CITY OF LEBANON, MISSOURI

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2014

CITY OF LEBANON, MISSOURI
Audit Report
June 30, 2014

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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 modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Missouri, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Missouri, as of June 30, 2014, and the respective changes in the modified cash basis financial position, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

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 non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The 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* Organization, and is also not a required part of the basis financial statement.

The combining and individual non-major 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 basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements 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 it.

We have previously audited the City of Lebanon, Missouri's 2014 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information in our report dated October 24, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the City of Lebanon, Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financials reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lebanon, Missouri's internal control over financial reporting and compliance.

Officer CPA Firm LLC

Springfield, Missouri
October 24, 2014

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, 2014. 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

In the 2014 Fiscal Year the City was able to refinance the COP(s) relating to the Capital Improvement fund. This refinancing will save the City and its taxpayer around $500,000 over the life of the Bonds.

The wholesale rate for the purchase of power continued to increase during the fiscal year. The City will need to review its current rate structure during the next couple of fiscal years to make sure the retail rate to its customers is keeping pace with the cost of buying power.

During the 2014 Fiscal Year the City of Lebanon worked to make strategic investments in capital improvements for its governmental and enterprise-activity. This investment in capital assets includes land, buildings, machinery, streets and sidewalks, vehicles, equipment, furniture and fixtures, enterprise-wide hardware and software as well as general improvements and upgrades. The City's investment in capital assets for the 2014 Fiscal Year was $4,424,898. Major capital asset investments occurring in the 2014 fiscal year included the following:

Improvements were started on the Atchley Park restrooms and improvements were made to the Boswell Aquatic Center totaling $68,100 from the Park Fund (79).

Upgrades to the City's organization-wide informational technology infrastructure were undertaken throughout the year totaling $107,418 from the Fiber Fund (83).

The City completed the expansion to the Detroit Tool Metal Products facility from the Economic Development Fund (45) this investment totaled around $1,762,000 over the past two fiscal years.

Rolling stock replacement was intermittent in the 2014 Fiscal Year, with some proposed purchases being postponed at the behest of the governing body. Fleet upgrades were made from various funds totaling $94,504 and three (3) Police patrol vehicles were replaced and fully equipped using proceeded from the Capital Improvement Fund (22) for $97,851.

Investments in specialized equipment and machinery were made to help assist staff in the field and better serve patrons. Such purchases included; Equipment to maintain the CCC facility for $18,594 from General Fund (01), Enhanced detective equipment for the police and Christmas lights along Elm Street for $19,871 from Capital Improvement Fund (22), Christmas lights to go along Commercial Street for $22,910 from the Downtown Business District (75), A CCTV van for managing the City's sewer network for $238,000 from the Sewer Fund (85) and A forestry cutter and bobcat totaling $72,704 from the Electric Fund (80) to help manage the electric line easements.

Large investments were made in the City's street network. Projects like Brice street improvements were funded by both the Capital and Street tax. The total invested during this fiscal year was $586,400. Other

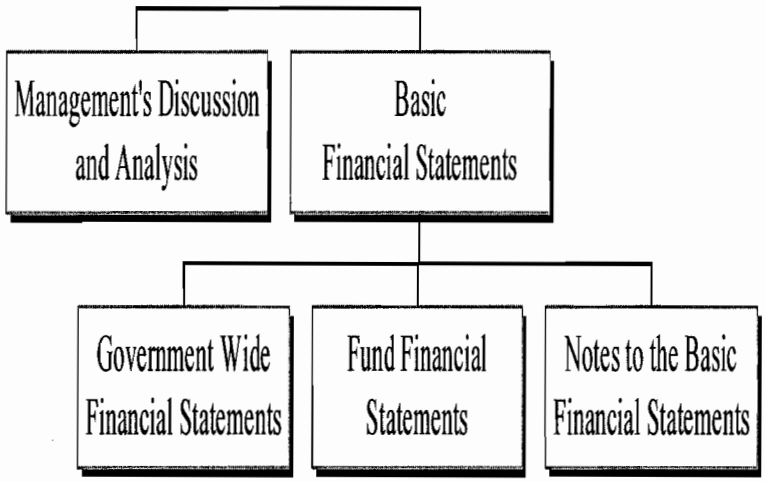
street improvements were either started or finished during this fiscal year. These projects included Tower Road, Commercial Street, Maple Lane, Millcreek Road to highlight a few. The total invested these projects were $187,700.

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 enterprise 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, Other 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, property tax, 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.

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

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

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.

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

Government-Wide Financial Analysis

The largest portion of the City's net assets reflects its investment cash accounts. The City started collecting information on its Capital Assets in Fiscal Year 2012. During the Fiscal Year 2013, City Council adopted a Capitalization Policy (Council Ordinance 5052). Since the adoption of the policy staff has been working to reflect all Capital Assets within its accounting system. During Fiscal Year 2014 several purchase and projects were capitalized and are reflected in this audit.

NET ASSETS

The following table reflects the condensed Statement of Net Assets as of June 30, 2014

City of Lebanon
Statement of Net Assets

	Governmental Activities	Business-type Activities	June 30, 2014 Totals	June 30, 2013 Totals
ASSETS				
Current and other assets	$4,875,281	$11,589,097	$16,643,78	$17,171,250
Restricted assets	$1,273	$758,734	$760,007	$2,548,629
Due from other funds		$6,634,822	$6,634,822	$7,618,027
Capital assets	$2,455,023	$3,815,970	$6,270,993	$-
Equity interest in Joint venture		$550,000	$550,000	$550,000
Customer Service Territory net of Amortization		$800,417	$821,666	$821,666
Total assets	$7,331,577	$24,149,040	$31,480,617	$28,709,572
LIABILITIES				
Current liabilities	$702	$98,284	$98,986	$90,039
Short-term debt	$1,125,000	$320,000	$1,445,000	$1,195,000
Customer Deposits	$-	$798,335	$798,335	$797,117
Due to other funds	$75,826	$6,558,997	$6,634,823	$7,618,028
Long-term debt	$3,010,000	$3,755,000	$6,765,000	$8,955,000
Total liabilities	$4,211,528	$11,530,616	$15,742,144	$18,655,184
NET ASSETS				
Net Investment in Capital Assets	$(1,679,977)	$(259,030)	$(1,939,007)	$-
Unrestricted	$1,457,307	$12,877,454	$14,334,761	$6,299,051
Restricted	$3,367,504	$	$3,367,504	$3,755,337
Total net assets	$3,144,834	$12,618,424	$15,763,258	$10,054,388

The City's combined net assets, totaled $15,763,258, an increase of $5,708,870. Net assets of the City's governmental activities was $3,144,834 an increase of $3,634,462 over FY 2013 and the business-type activities was $12,618,424 an increase of $2,074,408 over FY 2013. The unrestricted net assets were $1,457,307 an increase of $5,702,272 over FY 2013 for governmental activities due to the fact that the capital assets were capitalized. All of the net assets are unrestricted for business-type activities.

