

***CITY OF LEBANON, OREGON
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2011***

CITY OF LEBANON, OREGON
CITY OFFICIALS
JUNE 30, 2011

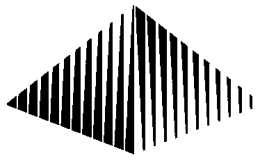
MAYOR	<u>Term Expires</u> <u>December</u>
Ken Toombs 1299 Franklin Street Lebanon, Oregon 97355	2012
 COUNCIL MEMBERS	
Margaret Campbell 701 N. 5 th Street Lebanon, Oregon 97355	2012
Wayne Rieskamp 887 West Cedar Drive Lebanon, Oregon 97355	2014
Floyd Fisher 532 South Main Lebanon, Oregon 97355	2014
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 CITY ADMINISTRATOR	
John Hitt 925 S. Main Lebanon, Oregon 97355	

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GROVE, MUELLER & SWANK, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, Members of the
City Council
City of Lebanon
925 South Main
Lebanon, Oregon 97355

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Oregon as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Oregon as of June 30, 2011, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.


As described in the notes to the financial statements, during the year ended June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) (pages 3 through 14) and budgetary comparison information (pages 41 through 43) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the

basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information on pages 44 through 46 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Charles A. Swank, A Shareholder
December 28, 2011

Management's Discussion and Analysis

Readers of the City of Lebanon's Annual Financial Report are offered this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011 by management. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the financial statements, which follow this section.

Financial Highlights

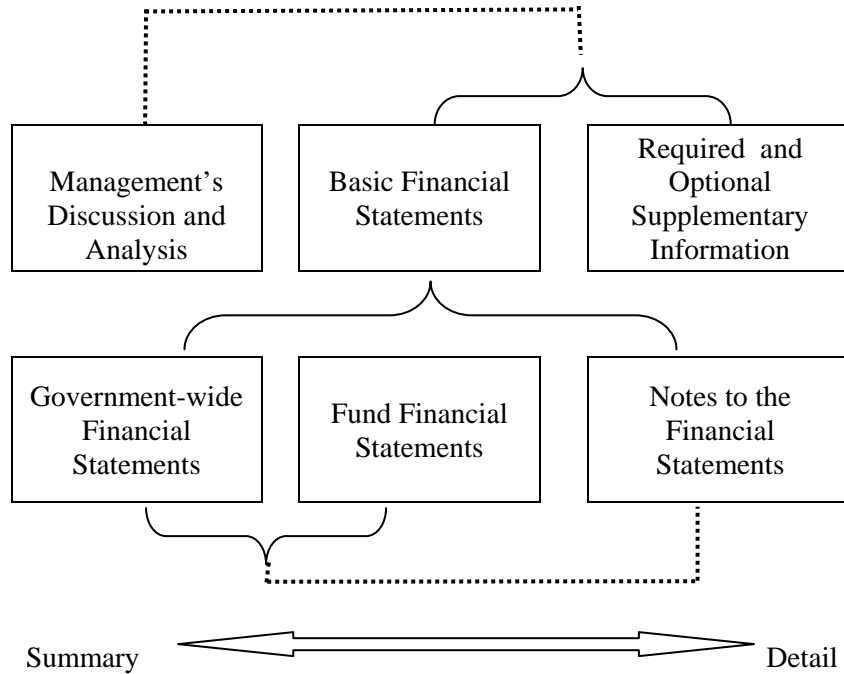
	June 30,		Change
	2011	2010	
Net assets	\$ 48,726,729	\$ 47,433,206	\$ 1,293,523
Change in net assets	1,293,523	505,649	787,874
Governmental fund balances	9,953,104	8,872,008	1,081,096
Proprietary net assets	21,560,946	20,261,082	1,299,864
Change in governmental net assets	(6,341)	(189,307)	182,966
Change in business-type net assets	1,299,864	694,956	604,908

Overview of the Financial Statements

This annual report is comprised of four segments as dictated by Generally Accepted Accounting Principles (GAAP): management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City of Lebanon.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- The fund financial statements focus on individual parts of Lebanon's government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements explain how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the Water/Sewer and Storm drain Utilities.

