-	(448,791)
Change in net assets	169,029	169,029	(150,786)	(49,425)	-	(200,211)
Beginning net assets	338,844	(1,557)	(3,677,978)	49,425	60,051	(3,568,502)
Ending net assets	\$ 507,873	\$ (1,557)	\$ (3,828,764)	\$ -	\$ 60,051	\$ (3,768,713)

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
 Eight Months Ended June 30, 2011 with Comparative Data

	Storm Water	Economic Development	Enterprise Funds June 30, 2011	Totals Enterprise Funds October 31, 2010
Operating revenues				
Charges for services		\$ 952,300	\$ 19,018,343	28,889,992
Miscellaneous		5,626	115,106	96,048
Total operating revenues	-	957,926	19,133,449	28,986,040
Operating expenses:				
Personnel costs			1,027,754	1,763,649
Operations and maintenance	2,358	503,126	15,518,434	23,661,182
Total operating expenses	2,358	503,126	16,546,188	25,424,831
Operating income (loss)	(2,358)	454,800	2,587,261	3,561,209
Nonoperating revenues (expenses)				
Interest income			69,315	137,452
Interest income - interfund loans			302,133	466,521
Intergovernmental revenue			24,098	485,268
Capital outlay			(273,495)	(4,431,318)
Debt service:				
Interest and agent fees			(149,043)	(98,596)
Total non-operating revenues (expenses)	-	-	(26,992)	(3,440,673)
Income (loss) before transfers	(2,358)	454,800	2,560,269	120,536
Operating transfers in (out)	2,358	(11,539)	(1,344,925)	(1,501,116)
Change in net assets	-	443,261	1,215,344	(1,380,580)
Beginning net assets	-	(8,621,592)	4,237,757	5,618,338
Ending net assets	\$ -	\$ (8,178,331)	\$ 5,453,101	\$ 4,237,758

See Independent Auditor's Report.

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Nonmajor Funds
 June 30, 2011 with Comparative Data

	Special Revenue Funds											June 30, 2011 Totals	October 31, 2010 Totals		
	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	\$ -	\$ -	\$ 16,799	\$ 23,963	\$ 1,328	\$ 15,372	\$ 3,324	\$ 411	\$ 8,209	\$ -	\$ 12,950	\$ 380,814	\$ 463,170	\$ 453,349	
TOTAL ASSETS	\$ -	\$ -	\$ 16,799	\$ 23,963	\$ 1,328	\$ 15,372	\$ 3,324	\$ 411	\$ 8,209	\$ -	\$ 12,950	\$ 380,814	\$ 463,170	\$ 453,349	
LIABILITIES:															
Due to other funds								\$ 100,735	\$ 75,000			\$ 13	\$ 175,735	\$ 180,783	
Accrued expenses												\$ 13	13	786	
Total liabilities								100,735	75,000			13	175,748	181,569	
EQUITY:															
Fund balance:															
Assigned	-	-	16,799	23,963	1,328	15,372	3,324	(100,324)	(66,791)	-	12,950	380,801	287,422	271,780	
TOTAL LIABILITIES AND EQUITY	\$ -	\$ -	\$ 16,799	\$ 23,963	\$ 1,328	\$ 15,372	\$ 3,324	\$ 411	\$ 8,209	\$ -	\$ 12,950	\$ 380,814	\$ 463,170	\$ 453,349	

CITY OF LEBANON, MISSOURI
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
 Nonmajor Funds
 Eight Months Ended June 30, 2011 with Comparative Data