The following table reflects the condensed schedule of changes in net assets as of June 30, 2014

City of Lebanon
Statement of Changes in Net Assets

	Governmental Activities	Business-type Activities	June 30, 2014 Totals	June 30, 2013 Totals
REVENUES				
Program revenue:				
Charges for services	$972,409	$29,311,780	$30,284,189	$30,217,004
Operating grants & contributions	$35,665	$-	$35,665	$47,680
Capital grants & contributions	$47,210	$-	$47,210	$217,848
General revenue:				
Real Estate Taxes	$1,128,598	$-	$1,233,537	$1,184,222
Sales Tax	$6,917,247	$-	$6,812,308	$6,769,550
Franchise Tax	$446,451	$-	$446,451	$428,074
Other Taxes	$67,505	$-	$67,505	$66,326
PILOT	$1,207,439	$-	$1,207,439	$1,218,723
Interest and Investment Earnings	$20,293	$397,855	$418,148	$408,625
Miscellaneous	$142,469	$-	$142,469	$68,756
Transfers in (out)	$(41,135)	$41,135	$-	$-
Gain (Loss) on Asset Disposal	$-	$-	$-	$-
Total Revenues	$10,944,151	$29,750,770	$40,694,921	$40,626,808
EXPENSES				
Administration	$1,834,983	$-	$1,834,983	$1,654,033
Public Safety	$3,970,988	$-	$3,970,988	$3,629,564
Recreation	$730,134	$-	$730,134	$922,864
Transportation	$1,324,804	$-	$1,324,804	$2,081,756
Capital outlay	$61,342	$-	$61,342	$344,743
Economic Development	$68,625	$-	$68,625	$119,531
Interest on Long Term Debt	$394,810	$-	$394,810	$325,466
Electric	$-	$24,974,503	$24,974,503	$23,540,290
Fiber Operations		$76,118	$76,118	
Water	$-	$1,187,977	$1,187,977	$1,282,790
Sewer	$-	$1,513,897	$1,513,897	$1,651,808
Economic Development	$-	$623,050	$623,050	$691,612
Total Expenses	$8,385,686	$28,375,545	$36,761,231	$36,244,457
INCREASE (DECREASE) IN NET ASSETS	$2,558,465	$1,375,225	$3,933,690	$4,382,350
NET ASSETS, beginning of year	*$586,369*	*$11,243,199*	*$11,829,568*	*$5,672,038*
NET ASSETS, end of year	*$3,144,834*	*$12,618,424*	*$15,763,258*	*$10,054,388*

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

	Total Costs of Services	Net Costs of Services
Administration	$1,834,983	$(1,330,894)
Public Safety	$3,970,988	$(3,683,178)
Recreation	$730,134	$(687,062)
Transportation	$1,324,804	$(1,145,774)
Capital outlay	$61,342	$(61,342)
Economic Development	$68,625	$(27,342)
Interest on Long Term Debt	$394,810	$(394,810)
TOTAL	**$8,385,686**	**$(7,330,402)**

For comparison in FY ending June, 2013, Total Cost of Services was $9,077,957 and Net Cost of Services was $(8,109,995).

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, Community Building 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 $1,138,510, an increase of $170,745 over the beginning balance of $967,765. This fund balance is eighteen percent of total fund revenues.

General Fund Budget Highlights

- Total budgeted revenue was $6,215,150 and actual revenue was $6,354,604 a difference of $139,454
- Actual expenditures were under the budgeted amount by $504,259.
- Excess of actual revenues over actual expenditures was $170,745

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 fiscal year, total fund balance of the Transportation Fund was $568,369, an increase of $271,947 over the beginning balance of $296,422. The increase in the balance will be used during Fiscal Year 2015 for projects currently under way. This fund balance represents twenty-six percent of Fiscal Year 2014 total revenue. This balance will be used for reserves and committed projects.

Capital Improvement Tax Fund This Fund is established as required under the Revised Missouri Statutes 94.577. The monies collected here are from a ½ cent sales tax. These funds are used for capital infrastructure and recreational projects. A fire truck, City Hall and aquatic center improvements were financed 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 $2,267,477, a decrease of $753,350 over the beginning balance of $3,020,827. The unrestricted Capital Improvement Fund balance at year-end was $2,266,204. This fund has no requirement to have an operational reserve.

Other Governmental Funds The Lodging Tax (Tourism), Airport, Downtown Business District, Parks and Recreation are non major funds for the City. Most of these funds have a dedicated revenue source and are required to be separated from other governmental activity. The funds combined have a beginning fund balance of $438,088 and an ending fund balance of $531,658 an increase of $93,570. An individual breakdown of the funds balances beginning and ending balances are listed below.

Fund	Fund Balance	Fund Balance
	June 30, 2013	June 30, 2014
Airport	$4,638	$7,034
	Special Revenue Funds	
Downtown Business District	$14,852	$16,015
Lodging Tax	$37,229	$33,564
Park and Recreation	$520,915	$550,871

Proprietary Funds

Electric Fund These Funds 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 these funds. At the end of the fiscal year, the total net assets of the Electric Fund (80) were $15,701,611. The operating unrestricted cash is $7,988,069 this is a decrease of $911,475 from the operating unrestricted cash of $8,899,544. The Due from Other Funds (accounts receivable) is $6,634,822. The operating income for Fiscal Year 2014 for the Electric Fund was $(1,847,895).

Fiber Fund The total Net Assets of the Fiber Fund (83) were $524,303 an increase of $25,778 over a beginning net asset of $498,525.

Water Fund The Water Fund is based on a User Fee system where the individuals and businesses utilizing the service pay a fee based upon a portion of the estimated cost of operation of the Water Fund. At the end of the fiscal year, the total net assets of the Water Fund were $3,089,593. The unrestricted assets balance in the operating fund at year-end was $1,939,867. The other assets which make up the total assets are Meter Deposits $796,778; Restricted Investments $526,966; and Customer service territory (PWSD #3) $800,417 and Capital Assets $257,411.

Sewer Fund The Sewer Fund is based on a User Fee system where the individuals and businesses utilizing the service pay a fee based upon a portion of the estimated cost of operation of the Sewer Fund. At the end of the current fiscal year, the total net assets of the Sewer Fund were $(1,757,067), an increase of $877,317 over the beginning balance of $(2,634,384). The negative Total Net Asset is due to the fact, that the City has not capitalized improvements to the Treatment Plant, therefore the offsetting

debt results in a negative fund balance. The Total Liabilities are $3,641,489 and the total restricted and non-restricted assets are $1,233,679 of that $1,001,911 are unrestricted assets.

Economic Development The Economic Development Fund is based on rents received, and a PILOT from the metered service funds. At the end of the Fiscal Year 2014, the Total Assets of the Economic Development Fund were $1,618,981 these assets consist of 1) $1,787,416 in Construction in progress related to the DTMP expansion; 2) $(545,022) in cash and cash equivalents related to a settlement; and 3) $379,583 in booked capitalized assets. The negative Total Net Assets for this fund is due in part of the Due to Other Funds and the fact that the assets associated with these improvements are not booked on the asset side of the balance sheet. The Total Net Assets ending balance is $(4,940,016). The beginning balance was $(6,314,156). The Due to Other Funds balance is $6,558,997.

Internal Service Funds

Community Development and Internal Service Funds These funds are made of the internal services to the City. These departments provide services not related to a fund, rather an activity. Community Development (Fund 50) is a general function of governmental activity and is mostly funded by the General Fund. The exception to this is any revenue generated for subdivision development as governed by the City Municipal Code. The Net Assets of this fund ending Fiscal Year 2014 is $39,658.