Illustration A-1
Required Components of
City of Lebanon's Annual Financial Report



The financial statements also include *notes*, which elaborate on some of the information in the financial statements that provide more detailed data. These financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Illustration A-2 summarizes the major features of the City's financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Illustration A-2
Major Features of City of Lebanon's Government-wide and Fund Financial Statements

	Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire and public works	Activities the City operates similar to private businesses; Water/Sewer utility, Refuse, Airport, Ice Rink, Land Development, and Golf Course
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balance	*Statement of net assets *Statement of revenues, expenses and changes in net assets *Statement of cash flows
Accounting basis and measurement focus	Accrual accounting	Modified accrual accounting and current financial resources focus	Accrual accounting
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements The government-wide financial statements are designed to provide readers with a broad overview of the City of Lebanon's finances in a manner similar to a private-sector business. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities. These statements can be located on pages 15-16 of this document.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate the improvement or deterioration of the City's financial position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (called governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (called business-type activities). The governmental activities of the City include police, library, senior services, parks, general administration, public works, and community development. The business-type activities of the City include water/wastewater and storm drain utilities.

Fund Financial Statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of expendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lebanon maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Intergovernmental, Capital Projects, Debt Service, and NW Urban Renewal funds, all of which are considered to be major funds. Data from the other four funds is combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements found on pages 51-54 of this report.

The City adopts an annual appropriated budget for its General Fund, along with all other funds. Budgetary comparison statements have been provided for the General Fund and major special revenue funds as required supplementary information to demonstrate compliance with this budget. Budgetary comparisons for all other funds have been provided as other supplementary information.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary Funds The City of Lebanon has one enterprise fund comprised of seven departments. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water, water CIP, small water line, wastewater, wastewater CIP, railroad, and storm drainage operations.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund departmental financial statements provide detailed information for the departments listed above.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Notes to the Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements. The notes to the basic financial statements can be found on pages 24-43 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparison schedules for the General Fund and all major special revenue funds. This information can be found on pages 44-46 of this report.

Supplementary Information Supplementary information includes the combining statements referred to earlier in connection with non-major governmental funds; budgetary comparisons for funds not presented as part of RSI; and other financial schedules. This information can be found on pages 47-69 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$48,726,729 at the close of FY 10-11. This represented a \$1,293,523 or 3% increase in net assets.

**Statements of Net Assets
As of June 30,**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 14,156,881	\$ 13,479,940	\$ 7,477,190	\$ 2,220,377	\$ 21,634,071	\$ 15,700,317
Capital assets	41,421,157	44,081,064	30,643,070	30,154,476	72,064,227	74,235,540
Total assets	55,578,038	57,561,004	38,120,260	32,374,853	93,698,298	89,935,857
Current and other liabilities	2,486,656	3,340,360	519,973	351,684	3,006,629	3,692,044
Long-term debt	25,925,599	27,048,520	16,039,341	11,762,087	41,964,940	38,810,607
Total liabilities	28,412,255	30,388,880	16,559,314	12,113,771	44,971,569	42,502,651
Net assets						
Investment in capital assets, net of debt	15,495,558	17,032,545	19,734,883	18,392,389	35,230,441	35,424,934
Restricted	9,823,696	6,826,929	372,511	30,380	10,196,207	6,857,309
Unrestricted	1,846,529	3,312,650	1,453,552	1,838,313	3,300,081	5,150,963
Total net assets	\$ 27,165,783	\$ 27,172,124	\$ 21,560,946	\$ 20,261,082	\$ 48,726,729	\$ 47,433,206

The largest portion of the City's net assets (72%) reflects the City's investment in capital assets (land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City's investment in capital assets decreased \$194,493 or 1% from June 30, 2010. The City's major capital assets are investments in infrastructure – the water, and wastewater systems of treatment plants and collection/distribution facilities, and the street and sidewalk system. The City uses the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Net assets totaling \$10,196,207 or 21% represent resources that are subject to external restrictions on how they may be used. This represents an increase in the dollar value of the City's restricted net assets from June 30, 2010 of \$3,338,898 or 49%. The remaining balance of unrestricted net assets, \$3,300,081 may be used to meet the City's ongoing obligations to citizens and creditors.

Unrestricted net assets for governmental activities totaled \$1,846,529 or 7% of the total net assets for governmental activities. Business-type activities unrestricted net assets totaled \$1,453,552 or 7% of the total net assets for business-type activities. At the end of FY 10-11, for the government as a whole, the City of Lebanon is able to report positive balances in all three categories of net assets.

