

CITY OF LEBANON, MISSOURI

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2012

CITY OF LEBANON, MISSOURI
 Audit Report
 June 30, 2012

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Officer CPA Firm LLC

Certified Public Accountants

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, and the aggregate remaining fund information of the City of Lebanon, Missouri, as of and for the year ended June 30, 2012, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lebanon, Missouri, as of June 30, 2012, and the respective changes in financial position—modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the City of Lebanon, Missouri's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is

an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 management's discussion and analysis, budgetary comparisons, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The management's discussion and analysis and budgetary comparisons have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Officer CPA Firm LLC

November 28, 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, 2012. 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

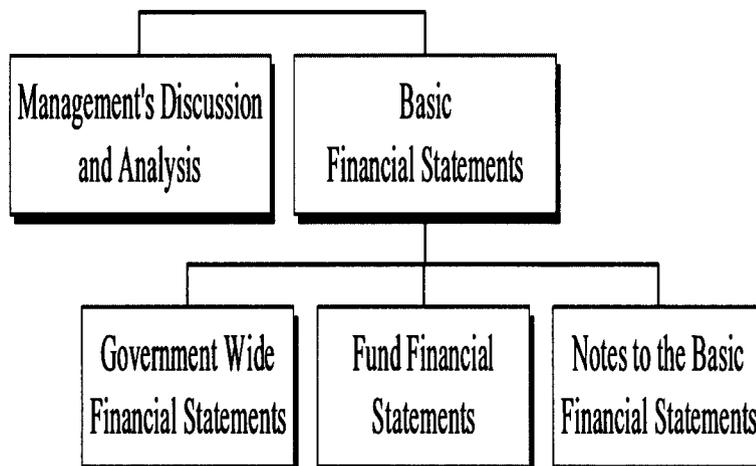
• <i>Improvements to Grant and Heavner streets</i>	\$54,623
• <i>Improvements to Elm Street Phase 7</i>	\$380,408
• <i>Purchase of a Bucket Truck for Electric Department</i>	\$157,875
• <i>Purchase of a Service Truck for Electric Department</i>	\$136,968
• <i>Back-up Generators to Fire Station One and Two</i>	\$24,500
• <i>Upgrades to the Wastewater Treatment Facility</i>	\$20,734
• <i>Nelson Park Lake Improvements</i>	\$13,040
• <i>Animal Control Vehicle</i>	\$37,164
• <i>Fire Utility Truck for Haz-mat response</i>	\$46,850

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 Fund report this activity.

Fund Financial Statements

The City uses four types of funds to manage its resources: governmental funds, enterprise funds, internal service funds and special revenue 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.

Enterprise 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.

Internal Services Fund –are used to account for the financing of goods or services provided by one department to other department of the City on a cost reimbursement basis.

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

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, 2012 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, 2012

**City of Lebanon
Statement of Net Assets**

	Governmental Activities	Business-type Activities	June 30, 2012 Totals	June 30, 2011 Totals
<u>ASSETS</u>				
Current and other assets	\$3,712,847	\$10,952,664	\$14,665,511	\$13,236,575
Restricted assets	\$955,001	\$840,509	\$1,795,747	\$2,497,864
Due from other funds		\$7,558,747	\$7,558,747	\$8,390,254
Capital assets	\$	\$	\$	\$
Debt issuance cost, Net of Amortization		\$161,932	\$161,932	\$161,932
Equity interest in Joint venture		\$550,000	\$550,000	\$550,000
Customer Service Territory net of Amortization		\$842,918	\$842,918	\$842,918
Total assets	\$4,667,848	\$20,906,770	\$25,574,618	\$24,848,845
<u>LIABILITIES</u>				
Current liabilities	\$2,353	\$89,971	\$92,324	\$828,084
Short-term debt	\$870,271	\$305,000	\$1,175,271	\$1,763,794
Customer Deposits	\$	\$769,807	\$769,807	\$743,365
Due to other funds	\$157,843	\$7,400,904	\$7,558,747	\$8,390,254
Long-term debt	\$5,764,999	\$4,385,000	\$10,149,999	\$12,023,264
Total liabilities	\$6,795,466	\$12,950,682	\$19,746,146	\$23,035,756
<u>NET ASSETS</u>				
Unrestricted	\$(5,333,760)	\$7,956,088	\$2,622,328	\$(851,146)
Restricted	\$3,206,142	\$	\$3,206,142	\$2,664,235
Total net assets	\$(2,127,618)	\$7,956,088	\$5,828,470	\$1,813,089

The City's combined net assets, minus any capital assets, totaled \$5,828,470, an increase of \$4,015,381. Net assets of the City's governmental activities was \$(2,127,618) an increase of \$1,512,394 over FY 2011 and the business-type activities was \$7,956,088 an increase of \$2,502,987 over FY 2011. The unrestricted net assets were \$(5,333,760) an increase of \$(970,487) over FY 2011 for governmental activities and \$7,956,088 a increase of \$2,502,987 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, 2012 Totals	June 30, 2011 Totals
<u>REVENUES</u>				
Program revenue:				
Charges for services	\$1,060,433	\$29,209,964	\$24,081,717	\$19,641,340
Operating grants & contributions	\$46,296	\$	\$46,296	\$61,486
Capital grants & contributions	\$260,914	\$	\$260,914	\$330,694
General revenue:				
Real Estate Taxes	\$1,081,590	\$	\$1,081,590	\$1,060,276
Sales Tax	\$6,409,691	\$	\$3,904,089	\$3,904,089
Franchise Tax	\$382,142	\$	\$382,142	\$326,275
Other Taxes	\$658,846	\$	\$658,846	\$411,739
PILOT	\$1,225,948	\$	\$1,225,948	\$820,136
Interest and Investment Earnings	\$45,141	\$449,184	\$494,325	\$414,933
Miscellaneous	\$159,433	\$	\$159,433	\$83,450
Transfers in (out)	\$720,820	\$(720,820)	\$	\$
Gain (Loss) on Asset Disposal	\$	\$	\$	\$
Total Revenues	\$10,683,611	\$28,938,328	\$33,433,259	\$27,054,418
<u>EXPENSES</u>				
Administration	\$2,168,797	\$	\$2,168,797	\$989,646
Public Safety	\$4,183,775	\$	\$4,183,775	\$2,935,000
Recreation	\$1,158,770	\$	\$1,158,770	\$867,586
Transportation	\$2,295,881	\$	\$2,295,881	\$1,410,789
Capital outlay	\$142,884	\$	\$142,884	\$836,492
Economic Development	\$273,264	\$	\$273,264	\$206,859
Interest on Long Term Debt	\$360,023	\$	\$360,023	\$198,660
Electric	\$	\$22,611,641	\$22,611,641	\$14,667,113
Water	\$	\$1,212,889	\$1,212,889	\$1,407,003
Sewer	\$	\$1,916,427	\$1,916,427	\$1,369,757
Economic Development	\$	\$715,342	\$715,342	\$639,237
Total Expenses	\$10,583,394	\$26,456,299	\$37,039,693	\$25,528,142
INCREASE (DECREASE) IN NET ASSETS	\$1,467,860	\$2,482,029	\$3,949,889	\$1,526,276
NET ASSETS, beginning of year	\$(3,595,478)	\$5,474,059	\$1,878,581	\$286,813
NET ASSETS, end of year	\$(2,127,618)	\$7,956,088	\$5,828,470	\$1,813,089

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	\$2,168,797	\$(2,041,549)
Public Safety	\$4,183,775	\$(3,721,225)
Recreation	\$1,158,770	\$(1,015,345)
Transportation	\$2,295,881	\$(1,812,473)
Capital outlay	\$142,884	\$(130,016)
Economic Development	\$273,264	\$(135,120)
Interest on Long Term Debt	\$360,023	\$(360,023)
*TOTAL	\$10,583,394	\$(9,215,751)

For comparison in FY ending June, 2011 for an eight month period, Total Cost of Services was \$7,445,032 and Net Cost of Services was \$(6,569,059).