The Internal Service Fund is made up of the following departments, Garage, Warehouse, Information Technology, Facilities Management, and Janitorial. Operating transfers are the offset to the expenditures in this fund, and therefore do not maintain a cash fund balance; however, assets assigned to this fund will show a positive net asset position. The operating expenditures in Fiscal Year 2014 were $798,452

Employee Benefits The 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 $516,616 and an ending fund balance of $258,360 a decrease of $258,256. The City did not see high claims during the fiscal year. This is a balance that should be monitored when reviewing the rates for employee premiums. Based on activity of $2,700,000, the fund balance should be around $675,000. The fund balance of around ten percent is lower than the required balance of other funds.

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
As of June 30, 2014, the City of Lebanon booked $6,270,993 in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, and electric, water and sewer facilities.

City of Lebanon Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Building	$-	$469,574	$-	$386,799	$-	$856,373
Land	$-	$125,793	$-	$19,473	$-	$145,266
Machine & Equipment	$-	$214,210	$-	$459,644	$-	$673,854
Furniture	$-	$14,117	$-	$-	$-	$14,117
Vehicle	$-	$400,330	$-	$328,317	$-	$728,647
Infrastructure	$-	$982,132	$-	$446,218	$-	$1,428,350
Construction in Progress	$-	$439,110	$-	$2,236,289	$-	$2,675,399
Less Accumulated Depreciation	$-	$190,243	$-	$60,770	$-	$251,013
Total	$-	$2,455,023	$-	$3,815,970	$-	$6,270,993

The City's fiscal year 2015 capital budget calls for spending another $7 million for capital projects. The City has no plans to issue additional debt to finance these projects.

Debt Administration
At the end of the current fiscal year, the City of Lebanon had $8,210,000 in outstanding debt consisting of revenue bonds, capital leases, notes payable and Certificates of Participation, (COP) 2010, 2014. All of the debt was secured by specific revenue sources. The City of Lebanon has due within one year a total of $1, 445,000 of outstanding obligations.

City of Lebanon Outstanding Debt---June 30, 2014

Governmental Activities	
Certificates of Participation – Series 2014	$4,135,000
Total Governmental Activities	$4,135,000
Business-type Activities	
Certificates of Participation – Series 2010A	$980,000
Certificates of Participation – Series 2010B	$3,095,000
Total Business-type Activities	$4,075,000
TOTAL INDEBTEDNESS	**$8,210,000**

City of Lebanon Inter-fund Loans---June 30, 2014

Economic Development Activities			
Project	**Amount**	**Due**	**Payable Fund**
Copeland	$1,451,030	2016	Electric Operating
Homestead	$28,533	2015	Electric Operating
DTMP Phase I	$3,230,979	2025	Electric Operating
DTMP Phase II	$858,655	2028	Electric Operating
Dowco	$989,800	2026	Electric Operating
Total Inter-fund loans outstanding for Economic Activities			*$6,558,997*
Governmental Activities			
Airport Hangers	$75,826	2020	Electric Operating
Total Inter-fund loans outstanding for Governmental Activities			*$75,826*

Economic Factors and next Year's Budget and Rates

The City of Lebanon's priorities continue to focus on 1) planning for the future, 2) investment in public safety and infrastructure, 3) working on economic development activity and 4) internal operations and fiscal oversight. In the Fiscal Year 2015 budget, the City will continue to plan for flat revenue and will be working towards increasing the fund balances that are under thirty percent of operating revenues. The City will invest most of its Capital fund balance into the Civic Center with additional fund balance proceeds towards Parks and Public Safety investments. The City will use Bond proceeds from the 2010 COP to make improvements to Water Towers and the Waste Water Treatment Facility. This action will reduce current Fund Balances within these Funds. The FY 2015 budget reflects utility rate changes that would see new and recurring revenue with additional one-time proceeds from reserves. The City will continue to monitor the net operating income of its major utilities to ensure fiscal responsibility in the management these public assets. The City is working towards maintaining adequate funding for health insurance to allow for maximum flexibility to offset any increases. The City of Lebanon plans to invest its resources in long term, large scale projects; this investment should allow the City to see savings in operations in future years.

CITY OF LEBANON, MISSOURI
Government-wide Statement of Net Position - Modified Cash Basis
June 30, 2014 with Comparative Data

	Governmental Activities	Business-Type Activities	Total June 30, 2014	Total June 30, 2013
ASSETS				
Cash and cash equivalents	$ 4,853,443	$ 1,860,920	$ 6,714,363	10,153,920
Short-term Investments		9,728,177	9,728,177	7,723,353
Due from Other Funds		6,634,822	6,634,822	7,618,027
Restricted Assets:				
Investments	1,273	758,734	760,007	1,798,545
Capital Assets:				
Building	469,574	386,799	856,373	
Land	125,793	19,473	145,266	
Machine & Equipment	214,210	459,644	673,854	
Furniture	14,117		14,117	
Vehicle	400,330	328,317	728,647	
Infrastructure	982,132	446,218	1,428,350	
Construction in Progress	439,110	2,236,289	2,675,399	
Accumulated Depreciation	(190,243)	(60,770)	(251,013)	
Inventory	21,838		21,838	44,061
Non-current assets:				
Customer service territory, net of amortization		800,417	800,417	821,666
Equity interest in joint venture		550,000	550,000	550,000
TOTAL ASSETS	7,331,577	24,149,040	31,480,617	28,709,572
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized deferred loss on refunding	24,785		24,785	
LIABILITIES				
Current liabilities				
Accrued expenses	702	98,284	98,986	90,039
Customer deposits		798,335	798,335	797,117
Current portion of long-term debt	1,125,000	320,000	1,445,000	1,195,000
Due to other funds	75,826	6,558,997	6,634,823	7,618,028
Long-term liabilities, net of current portion				
Long-term debt	3,010,000	3,755,000	6,765,000	8,955,000
TOTAL LIABILITIES	4,211,528	11,530,616	15,742,144	18,655,184
NET POSITION				
Net investment in capital assets	(1,679,977)	(259,030)	(1,939,007)	
Unrestricted	1,457,307	12,877,454	14,334,761	6,299,051
Restricted	3,367,504		3,367,504	3,755,337
TOTAL NET POSITION	$ 3,144,834	$ 12,618,424	$ 15,763,258	$ 10,054,388

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI
Government-wide Statement of Activities - Modified Cash Basis
Year Ended June 30, 2014 with Comparative Data