**Statements of Activities
For the years ended June 30,**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
<i>Revenues</i>						
Program revenues						
Fines, fees, charges for services	\$ 2,046,883	\$ 1,775,897	\$ 7,238,339	\$ 6,102,518	\$ 9,285,222	\$ 7,878,415
Operating grants and contributions	698,919	1,853,200	-	205,486	698,919	2,058,686
Capital grants and contributions	317,596	102,941	-	-	317,596	102,941
General revenues						
Property tax	7,315,737	7,279,430	-	-	7,315,737	7,279,430
Franchise fees	1,408,226	1,364,369	-	-	1,408,226	1,364,369
Intergovernmental	352,981	333,509	-	-	352,981	333,509
Miscellaneous	294,479	270,471	290,257	212,993	584,736	483,464
Gain on sale of assets	217,868	16,569	-	-	217,868	16,569
Total revenues	12,652,689	12,996,386	7,528,596	6,520,997	20,181,285	19,517,383
<i>Expenses</i>						
General government	594,854	1,494,492	-	-	594,854	1,494,492
Community services and development	7,981,729	8,380,858	-	-	7,981,729	8,380,858
Public safety	4,479,340	4,069,140	-	-	4,479,340	4,069,140
Interest on long-term debt	1,568,703	1,348,273	-	-	1,568,703	1,348,273
Water	-	-	1,631,653	1,495,879	1,631,653	1,495,879
Storm drain utility	-	-	78,525	-	78,525	-
Wastewater	-	-	2,552,491	2,223,087	2,552,491	2,223,087
Railroad	-	-	467	5	467	5
Total expenses	14,624,626	15,292,763	4,263,136	3,718,971	18,887,762	19,011,734
<i>Change in net assets before transfers</i>	(1,971,937)	(2,296,377)	3,265,460	2,802,026	1,293,523	505,649
<i>Transfers</i>	1,965,596	2,107,070	(1,965,596)	(2,107,070)	-	-
<i>Change in net assets</i>	(6,341)	(189,307)	1,299,864	694,956	1,293,523	505,649
<i>Beginning net assets</i>	27,172,124	27,361,431	20,261,082	19,566,126	47,433,206	46,927,557
<i>Ending net assets</i>	\$ 27,165,783	\$ 27,172,124	\$ 21,560,946	\$ 20,261,082	\$ 48,726,729	\$ 47,433,206

- Governmental activities decreased the City's net assets by \$6,341 during the year.
- Business-type activities increased the City's net assets by \$1,299,864 during the year. There was one user fee increase during the year.

Financial Analysis of the Government's Funds

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

Governmental Funds The focus of the City's governmental funds is to provide information on short-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balance may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, the City's governmental funds reported combined ending fund balances of an increase of \$1,081,094 in comparison with the prior year.

The General Fund is the main operating fund for the City. Unassigned fund balance of the General Fund was \$1,201,141 at the end of FY 10-11. As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The fund balance represents 21% of the total General Fund operating expenditures.

The fund balance of the General Fund increased \$344,063 during the year. Revenues increased by 6% while total expenses increased 4%. Most of the revenue increase occurred in fines and forfeitures while much of the operating expense increase was in public safety.

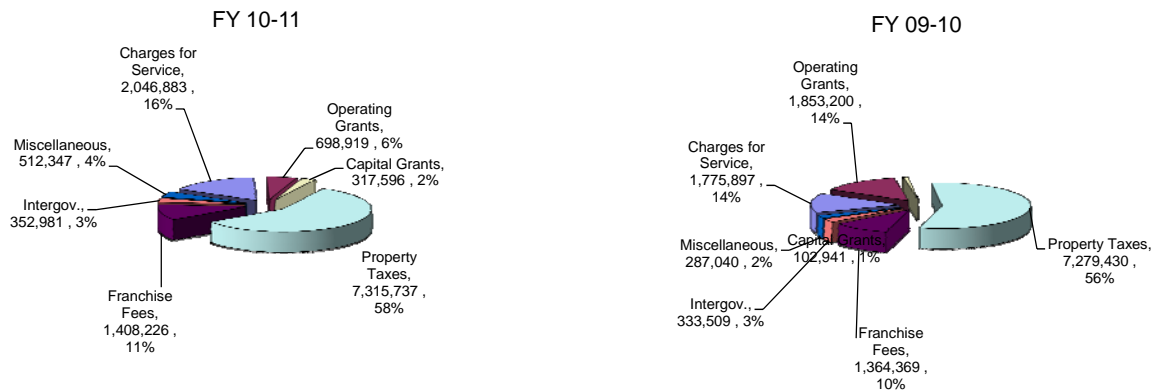
In the Intergovernmental Fund, the fund balance decreased \$94,830 during the year.

The NW Urban Renewal Fund balance increased \$518,758 from the prior year. Debt service accounted for the majority of expenditures.