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 departments of Administration, Court, Police, Fire, Cowan Civic Center, Mills Park, and Nelson Community Center 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 \$918,526, a increase of \$495,979 over the beginning balance of \$422,547. The unreserved general fund balance at year-end was \$918,526.

General Fund Budget Highlights

- Total actual budgeted revenue was 6,182,004 and actual revenue was \$6,148,591 a difference of \$33,413.
- Actual expenditures were under the budgeted amount by \$855,870.
- Excess of actual expenditures over actual revenues was \$495,979.

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, total fund balance of the Transportation Fund was \$200,861, a decrease of \$238,934 over the beginning balance of \$439,795. This fund has decreased its fund balance for the past two fiscal years. The unreserved Transportation Fund balance at year-end was \$200,861.

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 \$2,659,776, an increase of \$707,695 over the beginning balance of \$1,952,080. The unrestricted Capital Improvement Fund asset balance at year-end was \$1,704,775.

Other Governmental Funds These Funds are made of the non major funds of the City. Lodging Tax (Tourism), Subdivision Development, CDBG Projects, Crime Victims Comp, Police Officers Training, Police Trust, Airport, Downtown Business District, Parks and Recreation. The funds combined have a beginning fund balance of \$291,532 and an ending fund balance of \$345,505 an increase of \$54,154. Funds of greater significance beginning and ending balances are listed below.

Fund	Fund Balance	Fund Balance
Airport	\$(100,324)	\$(53,079)
Downtown Business District	\$(66,791)	\$(33,719)
Park and Recreation	\$384,731	\$336,966

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 \$17,301,471 an increase of \$397,818 over the beginning balance of \$16,903,653. The unrestricted Electric Fund balance at year-end was \$17,301,471.

Water Fund The Water Fund are 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 \$509,591, an increase of \$826,718 over the beginning balance of \$1,336,309. The unrestricted Water and Sewer Fund balance at year-end was \$1,336,309. The increase to the fund balance reflects the purchase of PWSD #3 customers.

Sewer Fund The Sewer Fund are 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 \$(3,407,832), an increase of \$353,022 over the beginning balance of \$(3,760,854). The unrestricted Water and Sewer Fund balance at year-end was \$(3,407,832).

Economic Development The Economic Development Fund are 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 \$(7,273,860), an increase of \$904,471 over the beginning balance of \$(8,178,331). The unrestricted Water and Sewer Fund balance at year-end was \$(7,273,860).

Internal Service Funds

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 \$765,805 and an ending fund balance of ~~\$382,984~~ an decrease of \$382,821. The City had a few high claims at the end of the fiscal year and expects reimbursement in FY 2013. This activity led to the decrease 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, 2012. The City continued to collect historic cost on all city assets in Fiscal Year 2012.

Debt Administration

At the end of the current fiscal year, the City of Lebanon had \$11,325,270 in outstanding debt consisting of revenue bonds, capital leases, notes payable and Certificates of Participation, (COP) 2008, 2010. All of the debt was secured by specific revenue sources. The City of Lebanon has due within one year a total of \$1,175,270 of outstanding obligations. In FY 2012, the City of Lebanon retired the Electric Certificates of Participation Series 1999 and 2003.

City of Lebanon Outstanding Debt---June 30, 2012

Governmental Activities	
Certificates of Participation – Series 2008	\$6,615,000
Lease/Purchase Agreements- Star Loan	\$20,270
Total Governmental Activities	\$6,635,270
Business-type Activities	
Certificates of Participation – Series 2010A	\$1,595,000
Certificates of Participation – Series 2010B	\$3,095,000
Total Business-type Activities	\$4,690,000
TOTAL INDEBTEDNESS	\$11,325,270

Economic Factors and next Year's Budget and Rates

In the Fiscal Year 2013 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 align the governmental funds to better reflect General Fund programs and services from other major or non-major governmental funds. The General Fund department activity will be combined under the General Fund. The City will also continue the process of managing fixed assets.

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, 2012 with Comparative Data

	Governmental Activities	Business-Type Activities	Total June 30, 2012	Total June 30, 2011
ASSETS				
Cash and cash equivalents	\$ 3,686,651	\$ 10,952,664	\$ 14,639,315	13,236,575
Due from Other Funds		7,558,747	7,558,747	8,390,254
Restricted Assets:				
Investments	955,001	840,509	1,795,510	2,497,864
Inventory	26,196		26,196	
Non-current assets:				
Debt issuance costs, net of amortization		161,932	161,932	174,152
Customer service territory, net of amortization		842,918	842,918	
Equity interest in joint venture		550,000	550,000	550,000
TOTAL ASSETS	<u>4,667,848</u>	<u>20,906,770</u>	<u>25,574,618</u>	<u>24,848,845</u>
LIABILITIES				
Current liabilities				
Accrued expenses	2,353	89,971	92,324	84,719
Customer deposits		769,807	769,807	743,365
Current portion of long-term debt	870,271	305,000	1,175,271	1,763,794
Due to other funds	157,843	7,400,904	7,558,747	8,390,254
Long-term liabilities, net of current portion				
Long-term debt	5,764,999	4,385,000	10,149,999	12,023,264
Unamortized deferred gain on early retirement of debt			-	30,360
TOTAL LIABILITIES	<u>6,795,466</u>	<u>12,950,682</u>	<u>19,746,148</u>	<u>23,035,756</u>
NET ASSETS				
Unrestricted	(5,333,760)	7,956,088	2,622,328	(851,146)
Restricted	3,206,142		3,206,142	2,664,235
TOTAL NET ASSETS	<u>\$ (2,127,618)</u>	<u>\$ 7,956,088</u>	<u>\$ 5,828,470</u>	<u>\$ 1,813,089</u>

CITY OF LEBANON, MISSOURI
Government-wide Statement of Activities - Modified Cash Basis
Year Ended June 30, 2012 with Comparative Data

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Comparative Data June 30, 2011
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
Administration	\$ 2,168,797	\$ 107,261	\$ 19,987	\$ 19,987	\$ (2,041,549)	\$ (2,041,549)	\$ (902,679)
Public safety	4,183,775	257,152	205,398	205,398	(3,721,225)	(3,721,225)	(2,477,795)
Recreation	1,158,770	143,425			(1,015,345)	(1,015,345)	(754,600)
Transportation	2,295,881	447,879	35,529	35,529	(1,812,473)	(1,812,473)	(1,342,491)
Capital outlay	142,884	12,868			(130,016)	(130,016)	(776,992)
Economic development	273,264	91,848	46,296	46,296	(135,120)	(135,120)	(115,842)
Interest on long-term debt	360,023				(360,023)	(360,023)	(198,660)
Total governmental activities	10,583,394	1,060,433	46,296	260,914	(9,215,751)	(9,215,751)	(6,569,059)
Business-Type activities							
Electric	22,611,641	23,021,284			409,643	409,643	696,828
Water	1,212,889	2,345,558			1,132,669	1,132,669	148,454
Sewer	1,916,427	2,444,978			528,551	528,551	(89,534)
Economic development	715,342	1,398,144			682,802	682,802	318,689
Total Business-Type activities	26,456,299	29,209,964	-	-	2,753,665	2,753,665	1,074,437
Total primary government	\$ 37,039,693	\$ 30,270,397	\$ 46,296	\$ 260,914	(9,215,751)	2,753,665	(6,462,086)
General Revenues:							
Taxes					9,758,217	9,758,217	6,522,515
Interest and investment earnings					45,141	449,184	414,933
Miscellaneous					159,433	159,433	83,450
Transfers in (out)					720,820	(720,820)	-
Total General Revenues					10,683,611	(271,636)	7,020,898
Change in Net Assets					1,467,860	2,482,029	1,526,276
Net Assets at Beginning of Year					(3,595,478)	5,474,059	286,813
Net Assets at End of Year					\$ (2,127,618)	\$ 7,956,088	\$ 1,813,089

NOTE: The beginning fund balance was increased by \$65,492 to reflect a change in accounting method to include fuel inventory.