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
Program Activities	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total June 30, 2014	Comparative Data June 30, 2013
Governmental activities:								
Administration	$ 1,834,983	$ 504,089			$ (1,330,894)		$ (1,330,894)	$ (1,276,119)
Public safety	3,970,988	278,737		9,073	(3,683,178)		(3,683,178)	(3,442,768)
Recreation	730,134	43,072			(687,062)		(687,062)	(893,023)
Transportation	1,324,804	140,893		38,137	(1,145,774)		(1,145,774)	(1,761,845)
Capital outlay	61,342	-			(61,342)		(61,342)	(344,743)
Economic development	68,625	5,618	35,665		(27,342)		(27,342)	(66,031)
Interest on long-term debt	394,810				(394,810)		(394,810)	(325,466)
Total governmental activities	8,385,686	972,409	35,665	47,210	(7,330,402)	-	(7,330,402)	(8,109,995)
Business-Type activities								
Electric	24,974,503	23,028,714				(1,945,789)	(1,945,789)	(307,960)
Fiber Operations	76,118	98,942				22,824	22,824	
Water	1,187,977	1,824,071				636,094	636,094	1,025,050
Sewer	1,513,897	2,362,218				848,321	848,321	812,675
Economic development	623,050	1,997,835				1,374,785	1,374,785	818,305
Total Business-Type activities	28,375,545	29,311,780	-	-	-	936,235	936,235	2,348,070
Total primary government	$ 36,761,231	$ 30,284,189	$ 35,665	$ 47,210	(7,330,402)	936,235	(6,394,167)	(5,761,925)
	General Revenues:							
	Taxes				9,767,240		9,767,240	9,666,894
	Interest and investment earnings				20,293	397,855	418,148	408,625
	Transfers in (out)				(41,135)	41,135	-	
	Miscellaneous				142,469		142,469	68,756
	Total General Revenues				9,888,867	438,990	10,327,857	10,144,275
	Change in Net Position				2,558,465	1,375,225	3,933,690	4,382,350
	Net Position at Beginning of Year				586,369	11,243,199	11,829,568	5,672,038
	Net Position at End of Year				$ 3,144,834	$ 12,618,424	$ 15,763,258	$ 10,054,388

NOTE: The beginning fund balance was increased by $1,775,180 to reflect a change in accounting method to include capital assets. The Governmental activites increased by $1,075,997 and the Business-Type Acitivities increased by $699,183.

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI
Balance Sheet - Modified Cash Basis
Governmental Funds
June 30, 2014 with Comparative Data

	General	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds June 30, 2014	Comparative Data June 30, 2013
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	$ 1,139,201	$ 2,266,204	$ 568,380	$ 607,484	$ 4,581,269	$ 3,907,001
Restricted Assets:						
Investments		1,273			1,273	957,337
TOTAL ASSETS	$ 1,139,201	$ 2,267,477	$ 568,380	$ 607,484	$ 4,582,542	$ 4,864,338
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accrued expenses	$ 691		$ 11		702	$ 1,690
Due to other funds				75,826	75,826	139,546
TOTAL LIABILITIES	691	-	11	75,826	76,528	141,236
FUND BALANCES:						
Unassigned	1,138,510				1,138,510	967,765
Assigned		2,267,477	568,369	531,658	3,367,504	3,755,337
TOTAL FUND BALANCES	1,138,510	2,267,477	568,369	531,658	4,506,014	4,723,102
TOTAL LIABILITIES AND FUND BALANCES	$ 1,139,201	$ 2,267,477	$ 568,380	$ 607,484	$ 4,582,542	$ 4,864,338

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI

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

Year Ended June 30, 2014 with Comparative Data

	June 30, 2014	June 30, 2013
Total fund balances - governmental funds	$ 4,506,014	$ 4,723,103
Amounts reported for *governmental activities* that the statement of net assets are different because:		
Capital assets used in governmental activities are not financials resources and, therefore, are not reported in the funds, net of accumulated depreciation.	2,412,249	
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	336,786	552,269
Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this are as follows:		
Bonds Payable	(4,135,000)	(5,765,000)
Deferred outflow-losses on defeased debt	24,785	
Net position of governmental activities	$ 3,144,834	$ (489,628)

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, 2014 with Comparative Data

	General Fund	Capital Improvement	Street	Other Governmental Funds	Total Governmental Funds June 30, 2014	Comparative Data June 30, 2013
Revenues						
Sales Taxes	$ 3,208,641	$1,535,794	$2,067,873	$ 104,939	$ 6,917,247	$ 6,769,550
Real Estate Taxes	550,662			577,936	1,128,598	1,184,222
Franchise Taxes	446,451				446,451	428,074
Pilot Taxes	1,207,439				1,207,439	1,218,723
Other Taxes	67,505				67,505	66,325
Charges for services	267,298		112,003	77,580	456,881	543,403
Intergovernmental revenue	9,073			73,802	82,875	68,728
License and permits	236,794				236,794	179,633
Fines and court costs	278,737				278,737	176,198
Investment income	7,520	12,773			20,293	8,869
Other	74,484		12,844	55,141	142,469	68,756
Total Revenues	6,354,604	1,548,567	2,192,720	889,398	10,985,289	10,712,481
Expenditures						
Administration	1,158,020				1,158,020	1,112,193
Public safety	3,811,889				3,811,889	3,715,919
Recreation	583,640			475,643	1,059,283	873,713
Transportation			1,437,894	221,806	1,659,700	1,930,715
Capital outlay		527,983			527,983	344,743
Economic development	55,189			23,587	78,776	98,307
Debt Service:						
Principal payments		2,166,600	3,598,400		5,765,000	870,271
Interest and agent fees		397,699	67,903		465,602	328,367
Total Expenditures	5,608,738	3,092,282	5,104,197	721,036	14,526,253	9,274,228
Excess (Deficit) of Revenues Over Expenditures	745,866	(1,543,715)	(2,911,477)	168,362	(3,540,964)	1,438,253
Other Financing Sources (Uses)						
Transfers in (out)	(575,121)	(4,269)	(156,942)	(74,792)	(811,124)	(843,283)
Debt proceeds		794,634	3,340,366		4,135,000	
Total Other Financing Sources (Uses)	(575,121)	790,365	3,183,424	(74,792)	3,323,876	(843,283)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	170,745	(753,350)	271,947	93,570	(217,088)	594,970
Beginning Fund Balance	967,765	3,020,827	296,422	438,088	4,723,102	4,128,132
Ending Fund Balance	$ 1,138,510	$2,267,477	$ 568,369	$ 531,658	$ 4,506,014	$ 4,723,102

See accompanying notes to financial statements.

CITY OF LEBANON, MISSOURI
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities - Modified Cash Basis
Year Ended June 30, 2014 with Comparative Data

	June 30, 2014	June 30, 2013
Net change in fund balances - total governmental funds	$ (217,088)	$ 594,970
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,336,250	
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	(215,482)	169,284
Governmental funds report the payment of the bond and capital lease principal and interest when the current financial resources are availabile and payments are due, and they report the payment of issuance costs, premiums, discounts, and similar items when debt is first issued. However, on the statement of activities interest is accrued and certain bond-related costs are deferred and amortized. The details of the difference are as follows:		
Net changes of deferred loss	24,785	
Principal payments on bonds outstanding	5,765,000	870,270
Bond proceeds	(4,135,000)	
Changes in net assets of governmental activities	$ 2,558,465	$ 764,254

See accompanying notes to the financial statements.