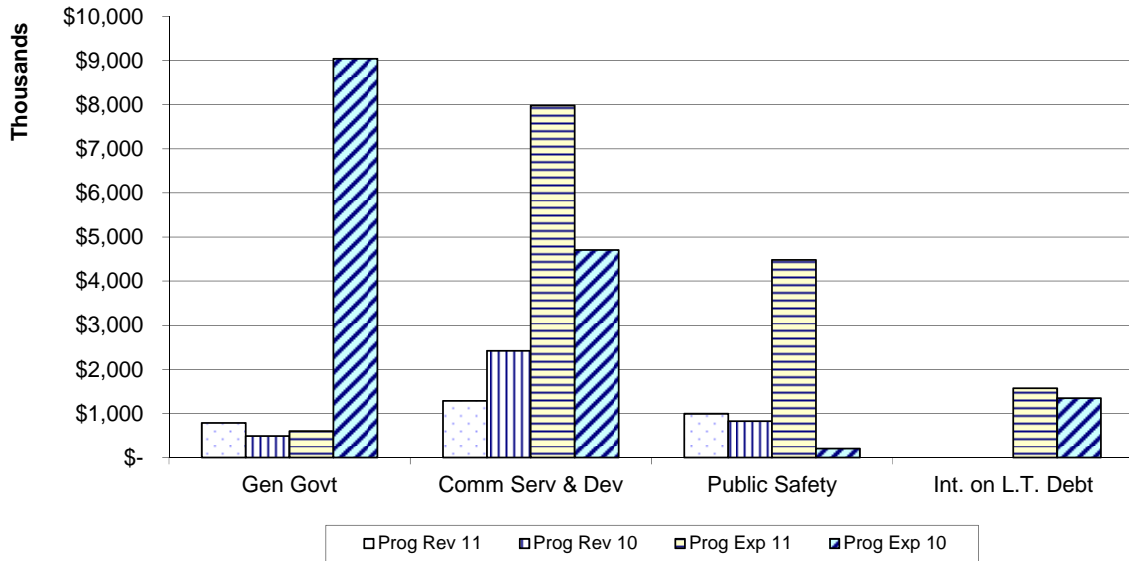
The Debt Service fund showed an \$18,481 increase for the year. Sufficient funds were transferred in to cover debt service expenditures not funded by property taxes.

In the Capital Projects Fund, the ending fund balance was \$136,777 higher than the prior year. Projects included Bob Smith Park-parking lot improvements, Cheadle lake trails, truck route south, IT virtualization project, westside interceptor, and 2010 street preservation project.

Revenue by Source - Governmental Funds



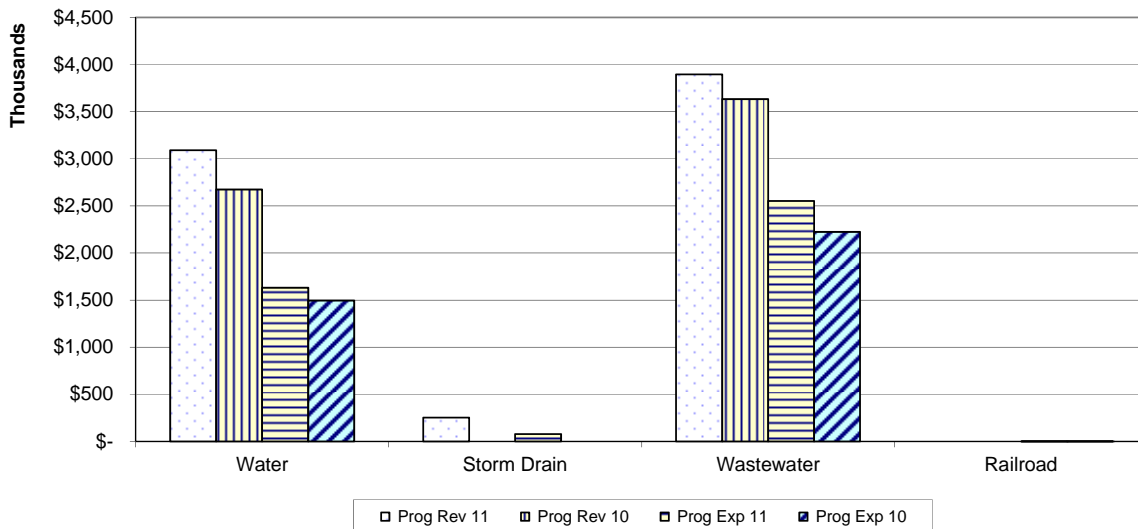
Program Revenue and Expenses - Governmental Funds