CITY OF LEBANON, MISSOURI
 Balance Sheet - Modified Cash Basis
 Governmental Funds
 June 30, 2012 with Comparative Data

	General	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds June 30, 2012	Comparative Data June 30, 2011
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	\$ 920,879	\$ 1,704,775	\$ 200,861	\$ 503,348	\$ 3,329,863	\$ 2,258,722
Restricted Assets:						
Investments		955,001			955,001	982,777
TOTAL ASSETS	\$ 920,879	\$ 2,659,776	\$ 200,861	\$ 503,348	\$ 4,284,864	\$ 3,241,499
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accrued expenses	\$ 2,353				2,353	\$ 4,523
Due to other funds				157,843	157,843	175,735
TOTAL LIABILITIES	2,353	-	-	157,843	160,196	180,258
FUND BALANCES:						
Unassigned	918,526				918,526	397,006
Assigned		2,659,776	200,861	345,505	3,206,142	2,664,235
TOTAL FUND BALANCES	918,526	2,659,776	200,861	345,505	4,124,668	3,061,241
TOTAL LIABILITIES AND FUND BALANCES	\$ 920,879	\$ 2,659,776	\$ 200,861	\$ 503,348	\$ 4,284,864	\$ 3,241,499

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets - Modified Cash Basis
 Year Ended June 30, 2012 with Comparative Data

	June 30, 2012	June 30, 2011
Total fund balances - governmental funds	\$ 4,124,668	\$ 3,061,241
<p>Amounts reported for <i>governmental activities</i> that the statement of net assets are different because:</p>		
<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</p>	382,984	765,805
<p>Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds</p>	(6,635,270)	(7,467,058)
Net assets of governmental activities	<u>\$ (2,127,618)</u>	<u>\$ (3,640,012)</u>

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI

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

Governmental Funds

Year Ended June 30, 2012 with Comparative Data

	General Fund	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds June 30, 2012	Comparative Data June 30, 2011
Revenues						
Taxes	\$5,455,837	\$1,574,739	\$2,066,181	\$ 661,460	\$ 9,758,217	\$ 6,522,515
Charges for services	4,673		405,800	294,493	704,966	218,090
Intergovernmental revenue	225,385			81,825	307,210	368,082
License and permits	102,588				102,588	65,062
Fines and court costs	252,879				252,879	224,739
Investment income	6,141	39,000			45,141	43,485
Other	101,088	3,289	39,922	15,134	159,433	83,450
Total Revenues	6,148,591	1,617,028	2,511,903	1,052,912	11,330,434	7,525,423
Expenditures						
Administration	1,553,147				1,553,147	1,069,435
Public safety	3,988,536				3,988,536	2,833,554
Recreation		3,572		922,686	926,258	785,693
Transportation			1,314,016	81,987	1,396,003	681,935
Capital outlay		111,196		22,410	133,606	735,488
Economic development				271,923	271,923	164,095
Debt Service:						
Principal payments		831,787		21,788	853,575	802,437
Interest and agent fees		337,453		782	338,235	198,660
Total Expenditures	5,541,683	1,284,008	1,314,016	1,321,576	9,461,283	7,271,297
Excess (Deficit) of Revenues Over Expenditures	606,908	333,020	1,197,887	(268,664)	1,869,151	254,126
Other Financing Sources (Uses)						
Transfers in (out)	(110,929)	374,675	(1,436,821)	322,818	(850,257)	(768,883)
Debt proceeds					-	-
Total Other Financing Sources (Uses)	(110,929)	374,675	(1,436,821)	322,818	(850,257)	(768,883)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	495,979	707,695	(238,934)	54,154	1,018,894	(514,757)
Beginning Fund Balance	422,547	1,952,081	439,795	291,352	3,105,775	3,575,998
Ending Fund Balance	\$ 918,526	\$2,659,776	\$ 200,861	\$ 345,506	\$ 4,124,669	\$ 3,061,241

NOTE: The beginning fund balance was increased by \$44,534 to reflect a change in accounting method to include fuel inventory.

CITY OF LEBANON, MISSOURI
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balance of Governmental Funds to the Statement of Activities - Modified Cash Basis
 Year Ended June 30, 2012 with Comparative Data

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Net change in fund balances - total governmental funds	\$ 1,018,894	\$ (514,757)
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	(382,821)	23,253
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.	831,787	802,436
Changes in net assets of governmental activities	<u>\$ 1,467,860</u>	<u>\$ 310,932</u>

CITY OF LEBANON, MISSOURI
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2012 with Comparative Data

	Business-Type Activities - Enterprise Funds						Internal Service Funds	Totals June 30, 2012	Totals June 30, 2011
	Electric			Economic Development					
	Water	Sewer		Water	Sewer				
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 9,347,695	\$ 1,217,547	\$ 325,378	\$ 62,044	\$ 10,952,664	\$ 356,788	\$ 11,309,452	\$ 10,977,853	
Due from Other Funds	7,493,747		\$ 65,000		7,558,747	26,196	7,558,747	8,390,254	
Inventory							26,196		
Restricted assets:									
Investments		527,017	313,492				840,509	1,515,087	
Total current assets	16,841,442	1,744,564	638,870	127,044	19,351,920	382,984	19,734,904	20,883,194	
Noncurrent assets:									
Debt issuance costs, net of amortization		17,570	144,362				161,932	174,152	
Customer service territory, net of amortization		842,918					842,918		
Equity interest in joint venture	550,000						550,000	550,000	
Total noncurrent assets	550,000	860,488	144,362	-	1,554,850	-	1,554,850	724,152	
TOTAL ASSETS	17,391,442	2,605,052	783,232	127,044	20,906,770	382,984	21,289,754	21,607,346	
LIABILITIES									
Current liabilities:									
Current portion of long term debt		32,447	272,553				305,000	930,000	
Accrued expenses	89,971						89,971	80,196	
Meter deposits payable		769,807					769,807	743,365	
Total current liabilities	89,971	802,254	272,553	-	1,164,778	-	1,164,778	1,753,561	
Noncurrent liabilities:									
Due to other funds				7,400,904			7,400,904	8,214,519	
Unamortized deferred gain on early retirement of debt							-	30,360	
Long term debt		466,489	3,918,511				4,385,000	5,390,000	
Total noncurrent liabilities	-	466,489	3,918,511	7,400,904			11,785,904	13,634,879	
TOTAL LIABILITIES	89,971	1,268,743	4,191,064	7,400,904	12,950,682	-	12,950,682	15,388,440	
NET ASSETS									
Unrestricted	17,301,471	1,336,309	(3,407,832)	(7,273,860)	7,956,088	382,984	8,339,072	6,218,906	
TOTAL NET ASSETS	\$ 17,301,471	\$ 1,336,309	\$ (3,407,832)	\$ (7,273,860)	\$ 7,956,088	\$ 382,984	\$ 8,339,072	\$ 6,218,906	