CITY OF LEBANON, MISSOURI
Statement of Fund Net Position - Modified Cash Basis
Proprietary Funds
June 30, 2014 with Comparative Data

	Business-Type Activities - Enterprise Funds							Internal		
	Electric	Fiber Operations	Water	Meter Deposit	Sewer	Economic Development	Totals	Service Funds	Totals June 30, 2014	Totals June 30, 2013
ASSETS										
Current assets:										
Cash and cash equivalents	$ (990,183)	$ 407,494	$ 1,639,897	$ 796,778	$ 551,956	$ (545,022)	$ 1,860,920	$ 272,174	$ 2,133,094	$ 6,246,917
Short-term Investments	8,978,252		299,970		449,955		9,728,177		9,728,177	7,723,353
Due from Other Funds	6,634,822						6,634,822		6,634,822	7,618,027
Inventory								21,838	21,838	44,061
Restricted assets:										
Investments			526,966		231,768		758,734		758,734	841,208
Total current assets	14,622,891	407,494	2,466,833	796,778	1,233,679	(545,022)	18,982,653	294,012	19,276,665	22,473,566
Capital Assets:										
Building			2,844		23,845	360,110	386,799		386,799	
Land						19,473	19,473		19,473	
Machine & Equipment	173,263	134,454	68,591		83,336		459,644	9,791	469,435	
Vehicle	72,704		22,861		232,752		328,317	32,241	360,558	
Infrastructure	384,590		56,422		5,206		446,218		446,218	
Construction in Progress	24,666		112,278		311,929	1,787,416	2,236,289	4,006	2,240,295	
Total	655,223	134,454	262,996	-	657,068	2,166,999	3,876,740	46,038	3,922,778	
Less Accumulated Depreciation	(28,219)	(17,645)	(5,585)		(6,325)	(2,996)	(60,770)	(3,264)	(64,034)	
Total capital assets	627,004	116,809	257,411	-	650,743	2,164,003	3,815,970	42,774	3,858,744	
Noncurrent assets:										
Customer service territory, net of amortization			800,417				800,417		800,417	821,666
Equity interest in joint venture	550,000						550,000		550,000	550,000
Total noncurrent assets	550,000	-	800,417	-	-	-	1,350,417	-	1,350,417	1,371,666
TOTAL ASSETS	15,799,895	524,303	3,524,661	796,778	1,884,422	1,618,981	24,149,040	336,786	24,485,826	23,845,232
LIABILITIES										
Current liabilities:										
Current portion of long term debt			34,043		285,957		320,000		320,000	310,000
Accrued expenses	98,284						98,284		98,284	88,349
Meter deposits payable				798,335			798,335		798,335	797,117
Total current liabilities	98,284	-	34,043	798,335	285,957	-	1,216,619	-	1,216,619	1,195,466
Noncurrent liabilities:										
Due to other funds						6,558,997	6,558,997		6,558,997	7,478,482
Long term debt			399,468		3,355,532		3,755,000		3,755,000	4,075,000
Total noncurrent liabilities	-	-	399,468	-	3,355,532	6,558,997	10,313,997	-	10,313,997	11,553,482
TOTAL LIABILITIES	98,284	-	433,511	798,335	3,641,489	6,558,997	11,530,616	-	11,530,616	12,748,948
NET POSITION										
Net Investment in Capital Assets	627,004	116,809	(176,100)	-	(2,990,746)	2,164,003	(259,030)	42,774	(216,256)	
Unrestricted	15,074,607	407,494	3,267,250	(1,557)	1,233,679	(7,104,019)	12,877,454	294,012	13,171,466	11,096,284
TOTAL NET POSITION	$ 15,701,611	$ 524,303	$ 3,091,150	$ (1,557)	$ (1,757,067)	$ (4,940,016)	$ 12,618,424	$ 336,786	$ 12,955,210	$ 11,096,284

NOTE: The beginning fund balance was adjusted to reflect a change in accounting method for reporting capital assets of $343,781 for Electric, $29,989 for Fiber Operations, $103,919 for Sewer, $80,095 for Water, and $141,399 for Economic Development.

See accompanying notes to the financial statements.

CITY OF LEBANON, MISSOURI
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
Year Ended June 30, 2014 with Comparative Data

	Business -Type Activities - Enterprise Funds							Internal	Totals	Totals
	Electric	Fiber Operations	Water	Meter Deposit	Sewer	Economic Development	Totals	Service Funds	June 30, 2014	June 30, 2013
Operating revenues										
Charges for services	$ 22,912,749	$ 98,942	$1,821,678		$ 2,311,356	$ 1,995,760	$ 29,140,485	$ 2,492,679	$ 31,633,164	$ 32,078,476
Miscellaneous	115,965		2,393		50,862	2,075	171,295	-	171,295	236,193
Total operating revenues	23,028,714	98,942	1,824,071	-	2,362,218	1,997,835	29,311,780	2,492,679	31,804,459	32,314,669
Operating expenses:										
Personnel costs	1,079,467		532,497		786,174	82,301	2,480,439	2,750,935	5,231,374	5,352,003
Operation and maintenance	23,797,142	47,672	589,925		450,331		24,885,070	1,062,697	25,947,767	24,513,772
Economic development						496,475	496,475		496,475	598,433
Total operating expenses	24,876,609	47,672	1,122,422	-	1,236,505	578,776	27,861,984	3,813,632	31,675,616	30,464,208
Operating income (loss)	(1,847,895)	51,270	701,649	-	1,125,713	1,419,059	1,449,796	(1,320,953)	128,843	1,850,461
Non-Operating revenues (expenses)										
Interest income	38,948		1,489		883		41,320		41,320	31,140
Interest income from internal loans	356,535						356,535		356,535	368,616
Intergovernmental revenue							-		-	196,800
Capital outlay	(11,455)		37,951		(11,569)		14,927		14,927	(174,391)
Debt service:										
Interest and agent fees	-	-	(20,535)		(172,470)		(193,005)		(193,005)	(198,800)
Total non-operating revenues (expenses)	384,028	-	18,905	-	(183,156)	-	219,777	-	219,777	223,365
Income (loss) before transfers	(1,463,867)	51,270	720,554	-	942,557	1,419,059	1,669,573	(1,320,953)	348,620	2,073,826
Operating transfers in (out)	(102,525)	(25,492)	(56,172)		(65,240)	(44,919)	(294,348)	1,105,471	811,123	843,284
Change in net position	(1,566,392)	25,778	664,382	-	877,317	1,374,140	1,375,225	(215,482)	1,159,743	2,917,110
Net position at the beginning of year	17,268,003	498,525	2,426,768	(1,557)	(2,634,384)	(6,314,156)	11,243,199	552,268	11,795,467	8,179,174
Net position at end of year	$ 15,701,611	$ 524,303	$3,091,150	$ (1,557)	$ (1,757,067)	$ (4,940,016)	$ 12,618,424	$ 336,786	$ 12,955,210	$ 11,096,284

NOTE: The beginning fund balance was adjusted to reflect a change in accounting method for reporting capital assets of $343,781 for Electric, $29,989 for Fiber Operations, $103,919 for Sewer, $80,095 for Water, and $141,399 for Economic Development.

See accompanying notes to financial statements.

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

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

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 Position, 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.

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 Position reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net position, with the assets and liabilities show in order of their relative liquidity. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) 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 non-major 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.

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

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

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

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether

current or noncurrent, financial or non financial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

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

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. Intangibles are capitalized and amortized.

During 2014, the City changed the manner in which it accounts for capital assets purchased on or after July 1, 2012. The City believes maintaining capital assets better matches costs with usage and is gradually moving to a more modified cash basis. This change in the amount of $1,775,180 is reflected as a restatement of beginning net position. A notation has been added to the bottom of the financial statements that reflect a change in beginning net position.

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" and "short-term investments" 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. Capital Assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or

business-type activities are recorded and depreciated in the government-wide financial statements. Under GASB No. 34, small cities have the option to capitalize infrastructure purchased in previous years. The City of Lebanon has chosen not to capitalize existing infrastructure before July 1, 2012, but will capitalize any future infrastructure that it acquires. No long-term capital assets or depreciation are shown in the government funds financial statements.