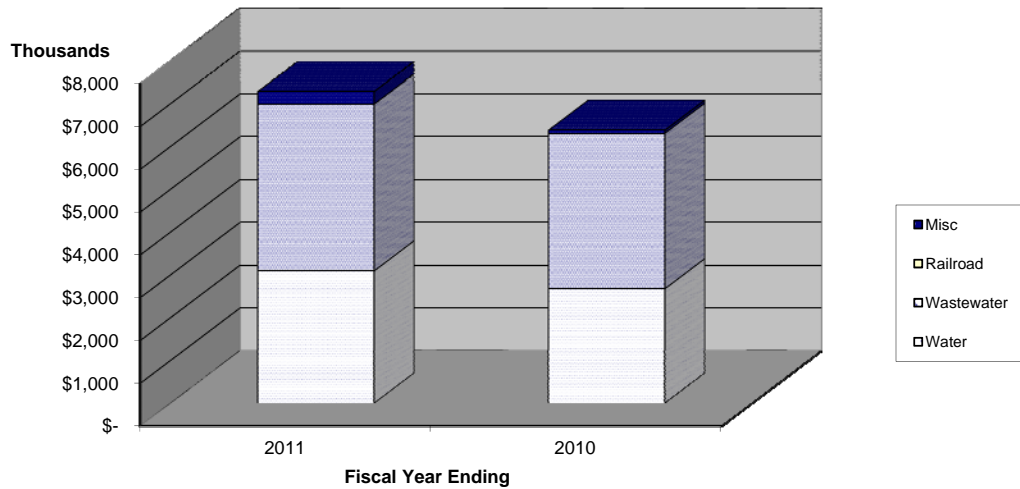
Proprietary Funds The City’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Activities in the proprietary fund increased the City’s net assets by \$1,299,864 during the year. Key elements of this increase are as follows:

- Water and Wastewater fees increased by 15% and 12% effective July 1, 2010. Stormwater fees were implemented effect July 1, 2010 on all properties located in the City of Lebanon. Rates are \$2.75 for single family residents, on commercial property, \$10.00 for less than ¼ acre, \$25.00 for ¼ to ½ acre and \$55.00 for property over ½ acre.

Program Revenue and Expenses - Business-type Activities



Revenues by Source - Business-type Activities



General Fund Budgetary Highlights

There were small differences between the original budget and final amended budget during the year. The City Council adopted resolutions to accomplish the following:

1. Reduce the General Fund budget due to a reduction in projected resources
2. Accept LSTA grant funds for the Library
3. Transfer funds to the debt service fund to enable an early payoff of PERS GO bonds.

Capital Asset and Debt Administration

Capital Assets The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$72,064,227 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, machinery and equipment, office equipment, infrastructure, and construction in progress. The total decrease in the City’s investment in capital assets for the current fiscal year was 3%. This total includes a 6% decrease in governmental activities and a 2% increase in business-type activities.

Major capital asset events during FY 10-11 included the following:

- Improvements to equipment and structures in city parks and court house, new vehicles, 2010 street preservation project and IT visualization project, totaling \$583,908.
- Continued work on truck route improvements \$58,515
- Infrastructure projects for water, wastewater totaling \$1,156,337.

**Capital Assets
As of June 30,**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,361,656	\$ 2,107,969	\$ 1,103,142	\$ 1,103,142	\$ 3,464,798	\$ 3,211,111
Buildings & improvements	18,404,299	18,404,299	8,424,953	8,424,953	26,829,252	26,829,252
Vehicles & rolling stock	1,985,081	1,850,881	1,010,549	1,010,549	2,995,630	2,861,430
Machinery & equipment	2,933,587	2,695,595	4,347,647	4,347,647	7,281,234	7,043,242
Infrastructure	63,301,346	62,659,416	41,325	41,325	63,342,671	62,700,741
Water & sewer systems	-	-	28,169,772	27,462,465	28,169,772	27,462,465
Construction in process	7,084	430,339	845,271	55,018	852,355	485,357
Accumulated depreciation	(47,571,896)	(44,067,435)	(13,299,589)	(12,290,623)	(60,871,485)	(56,358,058)
<i>Net capital assets</i>	<u>\$41,421,157</u>	<u>\$44,081,064</u>	<u>\$30,643,070</u>	<u>\$30,154,476</u>	<u>\$72,064,227</u>	<u>\$74,235,540</u>

Additional information on capital assets can be found on pages 36-37 in the notes to the financial statements.

Long-Term Debt The City had total debt outstanding of \$43,402,945 at the end of the year. Of this amount \$25,925,599 comprised debt backed by the full faith and credit of the government, \$15,778,188 is revenue supported, backed by the revenue of the water and wastewater utility operation, and \$1,699,158 is limited-tax debt supported by operating funds of the City.