CITY OF LEBANON, MISSOURI
Statement of Revenues, Expenses and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
Year Ended June 30, 2012 with Comparative Data

	Business -Type Activities - Enterprise Funds						Internal		Totals		
	Water			Sewer		Economic Development		Storm Water		Service Funds	
	Electric	Water								June 30, 2012	June 30, 2011
Operating revenues											
Charges for services	\$ 22,890,998	\$ 2,286,838	\$ 2,378,372	\$ 1,354,153		\$ 28,910,361	\$ 2,560,778	\$ 31,471,139	\$ 21,085,513	\$ 65,506	\$ 32,654
Intergovernmental revenues	130,286	58,720	66,606	43,991		299,603	34,065	333,668	133,145		
Miscellaneous	23,021,284	2,345,558	2,444,978	1,398,144	-	29,209,964	2,660,349	31,870,313	21,251,312		
Total operating revenues											
Operating expenses:											
Personnel costs	1,007,451		644,752			1,652,203	2,943,599	4,595,802	2,929,560		
Operation and maintenance	20,778,580	668,111	453,707		1,846	21,902,244	3,236,786	25,139,030	17,321,920		
Economic development				597,694		597,694		597,694	503,126		
Total operating expenses	21,786,031	668,111	1,098,459	597,694	1,846	24,152,141	6,180,385	30,332,526	20,754,606		
Operating income (loss)	1,235,253	1,677,447	1,346,519	800,450	(1,846)	5,057,823	(3,520,036)	1,537,787	496,706		
Non-Operating revenues (expenses)											
Interest income	43,965	1,577	2,041			47,583		47,583	69,315		
Interest income from internal loans	401,601					401,601		401,601	302,133		
Intergovernmental revenue									24,098		
Capital outlay	(368,096)	(3,386)	(130,507)			(501,989)		(501,989)	(273,495)		
Debt service:											
Interest and agent fees	(33,480)	(21,914)	(180,636)			(236,030)		(236,030)	(149,043)		
Total non-operating revenues (expenses)	43,990	(23,723)	(309,102)	-	-	(288,835)	-	(288,835)	(26,992)		
Income (loss) before transfers	1,279,243	1,653,724	1,037,417	800,450	(1,846)	4,768,988	(3,520,036)	1,248,952	469,714		
Operating transfers in (out)	(881,425)	(827,006)	(684,395)	104,021	1,846	(2,286,959)	3,137,215	850,256	768,883		
Change in net assets	397,818	826,718	353,022	904,471	-	2,482,029	(382,821)	2,099,208	1,238,597		
Net assets at the beginning of year	16,903,653	509,591	(3,760,854)	(8,178,331)		5,474,059	765,805	6,239,864	4,980,309		
Net assets at end of year	\$ 17,301,471	\$ 1,336,309	\$ (3,407,832)	\$ (7,273,860)	\$ -	\$ 7,956,088	\$ 382,984	\$ 8,339,072	\$ 6,218,906		

NOTE: The beginning fund balance was increased by \$20,956 to reflect a change in accounting method to include fuel inventory.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

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

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

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

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

The City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs). As permitted by GASB No. 20, the City has elected not to follow subsequent private-sector guidance in its business-type activities and enterprise funds.

The City reports the following major funds:

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

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

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

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

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

Additionally, the government reports the following fund types:

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

The business-type fund types the City has are:

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

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

C. Measurement focus and Basis of Accounting

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

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

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

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

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

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

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

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. Intangibles are capitalized and amortized.

During 2012, the City changed the manner in which it accounts for an inventory for fuel purchased on or after July 1, 2011. The City believes maintaining fuel inventory better matches costs with usage and is gradually moving to a more modified cash basis. This change in the amount of \$65,492 is reflected as a restatement of beginning net assets. A notation has been added to the bottom of the financial statements that reflect a change in beginning net assets.

D. Cash and Investments

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

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

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

E. Inventory

Internal Service Fund inventory consist of fuel. Fuel oil inventories are accounted lower of cost of market using the first-in, first-out method (FIFO).

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

F. Short-Term Interfund Receivables/Payables

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

G. 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.

H. 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.

I. 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.

J. Net Assets

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

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

K. 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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

L. 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 constraints imposed by formal resolutions or ordinances of the board of aldermen - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of aldermen 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 board of aldermen 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.

M. Debt Costs

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, 2012, the required deposits had been met.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

Governmental Fund Types

The cash and fund balance have been restricted as follows:

	Restricted Cash
Capital Projects Fund	
Debt Reserve Funds	955,001
	955,001

Enterprise Fund Types

The cash and net assets have been restricted as follows:

	Restricted Investments
Sewer project funds	83,833
Sewer debt reserve funds	229,659
Subtotal	313,492
Water project funds	499,676
Water debt reserve funds	27,341
Subtotal	527,017
Total	\$ 840,509

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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

Deposits

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

	June 30, 2012	
	Carrying Amounts	Bank Balance
Petty cash accounts	\$ 2,085	\$ -
U.S. Government Agency securities	\$ 7,509,223	7,501,928
Checking & money mkt accounts	7,128,007	7,527,348
Total	\$ 14,639,315	\$ 15,029,276
Held in Trust:		
U.S. Government Agency securities and bonds	1,795,510	1,795,510
Total Held in Trust	\$ 1,795,510	\$ 1,795,510
Grand Total	\$ 16,434,825	\$ 16,824,786

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, 2012, \$7,527,348 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 \$9,297,438 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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

4. Long-Term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2012:

	Long-term obligations at July 1, 2011	Additions	Deletions	Long-term obligations at June 30, 2012	Due within one year
Governmental Activities					
Bonds and notes payable:					
Airport (STAR) note payable	\$ 42,057		\$ 21,787	\$ 20,270	\$ 20,270
2008 Certificates of participation	7,425,000		810,000	6,615,000	850,000
Governmental activities long-term liabilities	<u>\$ 7,467,057</u>	<u>\$ -</u>	<u>\$ 831,787</u>	<u>\$ 6,635,270</u>	<u>\$ 870,270</u>
Business-type Activities					
Bonds and notes payable:					
2003 Electric Certificates of participation	\$ 305,000		\$ 305,000	\$ -	
1999 Electric Certificates of participation	1,025,000		1,025,000	-	
2010A Water/Sewer Certificates of participation	1,895,000		300,000	1,595,000	305,000
2010B Water/Sewer Certificates of participation	3,095,000			3,095,000	-
Business-type activities long-term liabilities	<u>\$ 6,320,000</u>	<u>\$ -</u>	<u>\$ 1,630,000</u>	<u>\$ 4,690,000</u>	<u>\$ 305,000</u>

Governmental Activities

A. Airport STAR Loan

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

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 payments:

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

The annual debt service requirements for the Governmental Activities are:

Year Ending June 30,	Principal	Interest	Total
2013	870,270	325,421	1,195,691
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
	<u>\$ 6,635,270</u>	<u>\$ 1,319,961</u>	<u>\$ 7,955,231</u>

Business-Type Activities

A. 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 payments:

Fiscal Year Ending June 30,	Principal	Interest
2013	305,000	198,050
2014	310,000	192,255
2015	320,000	185,435
2016	325,000	347,060
2017-2025	3,430,000	772,337
Total	<u>\$4,690,000</u>	<u>\$1,695,137</u>

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

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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

The 2010 Certificates of Participation were issued through the Build America Bonds program that provides 35% in federal subsidies on the total interest requirements. The interest is paid to the City on a semi-annual basis corresponding with the interest payment dates.