Capital assets, including public domain infrastructure (e.g. roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an individual cost of more than $1,000 and an estimated useful life greater than one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Building and Improvements:	5-40 years
Machine & Equipment:	3-20 years
Furniture:	5-7 years
Vehicle:	3-10 years
Infrastructure:	5-40 years
Land Improvements:	20 years

F. Inventory

Internal Service Fund inventory consists of fuel and supplies. Both inventories are accounted at lower of cost of market using the first-in, first-out method (FIFO).

G. 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.

H. 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.

I. 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.

J. 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.

K. Net Position

The Government-wide Statement of Net Position reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net position, with the assets and liabilities show in order of their relative liquidity. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position is placed with constraints on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position not otherwise classified as restricted, is shown an unrestricted.

Generally, the city would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

L. 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.

M. 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 non-spendable 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 has 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 non-spendable 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. Effect of New Accounting Standards on Current-Period Financial Statements
The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 62, Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements. The current period financial statements have been restated to implement this pronouncement.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position has been implemented in the current financial statements. The financial statements were restated for the elimination of deferred debt issuance costs.

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, 2014, the required deposits had been met.

Governmental Fund Types

The cash and fund balance have been restricted as follows:

	Restricted Cash
Capital Projects Fund	
Debt Reserve Funds	$ 1,273
	$ 1,273

Enterprise Fund Types

The cash and net assets have been restricted as follows:

	Restricted Investments
Sewer project funds	$ 2,109
Sewer debt reserve funds	229,659
Subtotal	231,768
Water project funds	499,625
Water debt reserve funds	27,341
Subtotal	526,966
Total	$ 758,734

3. Cash, Equivalents and Investments

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

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

	June 30, 2014	
	Carrying Amounts	Bank Balance
Petty cash accounts	$ 2,685	$ -
U.S. Government Agency securities	7,499,244	7,499,244
Checking & money mkt accounts	8,940,611	8,889,071
Total	$ 16,442,540	$ 16,388,315
Held in Trust:		
U.S. Government Agency securities and bonds	760,007	760,007
Total Held in Trust	$ 760,007	$ 760,007
Grand Total	$ 17,202,547	$ 17,148,322

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, 2014, $8,889,071 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 $7,499,244 was invested in U.S. Government securities.

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

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

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

4. Capital Assets

Capital asset activities for the year ended June 30, 2014, were as follows:

	Balance 7/1/2013	Additions	Retirements	Balance 6/30/2014
Governmental activities:				
Building		$ 469,574		$ 469,574
Land		125,793		125,793
Machine & Equipment		214,210		214,210
Furniture		14,117		14,117
Vehicle		400,330		400,330
Infrastructure		982,132		982,132
Construction in Progress		439,110		439,110
Total	$ -	$ 2,645,266	$ -	$ 2,645,266
Less accumulated depreciation for:				
Building		$ 8,805		$ 8,805
Land		1,467		1,467
Machine & Equipment		43,325		43,325
Furniture		1,836		1,836
Vehicle		117,828		117,828
Infrastructure	-	16,982		16,982
Total	-	190,243	-	190,243
Net capital assets	$ -	$ 2,455,023	$ -	$ 2,455,023
Business-type activities:				
Capital assets being depreciated:				
Building		$ 386,799		$ 386,799
Land		19,473		19,473
Machine & Equipment		459,644		459,644
Vehicle		328,317		328,317
Infrastructure		446,218		446,218
Construction in Progress		2,236,289		2,236,289
Total		3,876,740	-	3,876,740
Less accumulated depreciation		60,770		60,770
Net capital asset	$ -	$ 3,815,970	$ -	$ 3,815,970

5. Long-Term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2014:

	Long-term obligations at July 1, 2013	Additions	Deletions	Long-term obligations at June 30, 2014	Due within one year
Governmental Activities					
Bonds and notes payable:					
2008 Certificates of participation	5,765,000		5,765,000	-	
2014 Refunding certificates of participation		4,135,000		4,135,000	1,125,000
Governmental activities long-term liabilities	$ -	$ 4,135,000	$ -	$ 4,135,000	$ 1,125,000
Business-type Activities					
Bonds and notes payable:					
2010A Water/Sewer Certficates of participation	1,290,000		310,000	980,000	320,000
2010B Water/Sewer Certficates of participation	3,095,000			3,095,000	-
Business-type activites long-term liabilities	$ 4,385,000	$ -	$ 310,000	$ 4,075,000	$ 320,000

Governmental Activities

A. 2008 and 2014 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 for the 2008 Certificates of Participation range from 3.40% to 5.20%. Interest rates for the 2014 Refunding Certificates of Participation range from .600% to 1.450%. 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:

The annual debt service requirements for the Governmental Activities are:

Year Ending June 30,	Principal	Interest	Total
2015	1,125,000	43,208	1,168,208
2016	1,135,000	32,530	1,167,530
2017	1,150,000	23,450	1,173,450
2018	725,000	10,513	735,513
	$ 4,135,000	$ 109,701	$ 4,244,701

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
2015	320,000	185,435
2016	325,000	177,755
2017	335,000	169,305
2018	345,000	159,925
2019	355,000	144,400
2020-2025	2,395,000	468,012
Total	$4,075,000	$1,304,832

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.

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.

6. Advanced Debt Refunding

During the year ended June 30, 2014, the City of Lebanon, Missouri Refunding Certificates of Participation, Series 2014 were issued on March 25, 2014 in the amount of $4,135,000 to refund the City of Lebanon Certificates of Participation, Series 2008 originally issued in the aggregate principal amount of $8,965,000. The new bonds bear interest from .600% to 1.450% and are due in annual installments ranging from $725,000 to $1,125,000 through May 1, 2018. The amount of bonds defeased is $4,880,000 and the required cash to service these bonds is $4,909,516. This resulted in an economic loss of $29,516 which is being amortized over the remaining term.

7. Risk Management

The City's risk management activities are recorded in the Health Insurance Trust Fund. The purpose of the fund is to administer employee health insurance programs on a cost-reimbursement basis. This fund accounts for the risk financing of the City but does not constitute a transfer of risk from the City. Commercial insurance is carried for this fund for claims exceeding $2,062,779 aggregate and $60,000 individually. The City retains risk of loss up to these deductibles. No claims liabilities are recorded since the City reports it financial statements using a modified cash basis method. At June 30, 2014, $258,361 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.

8. Pension Plans

A. Plan Description

The City of Lebanon participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by state statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and it is tax exempt.

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

B. Funding Status

Full-time employees of the City of Lebanon do not contribute to the pension plan. The June 30th statutorily required contribution rates are 13.7% (general), 13.7% (police) and 10.5% (fire) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

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

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

Annual required contribution	$	739,651
Interest on net pension obligation		5,706
Adjustment to annual required contribution		(5,401)
Annual pension cost		739,956
Actual contributions		734,473
Increase (decrease) in NPO		5,483
NPO beginning of year		78,701
NPO end of year	$	84,184

The annual required contribution (ARC) was determined as part of the February 29, 2012 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2014 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 29, 2012, was 19 years for the General division, 26 years for the Police division and 30 years for the Fire division.