**Outstanding Debt
As of June 30,**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 17,930,000	\$ 21,905,000	\$ -	\$ -	\$ 17,930,000	\$ 21,905,000
Revenue bonds	-	-	15,778,188	11,762,087	15,778,188	11,762,087
Pension obligation bonds	1,699,158	1,961,302	-	-	1,699,158	1,961,302
General fund SPWF	1,658,031	1,719,093	-	-	1,658,031	1,719,093
NW URD SPWF	3,327,568	3,424,426	-	-	3,327,568	3,424,426
NW URD Refunding bonds	3,010,000	-	-	-	3,010,000	-
<i>Total debt outstanding</i>	<u>\$27,624,757</u>	<u>\$29,009,821</u>	<u>15,778,188</u>	<u>\$11,762,087</u>	<u>\$43,402,945</u>	<u>\$40,771,908</u>

The City's total debt increased by \$2,631,037 or 6.5% during the year. The increase was the net result of payments made on debt, one new debt issue and a refunding during the year.

Additional information on the City of Lebanon's long-term debt can be found on pages 38-40 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property tax revenue was projected to increase 1% in FY 11-12 based on the same rate of increase in the assessed value.
- Health insurance rates are projected to increase 15% on average.
- PERS contribution rates were budgeted at 14.3% for FY 11-12.
- The increasing cost of utilities and fuel are having an adverse effect on the City's budget.

- Utility revenue for water, stormwater and wastewater are projected to increase 13.1%, 24% and 11.8%, respectively, from growth in the number of customers, rate increases, and consumption. There is a 12% wastewater rate increase, 4% stormwater rate increase and a 15% water rate increase planned for FY 11-12 in support of the water/wastewater CIP program and projects, approved by council.

All of these factors were considered when preparing the budget for the 2012 fiscal year.

During FY 10-11, projected unassigned fund balances in the General Fund were \$770,000. Actual unassigned fund balance increased to \$1,201,141. The City of Lebanon has appropriated \$770,000 of this amount for spending in FY 11-12, including contingency of \$643,489, or 10% of the General Fund adjusted total. The budgeted contingency as a percent of the General Fund total in FY 10-11 was 10.4%. The City Council has established a goal of building this amount to approximately 10% of the General Fund total or \$646,902.

Requests for Information

This financial report is designed to provide a general overview of the City of Lebanon's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Manager, City of Lebanon, 925 S. Main Street, Lebanon, Oregon 97355.

BASIC FINANCIAL STATEMENTS

CITY OF LEBANON, OREGON
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Totals</u>
ASSETS			
Cash and investments	\$ 9,751,540	\$ 6,265,183	\$ 16,016,723
Accounts receivable	662,122	961,725	1,623,847
Prepaid expenses	1,133	-	1,133
Property taxes receivable	634,452	1,107	635,559
Special assessments/loans	648,974	-	648,974
Court fines	759,502	-	759,502
Prepaid pension asset	1,699,158	-	1,699,158
Deferred charges	-	249,175	249,175
Nondepreciable capital assets	2,368,740	1,948,413	4,317,153
Other depreciable capital assets, net	39,052,417	28,694,657	67,747,074
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	55,578,038	38,120,260	93,698,298
LIABILITIES			
Accounts payable	104,099	178,885	282,984
Payroll liabilities	109,072	-	109,072
Deposits	-	149,855	149,855
Accrued interest payable	308,881	115,561	424,442
Noncurrent liabilities:			
Due within one year:			
Loan payable	163,927	265,531	429,458
Bonds payable	972,634	771,351	1,743,985
Accrued compensated absences	137,139	32,948	170,087
Due in more than one year:			
Loan payable	4,821,672	3,390,238	8,211,910
Bonds payable	21,666,524	11,351,067	33,017,591
Bond premium	-	261,154	261,154
Accrued compensated absences	128,307	42,724	171,031
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	28,412,255	16,559,314	44,971,569
NET ASSETS			
Investment in capital assets (net of related debt)	15,495,558	19,734,883	35,230,441
Fund net assets			
Restricted for:			
Debt service	157,597	372,511	530,108
Construction	4,633,304	-	4,633,304
Community development	5,032,795	-	5,032,795
Unrestricted	1,846,529	1,453,552	3,300,081
	<hr/>	<hr/>	<hr/>
<i>Total Net Assets</i>	\$ 27,165,783	\$ 21,560,946	\$ 48,726,729