5. 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 its financial statements using a modified cash basis method. At June 30, 2012, \$382,984 is available in cash to cover claims.

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

6. 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 14.0% (general), 11.7% (police) and 9.7% (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

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

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

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

Annual required contribution	\$ 742,715
Interest on net pension obligation	2,816
Adjustment to annual required contributor	<u>(2,685)</u>
Annual pension cost	742,846
Actual contributions	<u>720,434</u>
Increase (decrease) in NPO	22,412
NPO beginning of year	38,837
NPO end of year	<u><u>\$ 61,249</u></u>

The annual required contribution (ARC) was determined as part of the February 28, 2010 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 29, 2012 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 3.5% 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 75% of 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 projected to 2000 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, 2010, was 20 years for the General division, 30 years for the Police division and 30 years for the Fire division.

Three-Year Trend Information			
Fiscal Year	Annual	Percentage	Net Pension
<u>Ending</u>	<u>Cost (APC)</u>	<u>of APC</u>	<u>Obligation</u>
	Contributed		
2010	576,881	100%	-
2011	669,608	94.2%	38,837
2012	742,846	97.0%	61,249

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

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
2/28/2010	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%
2/29/2012	6,197,642	9,945,979	3,748,338	62%	5,541,802	68%

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.

7. Deferred Compensation Plan

City employees participate in a nation-wide deferred compensation plan. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. All deferred amounts are the property of the City and participant's interest in the plan is that of a general creditor of the City. It is the opinion of the City's management that the City and Board have no liability for losses under the plan, but do have the duty of due care that would be required of an ordinary prudent investor. Amounts on deposit with Nationwide Financial Company for the City of Lebanon participants at June 30, 2012 were approximately \$1,666,166.

8. Deficit Fund Balance

Airport, Downtown Business District and Economic Development Funds

At June 30, 2012, the Airport, Downtown Business District and Economic Development Funds experienced a deficit fund balance of (\$53,079), (\$33,719) and (\$7,273,860) due to inter-fund loans.

Sewer Fund

The Sewer Fund had a deficit retained earnings of (\$3,407,832) resulting from capital improvements to the system and the City expenses capital improvements rather than posting as an asset and calculating depreciation.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

9. 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	\$ 1,091,792	Dowco Building	2026
Electric Reserve	Economic Development	2,546,388	Copeland Building	2016
Electric Reserve	Airport	92,843	Hangers	2020
Electric Reserve	Economic Development	3,681,179	Detroit Tool Building	2025
Electric Reserve	Economic Development	81,545	Homestead Building	2016
Economic Development	Downtown Business Dist	65,000	Land Purchase	2019
		<u>\$ 7,558,747</u>		

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

10. Long-Term Contracts

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

MoPEP operations are governed by a committee (Pool Committee) consisting of one representative from each MoPEP member and was comprised of 35 members as of December 31, 2011. 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.

CITY OF LEBANON, MISSOURI
Notes to the Financial Statements
June 30, 2012

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.

OTHER INFORMATION

CITY OF LEBANON, MISSOURI

Budgetary Comparison Schedule - General Fund-Modified Cash Basis

Year Ended June 30, 2012

	Original Budget	Budget as Amended	Actual	Variance from amended Positive (Negative)
Resources (inflows):				
Taxes	\$ 5,499,459	\$ 5,499,459	\$ 5,455,837	\$ (43,622)
Charge for services	\$ 500	\$ 500	4,673	4,173
Intergovernmental revenue	274,395	274,395	225,385	(49,010)
License and permits	20,000	20,000	102,588	82,588
Fines and forfeitures	336,650	336,650	252,879	(83,771)
Interest income	15,000	15,000	6,141	(8,859)
Miscellaneous income	36,000	36,000	101,088	65,088
Total Resources (inflows)	6,182,004	6,182,004	6,148,591	(33,413)
Charges to appropriations (outflows):				
Public safety	4,386,587	4,442,611	3,988,536	454,075
Administration	1,675,387	1,954,942	1,553,147	401,795
Total charges to appropriations	6,061,974	6,397,553	5,541,683	855,870
Other Financing Sources (Uses)				
Transfers in (out)	(70,606)	(70,606)	(110,929)	(40,323)
Total Other Financing Sources (Uses)	(70,606)	(70,606)	(110,929)	(40,323)
Net Change in Fund Balances	49,424	(286,155)	495,979	782,134
Fund Balance, November 1	422,547	422,547	422,547	-
Fund Balance, June 30	\$ 471,971	\$ 136,392	\$ 918,526	\$ 782,134

CITY OF LEBANON, MISSOURI
 Budgetary Comparison Schedule - Major Special Revenue Funds - Modified Cash Basis
 Year Ended June 30, 2012

Street Fund	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance from Amended Positive (Negative)</u>
Resources (inflows):				
Taxes	\$ 1,837,245	\$ 1,837,245	\$ 2,066,181	\$ 228,936
Charge for services	438,000	438,000	405,800	(32,200)
Other			39,922	39,922
Total resources	<u>2,275,245</u>	<u>2,275,245</u>	<u>2,511,903</u>	<u>236,658</u>
Charges to appropriations (outflows):				
Transportation	1,321,000	1,459,456	1,314,016	145,440
Total charges to appropriations	<u>1,321,000</u>	<u>1,459,456</u>	<u>1,314,016</u>	<u>145,440</u>
Other Financing Sources (Uses)				
Transfer in (out)	(1,401,725)	(1,401,725)	(1,436,821)	(35,096)
Total Other Financing Sources (Uses)	<u>(1,401,725)</u>	<u>(1,401,725)</u>	<u>(1,436,821)</u>	<u>(35,096)</u>
Net Change in Fund Balance	(447,480)	(585,936)	(238,934)	347,002
Beginning Fund Balance	439,795	439,795	439,795	-
Ending Fund Balance	<u>\$ (7,685)</u>	<u>\$ (146,141)</u>	<u>\$ 200,861</u>	<u>\$ 347,002</u>

CITY OF LEBANON, MISSOURI
Notes to Other Information - Budget Comparisons
June 30, 2012

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 reported negative fund balances of \$146,141 because revenues were not amended when the expenses were increased.