Three-Year Trend Information

2012	742,846	97.0%	61,249
2013	752,705	97.7%	78,701
2014	739,956	99.3%	84,184

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered
2/29/2012	6,197,641	9,945,979	3,748,338	62%	5,541,802	68%
2/28/2013	6,950,965	10,350,624	3,399,659	67%	5,368,725	63%
2/28/2014	7,220,047	10,492,705	3,272,658	69%	5,554,006	59%

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.

9. Deferred Compensation Plan

City employees participate in a nation-wide deferred compensation plan. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. All deferred amounts are the property of the City and participant's interest in the plan is that of a general creditor of the City. It is the opinion of the City's management that the City and Board have no liability for losses under the plan, but do have the duty of due care that would be required of an ordinary prudent investor. Amounts on deposit with Nationwide Financial Company for the City of Lebanon participants at June 30, 2014 were approximately $1,960,636.

10. Deficit Fund Balance

Service, Airport, Downtown Business District and Economic Development Funds

At June 30, 2014, the Airport and Economic Development Funds experienced a deficit fund balance of ($68,792) and ($4,940,016) due to inter-fund loans.

Sewer Fund

The Sewer Fund had a deficit retained earnings of ($1,757,067) resulting from capital improvements to the system and the City expensing capital improvements rather than posting as an asset and calculating depreciation previous to the year ended June 30, 2014.

Meter Deposit Fund

The Meter Deposit Fund has a deficit retained earnings of ($1,557) resulting from not maintaining a cash balance as large as the meter deposits payable.

11. 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 Operating	Economic Development	$ 989,800	Dowco Building	2026
Electric Operating	Economic Development	1,451,030	Copeland Building	2016
Electric Operating	Airport	75,826	Hangers	2020
Electric Operating	Economic Development	3,230,979	Detroit Tool Building	2025
Electric Operating	Economic Development	28,533	Homestead Building	2015
Electric Operating	Economic Development	858,655	Detroit Tool Building	2028
		$ 6,634,823		

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

12. Long-Term Contracts

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

MoPEP operations are governed by a committee (Pool Committee) consisting of one representative from each MoPEP member and was comprised of 35 members as of December 31, 2012. The Pool Committee is charged with setting rates for all services provided by MJMEUC to MoPEP members. These rates include recovery of all of MJMEUC's costs (the Direct Costs) incurred in connection with acquiring, providing, arranging or financing the provision of full requirements service to MoPEP members. Such rates are based upon an annual budget and include, but are not limited to, all payments MJMEUC is required to make, or reserves or coverage MJMEUC is required to maintain, pursuant to any bond indenture, financing lease or loan agreement or other financial contract in order to procure, deliver, or finance resources intended to provide full requirements service, without regard to whether any particular resource is available to or used by any particular MoPEP member. Direct Costs also include amounts required to fund MoPEP capital and/or operating reserves as may be established from time to time by the Pool Committee.

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

actual costs at least every six months.

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

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

13. Evaluation of Subsequent Events

In preparing these financial statements, The City has evaluated subsequent events and transactions for potential recognition or disclosure through October 24, 2014, the date which the financial statements were available to be issued.

OTHER INFORMATION

CITY OF LEBANON, MISSOURI
Budgetary Comparison Schedule - General Fund-Modified Cash Basis
Year Ended June 30, 2014

	Original Budget	Budget as Amended	Actual	Variance from amended Positive (Negative)
Resources (inflows):				
Sales Taxes	$ 3,160,000	$ 3,208,500	$ 3,208,641	$ 141
Real Estate Taxes	578,000	578,000	550,662	(27,338)
Franchise Taxes	385,500	385,500	446,451	60,951
Pilot Taxes	1,227,650	1,227,650	1,207,439	(20,211)
Other Taxes	61,400	61,400	67,505	6,105
Charge for services	223,200	223,200	267,298	44,098
Intergovernmental revenue	21,000	21,000	9,073	(11,927)
License and permits	169,400	227,300	236,794	9,494
Fines and forfeitures	190,000	190,000	278,737	88,737
Interest income	15,000	15,000	7,520	(7,480)
Miscellaneous income	77,600	77,600	74,484	(3,116)
Total Resources (inflows)	6,108,750	6,215,150	6,354,604	139,454
Charges to appropriations (outflows):				
Public safety	4,133,468	4,133,468	3,811,889	321,579
Administration	1,235,010	1,268,560	1,158,020	110,540
Recreation	575,405	588,455	583,640	4,815
Economic Development	116,850	116,850	55,189	61,661
Total charges to appropriations	6,060,733	6,107,333	5,608,738	498,595
Other Financing Sources (Uses)				
Transfers in (out)	(600,485)	(580,785)	(575,121)	5,664
Total Other Financing Sources (Uses)	(600,485)	(580,785)	(575,121)	5,664
Net Change in Fund Balances	(552,468)	(472,968)	170,745	643,713
Fund Balance, July 1	967,765	967,765	967,765	-
Fund Balance, June 30	$ 415,297	$ 494,797	$ 1,138,510	$ 643,713

See Accompanying Notes to the Other Information.

CITY OF LEBANON, MISSOURI
Budgetary Comparison Schedule - Major Special Revenue Funds - Modified Cash Basis
Year Ended June 30, 2014

Street Fund	Original Budget	Budget as Amended	Actual	Variance from Amended Positive (Negative)
Resources (inflows):				
Taxes	$ 1,525,000	$ 1,525,000	$ 1,536,048	$ 11,048
Charge for services	500,000	500,000	531,825	31,825
Intergovernmental Revenue	322,640	322,640	112,003	(210,637)
Other			12,844	12,844
Total resources	2,347,640	2,347,640	2,192,720	(154,920)
Charges to appropriations (outflows):				
Transportation	2,182,660	5,477,110	5,104,197	372,913
Total charges to appropriations	2,182,660	5,477,110	5,104,197	372,913
Other Financing Sources (Uses)				
Debt Proceeds	-	3,294,450	3,340,366	45,916
Transfer in (out)	(180,400)	(180,400)	(156,942)	23,458
Total Other Financing Sources (Uses)	(180,400)	3,114,050	3,183,424	23,458
Net Change in Fund Balance	(15,420)	(15,420)	271,947	241,451
Beginning Fund Balance	296,422	296,422	296,422	-
Ending Fund Balance	$ 281,002	$ 281,002	$ 568,369	$ 241,451

See Accompanying Notes to the Other Information.

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.

CITY OF LEBANON, MISSOURI
Combining Balance Sheet - Modified Cash Basis
Internal Service Funds
June 30, 2014 with Comparative Data

	Community Develop.	Employee Benefits	Service Fund	June 30, 2014 Totals	June 30, 2013 Totals
ASSETS					
Unrestricted Assets:					
Cash and cash equivalents	$ 35,652	$ 258,360	$ (21,838)	$ 272,174	$ 508,207
Inventory			21,838	21,838	$ 44,061
Total Unrestricted Assets	35,652	258,360	-	294,012	552,268
Capital Assets:					
Machine & Equipment			9,791	9,791	
Vehicle			32,241	32,241	
Construction in Progress	4,006			4,006	
Total	4,006	-	42,032	46,038	-
Less Accumulated Depreciation			(3,264)	(3,264)	
Total Capital Assets	4,006	-	38,768	42,774	-
TOTAL ASSETS	$ 39,658	$ 258,360	$ 38,768	$ 336,786	$ 552,268
NET POSITION					
Net Investment in Capital Assets	$ 4,006		$ 38,768	$ 42,774	
Unrestricted	35,652	$ 258,360	-	294,012	$ 552,268
TOTAL NET POSITION	$ 39,658	$ 258,360	$ 38,768	$ 336,786	$ 552,268

See Independent Auditor's Report.