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

CITY OF LEBANON, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS				
Governmental Activities:				
General government	\$ 594,854	\$ 406,202	\$ 59,132	\$ 317,596
Community services and development	7,981,729	744,892	541,910	-
Public safety	4,479,340	895,789	97,877	-
Interest on long-term debt	1,568,703	-	-	-
<i>Total Governmental Activities</i>	14,624,626	2,046,883	698,919	317,596
Business-type Activities:				
Water	1,631,653	3,091,359	-	-
Storm drain utility	78,525	251,549	-	-
Wastewater	2,552,491	3,895,431	-	-
Railroad	467	-	-	-
<i>Total Business-type Activities</i>	4,263,136	7,238,339	-	-
<i>Total Activities</i>	<u>\$ 18,887,762</u>	<u>\$ 9,285,222</u>	<u>\$ 698,919</u>	<u>\$ 317,596</u>

General Revenues:

Property taxes - general purposes
Franchise fees
Intergovernmental
Miscellaneous
Gain on disposal of assets

Total General Revenues

Transfers

Change in Net Assets

Net Assets, July 1, 2010

Net Assets, June 30, 2011

*Net (Expenses) Revenues and
Changes in Net Assets*

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ 188,076	\$ -	\$ 188,076
(6,694,927)	-	(6,694,927)
(3,485,674)	-	(3,485,674)
(1,568,703)	-	(1,568,703)
(11,561,228)	-	(11,561,228)
-	1,459,706	1,459,706
-	173,024	173,024
-	1,342,940	1,342,940
-	(467)	(467)
-	2,975,203	2,975,203
(11,561,228)	2,975,203	(8,586,025)
7,315,737	-	7,315,737
1,408,226	-	1,408,226
352,981	-	352,981
294,479	290,257	584,736
217,868	-	217,868
9,589,291	290,257	9,879,548
1,965,596	(1,965,596)	-
(6,341)	1,299,864	1,293,523
27,172,124	20,261,082	47,433,206
\$ 27,165,783	\$ 21,560,946	\$ 48,726,729

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

CITY OF LEBANON, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Special Revenue</u>	
		<u>Inter-governmental</u>	<u>NW Urban Renewal</u>
ASSETS			
Cash and investments	\$ 934,563	\$ 1,094,759	\$ 3,023,385
Accounts receivable	232,092	173,224	8,915
Prepaid expenses	-	-	-
Due from other funds	76,896	-	-
Property taxes receivable	329,480	-	156,691
Other receivable	-	-	-
Special assessments/loans	-	646,755	2,219
Court fines receivable	759,502	-	-
	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$ 2,332,533</u>	<u>\$ 1,914,738</u>	<u>\$ 3,191,210</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 24,131	\$ 30,793	\$ 2,905
Payroll taxes payable	-	-	-
Deferred revenues	1,107,261	657,593	158,910
Due to other funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities</i>	1,131,392	688,386	161,815
Fund Balances			
Restricted for:			
Community development	-	1,226,352	3,029,395
Debt service	-	-	-
Committed to:			
Capital outlay	-	-	-
Debt service	-	-	-
Unassigned	1,201,141	-	-
	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balances</i>	<u>1,201,141</u>	<u>1,226,352</u>	<u>3,029,395</u>
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,332,533</u>	<u>\$ 1,914,738</u>	<u>\$ 3,191,210</u>

<i>Debt Service</i>	<i>Capital Projects</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ -	\$ 4,438,637	\$ 260,197	\$ 9,751,541
-	218,270	21,725	654,226
-	-	1,133	1,133
-	-	-	76,896
120,112	-	28,169	634,452
6,436	-	1,460	7,896
-	-	-	648,974
-	-	-	759,502
<u>\$ 126,548</u>	<u>\$ 4,656,907</u>	<u>\$ 312,684</u>	<u>\$ 12,534,620</u>
\$ -	\$ 23,604	\$ 22,667	\$ 104,100
-	-	109,072	109,072
120,112	218,270	29,302	2,291,448
1,436	-	75,460	76,896
<u>121,548</u>	<u>241,874</u>	<u>236,501</u>	<u>2,581,516</u>
-	-	119,455	4,375,202
5,000	-	-	5,000
-	4,415,033	-	4,415,033
-	-	31,352	31,352
-	-	(74,624)	1,126,517
<u>5,000</u>	<u>4,415,033</u>	<u>76,183</u>	<u>9,953,104</u>
<u>\$ 126,548</u>	<u>\$ 4,656,907</u>	<u>\$ 312,684</u>	<u>\$ 12,534,620</u>