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 General Funds
 June 30, 2012 with Comparative data

	General	Court	Emergency Mgt	Fire	Police	Recycling	Admin.	June 30, 2012 Totals	June 2011 Totals
ASSETS									
Unrestricted Assets:									
Cash and cash equivalents	\$ 892,245	\$ 21,721				\$ 6,913		\$ 920,879	\$ 401,516
TOTAL ASSETS	\$ 892,245	\$ 21,721	\$ -	\$ -	\$ -	\$ 6,913	\$ -	\$ 920,879	\$ 401,516
LIABILITIES									
Accrued expenses	1903	450						2,353	4,510
EQUITY:									
Fund balance:									
Unassigned	\$ 890,342	\$ 21,271	\$ -	\$ -	\$ -	\$ 6,913	\$ -	\$ 918,526	\$ 397,006
TOTAL LIABILITIES AND EQUITY	\$ 892,245	\$ 21,721	\$ -	\$ -	\$ -	\$ 6,913	\$ -	\$ 920,879	\$ 401,516

CITY OF LEBANON, MISSOURI
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
 General Funds
 Year Ended June 30, 2012

	General	Court	Emergency Mgt	Fire	Police	Recycling	Admin.	June 30, 2012 Total	June 30, 2011 Total
REVENUES									
Taxes	\$ 5,455,837							\$ 5,455,837	\$ 3,700,525
Intergovernmental revenue					\$ 205,398	\$ 19,987		225,385	240,542
Charge for services					\$ 3,871	\$ 802		4,673	5,233
Licenses and permits	102,588							102,588	65,062
Fines and court costs	2,401	250,478						252,879	224,739
Investment earnings	6,117	24						6,141	4,485
Other	82,081			9,408	9,415		\$ 184	101,088	54,055
TOTAL REVENUES	5,649,024	250,502	-	9,408	218,684	20,789	184	6,148,591	4,294,641
EXPENDITURES									
Public safety		313,440	12,136	1,346,425	2,316,535			3,988,536	2,826,805
Administration	440,014					13,876	1,099,257	1,553,147	1,069,435
TOTAL EXPENDITURES	440,014	313,440	12,136	1,346,425	2,316,535	13,876	1,099,257	5,541,683	3,896,240
EXCESS OF REVENUE OVER (UNDER)	5,209,010	(62,938)	(12,136)	(1,337,017)	(2,097,851)	6,913	(1,099,073)	606,908	398,401
OTHER FINANCING SOURCES (USES)									
Operating transfers in (out)	(4,718,962)	61,956	12,136	1,337,017	2,097,851		1,099,073	(110,929)	(465,274)
Total Other Financing Sources (Uses)	(4,718,962)	61,956	12,136	1,337,017	2,097,851	-	1,099,073	(110,929)	(465,274)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)	490,048	(982)	-	-	-	6,913	-	495,979	(66,873)
EXPENDITURES AND OTHER USES	400,294	22,253	-	-	-	-	-	422,547	463,879
FUND BALANCE, Beginning of Period	\$ 890,342	\$ 21,271	\$ -	\$ -	\$ -	\$ 6,913	\$ -	\$ 918,526	\$ 397,006

NOTE: The beginning fund balance was increased by \$25,541 to reflect a change in accounting method to include fuel inventory.

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Internal Service Funds
 June 30, 2012 with Comparative Data

	Buildings Grounds	Garage	Tech Services	Purchasing Warehouse	Public Works Admin	Community Develop.	Employee Benefits	Public Works	June 30, 2012 Totals	June 30, 2011 Totals
ASSETS										
Unrestricted Assets:										
Cash and cash equivalents		\$ (26,196)					\$ 382,984		\$ 356,788	\$ 765,805
Inventory	\$ -	26,196	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	26,196	
TOTAL ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 382,984	\$ -	\$ 382,984	\$ 765,805
LIABILITIES										
Accrued expenses									-	-
NET ASSETS										
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 382,984	\$ -	\$ 382,984	\$ 765,805
TOTAL NET ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 382,984	\$ -	\$ 382,984	\$ 765,805

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

	Buildings Grounds	Garage	Tech Services	Purchasing & Warehouse	Public		Employee Benefits	Public Works	Infrastructure Maintenance	June 30, 2012 Total	June 2011 Total
					Works Admin	Develop.					
REVENUES											
Charge for services							\$ 2,560,778			\$ 2,560,778	\$ 2,067,170
Intergovernmental revenues					\$ 65,506					65,506	32,654
Other	5,394	270		1,509	193	26,699				34,065	18,039
TOTAL REVENUES	<u>5,394</u>	<u>270</u>	<u>-</u>	<u>1,509</u>	<u>65,699</u>	<u>26,699</u>	<u>2,560,778</u>	<u>-</u>	<u>-</u>	<u>2,660,349</u>	<u>2,117,863</u>
EXPENDITURES											
Operations and maintenance	533,260	123,009	583,377	66,992	332,298	184,619		1,022,455	390,776	3,236,786	2,306,612
Employee benefits							2,943,599			2,943,599	1,901,806
TOTAL EXPENDITURES	<u>533,260</u>	<u>123,009</u>	<u>583,377</u>	<u>66,992</u>	<u>332,298</u>	<u>184,619</u>	<u>2,943,599</u>	<u>1,022,455</u>	<u>390,776</u>	<u>6,180,385</u>	<u>4,208,418</u>
EXCESS OF REVENUE OVER (UNDER)											
EXPENDITURES	<u>(527,866)</u>	<u>(122,739)</u>	<u>(583,377)</u>	<u>(65,483)</u>	<u>(266,599)</u>	<u>(157,920)</u>	<u>(382,821)</u>	<u>(1,022,455)</u>	<u>(390,776)</u>	<u>(3,520,036)</u>	<u>(2,090,555)</u>
OTHER FINANCING SOURCES (USES)											
Operating transfers in (out)	527,866	122,739	583,377	65,483	266,599	157,920		1,022,455	390,776	3,137,215	2,113,808
Total Other Financing Sources (Uses)	<u>527,866</u>	<u>122,739</u>	<u>583,377</u>	<u>65,483</u>	<u>266,599</u>	<u>157,920</u>	<u>-</u>	<u>1,022,455</u>	<u>390,776</u>	<u>3,137,215</u>	<u>2,113,808</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)											
EXPENDITURES AND OTHER USE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(382,821)</u>	<u>-</u>	<u>-</u>	<u>(382,821)</u>	<u>23,253</u>
NET ASSETS, Beginning of Period											
NET ASSETS, End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,984</u>	<u>\$ 765,805</u>

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Proprietary - Enterprise Funds
 June 30, 2012 with Comparative Data

	Electric				
	Operating	Reserve	Fiber Operations	Debt Service	Total
ASSETS					
Unrestricted Assets:					
Cash and cash equivalents	\$ 306,418	\$ 8,631,931	\$ 409,346	\$ -	\$ 9,347,695
Due from Other Funds		7,493,747			7,493,747
Restricted Assets:					
Investments					-
Customer service territory, net of amortization					
Debt issuance costs, net of amortization					
Equity interest in joint venture					550,000
TOTAL ASSETS	<u>\$ 856,418</u>	<u>\$ 16,125,678</u>	<u>\$ 409,346</u>	<u>\$ -</u>	<u>\$ 17,391,442</u>
LIABILITIES:					
Current Liabilities:					
Current portion of long term debt	\$ 89,971				\$ -
Accrued expenses					89,971
Meter deposits payable					
Total Current Liabilities	<u>89,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,971</u>
Noncurrent Liabilities:					
Due to other funds					-
Unamortized deferred gain on early retirement of debt					-
Long term debt					-
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>89,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,971</u>
NET ASSETS:					
Restricted					
Unrestricted	766,447	16,125,678	409,346	-	17,301,471
TOTAL NET ASSETS	<u>766,447</u>	<u>16,125,678</u>	<u>409,346</u>	<u>-</u>	<u>17,301,471</u>

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Proprietary - Enterprise Funds
 June 30, 2012 with Comparative Data