CITY OF LEBANON, MISSOURI
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
Internal Service Funds
Year Ended June 30, 2014 with Comparative Data

	Community Develop.	Employee Benefits	Service Fund	June 30, 2014 Total	June 2013 Total
REVENUES					
Charge for services		$ 2,492,679		$ 2,492,679	$ 2,996,899
TOTAL REVENUES	-	2,492,679	-	2,492,679	2,996,899
EXPENDITURES					
Operations and maintenance	$ 264,245		798,452	1,062,697	1,077,665
Employee benefits		2,750,935		2,750,935	2,816,242
TOTAL EXPENDITURES	264,245	2,750,935	798,452	3,813,632	3,893,907
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(264,245)	(258,256)	(798,452)	(1,320,953)	(897,008)
OTHER FINANCING SOURCES (USES)					
Operating transfers in (out)	268,251		837,220	1,105,471	1,066,292
Total Other Financing Sources (Uses)	268,251	-	837,220	1,105,471	1,066,292
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	4,006	(258,256)	38,768	(215,482)	169,284
NET POSTION, Beginning of Period	35,652	516,616	-	552,268	382,984
NET POSITION, End of Period	$ 39,658	$ 258,360	$ 38,768	$ 336,786	$ 552,268

See Independent Auditor's Report.

CITY OF LEBANON, MISSOURI
Combining Balance Sheet - Modified Cash Basis
Nonmajor Funds
June 30, 2014 with Comparative Data

	Lodging Tax	Airport	Downtown Business District	Parks and Recreation	June 30, 2014 Totals	June 30, 2013 Totals
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	$ 33,564	$ 7,034	$ 16,015	$ 550,871	$ 607,484	$ 577,634
TOTAL ASSETS	$ 33,564	$ 7,034	$ 16,015	$ 550,871	$ 607,484	$ 577,634
LIABILITIES:						
Due to other funds		$ 75,826	$ -		$ 75,826	$ 139,546
Total liabilities	-	75,826	-	-	75,826	139,546
EQUITY:						
Fund balance:						
Assigned	33,564	(68,792)	16,015	550,871	531,658	438,088
TOTAL LIABILITIES AND EQUITY	$ 33,564	$ 7,034	$ 16,015	$ 550,871	$ 607,484	$ 577,634

CITY OF LEBANON, MISSOURI
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
Nonmajor Funds
Year Ended June 30, 2014 with Comparative Data

	Lodging Tax	Airport	Downtown Business District	Parks and Recreation	June 30, 2014 Totals	June 30, 2013 Totals
REVENUES						
Sales Taxes	$104,939				$ 104,939	$ 106,810
Real Estate Taxes			$ 24,786	$ 553,150	577,936	606,183
Charges for services		$ 28,890	5,618	43,072	77,580	66,194
Intergovernmental revenues	35,665	38,137	-		73,802	39,716
Other		-	55,000	141	55,141	1,000
TOTAL REVENUES	140,604	67,027	85,404	596,363	889,398	819,903
EXPENDITURES						
Recreation				475,643	475,643	351,080
Transportation	140,295	81,511			221,806	246,009
Economic Development			23,587		23,587	41,393
Debt principal payments					-	20,271
Debt interest payments					-	247
TOTAL EXPENDITURES	140,295	81,511	23,587	475,643	721,036	659,000
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	309	(14,484)	61,817	120,720	168,362	160,903
OTHER FINANCING SOURCES (USES)						
Operating transfers in (out)	(3,974)	25,600	(5,654)	(90,764)	(74,792)	(22,080)
Total Other Financing Sources (Uses)	(3,974)	25,600	(5,654)	(90,764)	(74,792)	(22,080)
EXCESS OF REVENUES AND SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,665)	11,116	56,163	29,956	93,570	138,823
FUND BALANCE, Beginning	37,229	(79,908)	(40,148)	520,915	438,088	299,265
FUND BALANCE, Ending	$ 33,564	$ (68,792)	$ 16,015	$ 550,871	$ 531,658	$ 438,088

See Independent Auditor's Report.

Officer CPA Firm LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Board of Trustees
Lebanon, Missouri

Report on Compliance for Each Major Federal Program
We have audited the City of Lebanon, Missouri's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Lebanon, Missouri's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the City of Lebanon, Missouri's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lebanon, Missouri's compliance.

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Opinion on Each Major Federal Program
In our opinion, the City of Lebanon, Missouri, complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance
Management of the City of Lebanon, Missouri, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lebanon, Missouri's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charges with governance.

Our consideration of internal control over compliance 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 compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Officer CPA Firm LLC
Springfield, Missouri
October 24, 2014

CITY OF LEBANON, MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - MODIFIED CASH BASIS
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
U.S.DEPARTMENT OF COMMERCE			
Investments for Public Works and Economic Development Facilities	11.300		$ 814,915
U.S. DEPARTMENT OF JUSTICE			
Bulletproof Vest Partnership	16.607		1,705
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Missouri Department of Transportation			
Youth DWI Enforcement	20.067	13-154-AL-074	1,317
Airport Improvement Program	20.106	13-064A-1	26,975
Airport Improvement Program	20.106	08-094A-1	11,162
Subtotal for CFDA 20.106			38,137
Highway Planning and Construction	20.205	STP-3800 (802)	12,589
Highway Planning and Construction	20.205	SRTS-INF-H32D (101)	2,720
Highway Planning and Construction	20.205	STP-9900 (873)	119,805
Subtotal for CFDA 20.205			135,114
DWI Enforcemnet	20.601	14-154-AL-062	1,344
Sobriety Checkpoint	20.607	13-154-AL-048	4,305
Child Passenger Safety	20.613	14-OP-05-002	401
Total			$ 997,238

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 the modified cash basis of accounting which is consistent with the financial statement presentation.

Officer CPA Firm LLC
Certified Public Accountants

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 Board of Trustees
Lebanon, Missouri

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the City of Lebanon, Missouri's basic financial statements and have issued our report thereon dated October 24, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the City of Lebanon, Missouri's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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, Missouri's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lebanon, Missouri's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Officer CPA Firm LLC

Springfield, Missouri
October 24, 2014

CITY OF LEBANON, MISSOURI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

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	__X__No
Significant deficiencies identified not considered to be material weaknesses?	_____Yes	__X__None reported
Noncompliance material to financial statements noted?	_____Yes	__X__No
Federal Awards:		
Internal Control over Major Programs:		
Significant deficiencies identified?	_____Yes	___X__No
Significant deficiencies identified considered to be material weaknesses?	_____Yes	___X__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	__X__No

The programs tested as major programs included:

Name	CFDA Number
Investments for Public Works and Economic Development Facilities	11.300

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

Officer CPA Firm LLC

Certified Public Accountants

To the City Council
Lebanon, Missouri

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon for the year ended June 30, 2014, and have issued our report thereon dated October 24, 2014. Professional standards require that we provide you with the following information related to our audit.

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

We received full cooperation from the City's personnel.

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

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

We noted no indications of fraud.

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

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

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

Very truly yours,

Officer CPA Firm LLC

Springfield, Missouri
October 24, 2014

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