	Special Revenue Funds													
	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	June 30 2011 Totals	October 31, 2010 Totals
REVENUES														
Taxes		\$ 66,940						\$ 24,401				\$ 517,937	\$ 609,278	\$ 657,407
Charges for services	\$ 81,740		\$ 9,387		5,907	\$ 2,689	\$ 20,974	6,411	16,865	54,503	14,381	212,857	500,537	
Intergovernmental revenues		20,716					12,335					33,051	43,305	
Other	723	9,314			1,603		684	500				12,824	39,773	
TOTAL REVENUES	82,463	96,970	9,387	-	5,907	4,292	33,993	31,312	16,865	54,503	532,318	868,010	1,241,022	
EXPENDITURES														
Public safety					5,774	975						6,749	14,200	
Recreation	514,888						51,453				270,805	785,693	1,052,992	
Transportation												51,453	64,765	
Capital outlay			121,978									121,978	82,896	
Economic Development		100,947					17,437	13,471	17,179	32,498		164,095	260,409	
Debt principal payments							1,029					17,437	22,717	
Debt interest payments												1,029	1,904	
TOTAL EXPENDITURES	514,888	100,947	121,978	-	5,774	975	69,919	13,471	17,179	32,498	270,805	1,148,434	1,499,883	
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(432,425)	(3,977)	(112,591)	-	133	3,317	(35,926)	17,841	(314)	22,005	261,513	(280,424)	(258,861)	
OTHER FINANCING SOURCES (USES)														
Operating transfers in (out)	420,458	(22,896)	(8,863)		(1,293)	(1,282)	40,844	(21,177)	314	(52,610)	(57,429)	296,066	222,914	
Total Other Financing Sources (Uses)	420,458	(22,896)	(8,863)	-	(1,293)	(1,282)	40,844	(21,177)	314	(52,610)	(57,429)	296,066	222,914	
EXCESS OF REVENUES AND SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(11,967)	(26,873)	(121,454)	-	(1,160)	2,035	4,918	(3,336)	-	(30,605)	204,084	15,642	(35,947)	
FUND BALANCE, Beginning	11,967	26,873	138,253	23,963	2,488	13,337	(105,242)	(63,455)	-	43,555	176,717	271,780	307,727	
FUND BALANCE, Ending	\$ -	\$ -	\$ 16,799	\$ 23,963	\$ 1,328	\$ 15,372	\$ (100,324)	\$ (66,791)	\$ -	\$ 12,950	\$ 380,801	\$ 287,422	\$ 271,780	

Officer CPA Firm LLC

Certified Public Accountants

To the City Council,
Lebanon, Missouri

In planning and performing our audit of 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 as of and for the eight months ended June 30 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Lebanon'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. Accordingly, we do not express an opinion on the effectiveness of the City of Lebanon's internal control.

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

Court

Improvements have been made from the previous year to account for court tickets but a significant change occurred where the billing, record keeping, and collections are all performed by the same person. We recommend that the collection of ticket monies be assigned back to the collections department as it had normally been performed for the past several years. This will help deter the theft of funds. In addition, the audit services were delayed because the new software company had not trained staff on how to reconcile bank accounts; therefore, no reconciliations had been performed from April to November until the month of December.

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 a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in The City of Lebanon's internal control to be a material weakness:

Other

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.

Purchasing

Though major improvements have been implemented in regards to purchasing policies for the City, we found that additional checks and balances are recommended. For the non-public works (electric, street, water, sewer) departments, the purchasing, approval, and receipting duties need to be separated.

Budget Amendment

The June 30, 2011 budget was amended in September of 2011 which is well past the date of the approved June bills. Therefore, this budget amendment was not considered valid and the audit report does not reflect these changes.

Economic Development Fund

During fiscal year October 31, 2010, an inter-fund loan was made from the Electric Reserve to the Economic Development Fund for \$125,000 for the Homestead property. As of June 30, 2011, no payments had been made to repay this loan.

Also in the Economic Development Fund, the City constructed an additional 5,000 square feet for the DTMP building. Per the lease agreement, the monthly rental fee increases for this space. As of June 30, 2011, the City has not collected any of this rent income.

Ordinance 4606 and 4607

This ordinance requires reserve levels to be maintained for the Electric, Water and Sewer funds. As of June 30, 2011, the Water and Sewer Funds had not met these reserve requirements while the Electric Fund did so. This is an improvement from last year.

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.

In addition, we recommend once an equipment inventory is established that random physical counts be performed by persons outside of their department and match the physical count with the inventory records.

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
January 24, 2012

[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 eight months ended June 30, 2011, and has issued our report thereon dated January 24, 2012. 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 weakness in the City's internal control structure.

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

January 24, 2012