	Water		Sewer	
	Meter		Reserve	
	Operating	Deposit	Operating	Total
ASSETS				
Unrestricted Assets:				
Cash and cash equivalents	\$ 449,297	\$ 768,250	\$ 265,327	\$ 60,051
Due from Other Funds				\$ 325,378
Restricted Assets:				
Investments	527,017	527,017	313,492	313,492
Customer service territory, net of amortization	842,918	842,918		
Debt issuance costs, net of amortization	17,570	17,570	144,362	144,362
Equity interest in joint venture				
TOTAL ASSETS	<u>\$1,836,802</u>	<u>\$ 768,250</u>	<u>\$ 723,181</u>	<u>\$ 783,232</u>
LIABILITIES:				
Current Liabilities:				
Current portion of long term debt	\$ 32,447	\$ 32,447	272,553	272,553
Accrued expenses		-		-
Meter deposits payable	\$ 769,807	769,807		
Total Current Liabilities	<u>32,447</u>	<u>769,807</u>	<u>272,553</u>	<u>272,553</u>
Noncurrent Liabilities:				
Due to other funds				
Unamortized deferred gain on early retirement of debt				
Long term debt	466,489	466,489	3,918,511	3,918,511
TOTAL NONCURRENT LIABILITIES	<u>466,489</u>	<u>466,489</u>	<u>3,918,511</u>	<u>3,918,511</u>
TOTAL LIABILITIES	<u>498,936</u>	<u>769,807</u>	<u>4,191,064</u>	<u>4,191,064</u>
NET ASSETS:				
Restricted				
Unrestricted	1,337,866	(1,557)	(3,467,883)	60,051
TOTAL NET ASSETS	<u>1,337,866</u>	<u>(1,557)</u>	<u>(3,467,883)</u>	<u>60,051</u>

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Proprietary - Enterprise Funds
 June 30, 2012 with Comparative Data

	Economic Development	Total Enterprise Funds June 30, 2012	Total Enterprise Funds June 30, 2011
ASSETS			
Unrestricted Assets:			
Cash and cash equivalents	\$ 62,044	\$ 10,952,664	\$ 10,212,048
Due from Other Funds	\$ 65,000	7,558,747	8,390,254
Restricted Assets:			
Investments		840,509	1,515,087
Customer service territory, net of amortization		842,918	
Debt issuance costs, net of amortization		161,932	174,152
Equity interest in joint venture		550,000	550,000
TOTAL ASSETS	\$ 127,044	\$ 20,906,770	\$ 20,841,541
LIABILITIES:			
Current Liabilities:			
Current portion of long term debt		305,000	\$ 930,000
Accrued expenses		89,971	80,196
Meter deposits payable		769,807	743,365
Total Current Liabilities	-	1,164,778	1,753,561
Noncurrent Liabilities:			
Due to other funds	7,400,904	7,400,904	8,214,519
Unamortized deferred gain on early retirement of debt		-	30,360
Long term debt		4,385,000	5,390,000
TOTAL NONCURRENT LIABILITIES	7,400,904	11,785,904	13,634,879
TOTAL LIABILITIES	7,400,904	12,950,682	15,388,440
NET ASSETS:			
Restricted			
Unrestricted	(7,273,860)	7,956,088	5,453,101
TOTAL NET ASSETS	(7,273,860)	7,956,088	5,453,101

CITY OF LEBANON, MISSOURI

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

Proprietary - Enterprise Funds

Year Ended June 30, 2012 with Comparative Data

	Electric				Total
	Operating	Reserve	Operations	Debt Service	
Operating revenues					
Charges for services	\$ 22,787,956	\$ 103,042			\$ 22,890,998
Miscellaneous	130,066	220			130,286
Total operating revenues	22,918,022	-	103,262	-	23,021,284
Operating expenses:					
Personnel costs	1,007,451				1,007,451
Operations and maintenance	20,773,418	5,162			20,778,580
Total operating expenses	21,780,869	-	5,162	-	21,786,031
Operating income (loss)	1,137,153	-	98,100	-	1,235,253
Nonoperating revenues (expenses)					
Interest income	43,948			17	43,965
Interest income - interfund loans		401,601			401,601
Intergovernmental revenue					-
Capital outlay	(368,096)				(368,096)
Debt service:					
Interest and agent fees				(33,480)	(33,480)
Total non-operating revenues (expenses)	(324,148)	401,601	-	(33,463)	43,990
Income (loss) before transfers	813,005	401,601	98,100	(33,463)	1,279,243
Operating transfers in (out)	(1,238,371)		(75,472)	432,418	(881,425)
Change in net assets	(425,366)	401,601	22,628	398,955	397,818
Beginning net assets	1,191,813	15,724,077	386,718	(398,955)	16,903,653
Ending net assets	\$ 766,447	\$ 16,125,678	\$ 409,346	\$ -	\$ 17,301,471

NOTE: The beginning fund balance was adjusted to reflect a change in accounting method for reporting fuel inventory of \$9,823 for Electric, \$7,859 for Sewer and \$3,274 for Water.

CITY OF LEBANON, MISSOURI
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets-Modified Cash Basis
Proprietary - Enterprise Funds
Year Ended June 30, 2012 with Comparative Data

	Water			Sewer		
	Operating	Deposit	Total	Operating	Reserve	Total
Operating revenues						
Charges for services	\$ 2,286,838	\$ 2,286,838	\$ 2,286,838	\$ 2,378,372	\$ 2,378,372	\$ 2,378,372
Miscellaneous	58,720	58,720	58,720	66,606	66,606	66,606
Total operating revenues	2,345,558	-	2,345,558	2,444,978	-	2,444,978
Operating expenses:						
Personnel costs			-	644,752		644,752
Operations and maintenance	668,111		668,111	453,707		453,707
Total operating expenses	668,111	-	668,111	1,098,459	-	1,098,459
Operating income (loss)	1,677,447	-	1,677,447	1,346,519	-	1,346,519
Nonoperating revenues (expenses)						
Interest income	1,577		1,577	2,041		2,041
Interest income - interfund loans			-			-
Intergovernmental revenue	(3,386)		(3,386)	(130,507)		(130,507)
Capital outlay						
Debt service:						
Interest and agent fees	(21,914)		(21,914)	(180,636)		(180,636)
Total non-operating revenues (expenses)	(23,723)	-	(23,723)	(309,102)	-	(309,102)
Income (loss) before transfers	1,653,724		1,653,724	1,037,417	-	1,037,417
Operating transfers in (out)	(827,006)		(827,006)	(684,395)	-	(684,395)
Change in net assets	826,718	-	826,718	353,022	-	353,022
Beginning net assets	511,148	(1,557)	509,591	(3,820,905)	60,051	(3,760,854)
Ending net assets	\$ 1,337,866	\$ (1,557)	\$ 1,336,309	\$ (3,467,883)	\$ 60,051	\$ (3,407,832)

NOTE: The beginning fund balance was adjusted to reflect a change in accounting method for reporting fuel inventory of \$9,823 for Electric, \$7,859 for Sewer and \$3.274 for Water.

CITY OF LEBANON, MISSOURI

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets-Modified Cash Basis
 Proprietary - Enterprise Funds
 Year Ended June 30, 2012 with Comparative Data

	Storm Water	Economic Development	Enterprise Funds June 30, 2012	Enterprise Funds June 30, 2011
Operating revenues				Totals
Charges for services		\$ 1,354,153	\$ 28,910,361	19,018,343
Miscellaneous		43,991	299,603	115,106
Total operating revenues	-	1,398,144	29,209,964	19,133,449
Operating expenses:				
Personnel costs			1,652,203	1,027,754
Operations and maintenance	1,846	597,694	22,499,938	15,518,434
Total operating expenses	1,846	597,694	24,152,141	16,546,188
Operating income (loss)	(1,846)	800,450	5,057,823	2,587,261
Nonoperating revenues (expenses)				
Interest income			47,583	69,315
Interest income - interfund loans			401,601	302,133
Intergovernmental revenue			-	24,098
Capital outlay			(501,989)	(273,495)
Debt service:				
Interest and agent fees			(236,030)	(149,043)
Total non-operating revenues (expenses)	-	-	(288,835)	(26,992)
Income (loss) before transfers	(1,846)	800,450	4,768,988	2,560,269
Operating transfers in (out)	1,846	104,021	(2,286,959)	(1,344,925)
Change in net assets	-	904,471	2,482,029	1,215,344
Beginning net assets	-	(8,178,331)	5,474,059	4,237,757
Ending net assets	\$ -	\$ (7,273,860)	\$ 7,956,088	\$ 5,453,101

NOTE: The beginning fund balance was adjusted to reflect a change in accounting method for reporting fuel inventory of \$9,823 for Electric, \$7,859 for Sewer and \$3,274 for Water.

CITY OF LEBANON, MISSOURI
 Combining Balance Sheet - Modified Cash Basis
 Nonmajor Funds
 June 30, 2012 with Comparative Data

	Special Revenue Funds											June 30, 2011 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	
ASSETS														
Unrestricted Assets:														
Cash and cash equivalents	\$ 49,097	\$ (2,020)	\$ 1,328	\$ 23,963	\$ 1,328	\$ 19,645	\$ 3,324	\$ 39,764	\$ 31,281	\$ -	\$ -	\$ 336,966	\$ 463,170	
TOTAL ASSETS	\$ -	\$ (2,020)	\$ 1,328	\$ 23,963	\$ 1,328	\$ 19,645	\$ 3,324	\$ 39,764	\$ 31,281	\$ -	\$ -	\$ 336,966	\$ 463,170	
LIABILITIES:														
Due to other funds								\$ 92,843	\$ 65,000				\$ 157,843	\$ 175,735
Accrued expenses														13
Total liabilities								92,843	65,000				157,843	175,748
EQUITY:														
Fund balance:														
Assigned	-	49,097	(2,020)	23,963	1,328	19,645	3,324	(53,079)	(33,719)	-	-	336,966	287,422	
TOTAL LIABILITIES AND EQUITY	\$ -	\$ 49,097	\$ (2,020)	\$ 23,963	\$ 1,328	\$ 19,645	\$ 3,324	\$ 39,764	\$ 31,281	\$ -	\$ -	\$ 336,966	\$ 463,170	

CITY OF LEBANON, MISSOURI
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
 Nonmajor Funds
 Year Ended June 30, 2012 with Comparative Data

	Special Revenue Funds											June 30, 2011 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
REVENUES													
Taxes		\$105,287							\$ 32,983			\$ 523,190	\$ 609,278
Charges for services	\$108,926		\$ 12,868			\$ 4,273	\$ 42,079	6,126	30,156	55,566	34,499	294,493	212,857
Intergovernmental revenues		46,296					35,529					81,825	33,051
Other	206	12,468					1,710	750				15,134	12,824
TOTAL REVENUES	109,132	164,051	12,868	-	-	4,273	79,318	39,859	30,156	55,566	557,689	1,052,912	868,010
EXPENDITURES													
Public safety													6,749
Recreation	562,365						81,987				360,322	922,687	785,693
Transportation												81,987	51,453
Capital outlay			22,410									22,410	121,978
Economic Development		183,613						6,787	23,558	57,965		271,923	164,095
Debt principal payments												21,788	17,437
Debt interest payments												782	1,029
TOTAL EXPENDITURES	562,365	183,613	22,410	-	-	-	104,557	6,787	23,558	57,965	360,322	1,321,577	1,148,434
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(453,233)	(19,562)	(9,542)	-	-	4,273	(25,239)	33,072	6,598	(2,399)	197,367	(268,665)	(280,424)
OTHER FINANCING SOURCES (USES)													
Operating transfers in (out)	453,233	68,659	(9,277)				72,484		(6,598)	(10,551)	(245,132)	322,818	296,066
Total Other Financing Sources (Uses)	453,233	68,659	(9,277)				72,484		(6,598)	(10,551)	(245,132)	322,818	296,066
EXCESS OF REVENUES AND SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	49,097	(18,819)	-	-	4,273	47,245	33,072	-	(12,950)	(47,765)	54,153	15,642
FUND BALANCE, Beginning	-	-	16,799	23,963	1,328	15,372	(100,324)	(66,791)	-	12,950	384,731	291,352	271,780
FUND BALANCE, Ending	\$ -	\$ 49,097	\$ (2,020)	\$ 23,963	\$ 1,328	\$ 19,645	\$ (53,079)	\$ (33,719)	\$ -	\$ -	\$ 336,966	\$ 345,505	\$ 287,422

NOTE: The beginning fund balance was adjusted to reflect a change in accounting method for reporting fuel inventory by \$3,930.

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

Honorable Mayor and Council
City of Lebanon, Missouri

Compliance

We have audited City of Lebanon, Missouri's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Cit of Lebanon's major federal programs for the year ended June 30, 2012. The City of Lebanon, Missouri's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Lebanon, Missouri's management. Our responsibility is to express an opinion on the City of Lebanon, Missouri's compliance based on our audit.

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

In our opinion, the City of Lebanon, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Lebanon, Missouri is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed above, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Officer CPA Firm LLC
Springfield, Missouri
November 28, 2012



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Council
City of Lebanon, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lebanon, Missouri as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2012. These financial statements were prepared using a modified cash basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and other Matters

As part of obtaining reasonable assurance about whether the City of Lebanon's financial

CITY OF LEBANON, MISSOURI
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - MODIFIED CASH BASIS
 Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF ENERGY</u>			
Passed through the Missouri Department of Natural Resources			
Energy Efficiency and Conservation Block Grant	81.128	AARA-G10-EECBG-04-095494084	1,181
Energy Efficiency and Conservation Block Grant	81.128	AARA-G10-EECBG-04-095494084	64,324
Subtotal for CFDA 81.128			<u>65,505</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through Missouri Department of Transportation			
Highway Planning and Construction	20.205	STP-3800(802)	72,331
Airport Improvement Program	20.106	11-64A-1	35,529
Alcohol Open Container Requirements			
Sobriety Checkpoint	20.607	11-154-AL-723	1,220
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Public Safety Partnership and Community Policing Grant	16.810	ARRA-2009-SD-B9-0104	161,273
Edward Byrne Memorial State and Local Law Enforcement Justice Assistance Grant Program	16.738	2009-SB-B9-2653	2,738
Subtotal for CFDA 16.738			<u>2,738</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Missouri Department of Economic Development			
Community Development Block Grant Program	14.228	2008-ED-05	725,000
Total			<u>\$ 1,063,596</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

We noted certain matters that we reported to management of City of Lebanon, Missouri in a separate letter dated June 30, 2012.

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Officer CPA Firm LLC

Springfield, Missouri
November 28, 2012

CITY OF LEBANON, MISSOURI
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

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

Federal Awards:

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

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

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

The programs tested as major programs included:

<u>Name</u>	<u>CFDA Number</u>
Public Safety Partnership and Community Policing Grant	14.228

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

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None