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

CITY OF LEBANON, OREGON

**RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

<i>Fund Balances</i>	\$ 9,953,104
The Statement of Net Assets reports receivables at their net realizable value. However, receivables not available to pay for current-period expenditures are deferred in governmental funds.	2,291,448
The prepaid pension asset is not available to pay for current period expenditures and is therefore not a financial resource.	1,699,158
Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value.	
Capital asset cost	88,993,053
Accumulated depreciation	(47,571,896)
All liabilities are reported in the Statement of Net Assets. However, if they are not due and payable in the current period, they are not recorded in governmental funds.	
Accrued interest payable	(308,881)
Loans payable	(4,985,599)
Bonds payable	(22,639,158)
Accrued compensated absences	(265,446)
	<hr/>
<i>Net assets of governmental activities</i>	<u><u>\$ 27,165,783</u></u>

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

CITY OF LEBANON, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Inter- governmental</u>	<u>NW Urban Renewal</u>
REVENUES			
Taxes and assessments	\$ 3,655,355	\$ 37,230	\$ 1,836,672
Licenses and permits	1,413,181	195,378	-
Charges for services	6,466	9,820	-
Intergovernmental	348,589	1,343,806	-
Fines and forfeitures	434,245	-	-
Miscellaneous	233,849	153,252	36,897
	<hr/>	<hr/>	<hr/>
<i>Total Revenues</i>	6,091,685	1,739,486	1,873,569
EXPENDITURES			
Current operating:			
General government	527,902	-	-
Community services and development	866,064	3,417,798	494,629
Public safety	4,125,337	-	-
Capital outlay	40,700	454,504	-
Debt service			
Principal	61,062	-	506,858
Interest	75,397	-	303,574
	<hr/>	<hr/>	<hr/>
<i>Total Expenditures</i>	5,696,462	3,872,302	1,305,061
REVENUES OVER (UNDER)			
EXPENDITURES	395,223	(2,132,816)	568,508
OTHER FINANCING SOURCES (USES)			
Transfers in	354,342	2,415,439	-
Transfers out	(623,370)	(377,453)	(61,031)
Bond sale proceeds	-	-	3,310,000
Bond premium	-	-	11,281
Proceeds from sale of capital assets	217,868	-	-
Bond defeasance	-	-	(3,310,000)
	<hr/>	<hr/>	<hr/>
<i>Total Other Financing Sources (Uses)</i>	(51,160)	2,037,986	(49,750)
NET CHANGE IN FUND BALANCES			
	344,063	(94,830)	518,758
FUND BALANCES, Beginning of year			
	857,078	1,321,182	2,510,637
	<hr/>	<hr/>	<hr/>
FUND BALANCES, End of year			
	\$ 1,201,141	\$ 1,226,352	\$ 3,029,395
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Debt Service</i>	<i>Capital Projects</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ 1,375,588	\$ 339,947	\$ 364,899	\$ 7,609,691
-	-	-	1,608,559
-	-	-	16,286
175,779	-	-	1,868,174
-	-	132,967	567,212
22,219	107,281	8,568	562,066
1,573,586	447,228	506,434	12,231,988
-	-	-	527,902
-	207,675	228,756	5,214,922
-	7,526	139,225	4,272,088
-	419,349	18,000	932,553
817,144	-	-	1,385,064
956,248	-	-	1,335,219
1,773,392	634,550	385,981	13,667,748
(199,806)	(187,322)	120,453	(1,435,760)
218,287	337,670	129,000	3,454,738
-	(13,571)	(91,606)	(1,167,031)
-	-	-	3,310,000
-	-	-	11,281
-	-	-	217,868
-	-	-	(3,310,000)
218,287	324,099	37,394	2,516,856
18,481	136,777	157,847	1,081,096
(13,481)	4,278,256	(81,664)	8,872,008
\$ 5,000	\$ 4,415,033	\$ 76,183	\$ 9,953,104

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

CITY OF LEBANON, OREGON

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds \$ 1,081,096

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds defer revenues that do not provide current financial resources.

However, the Statement of Activities recognizes such revenues at their net realizable value when earned, regardless of when received. 191,552

The amortization of the prepaid pension asset does not require the outlay of current financial resources and is not recorded as an expenditure in the governmental funds (262,143)

Governmental funds do not report expenditures for unpaid compensated absences, interest expense, or arbitrage since they do not require the use of current financial resources. However, the Statement of Activities reports such expenses when incurred, regardless of when settlement ultimately occurs.

Accrued interest payable (308,881)
Accrued compensated absences 566,877

Capital outlays are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital outlay over their estimated useful lives as depreciation expense.

Capital outlay 844,555
Depreciation (3,504,461)

Proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenues. In the same way, repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, neither the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases and decreases in noncurrent liabilities in the Statement of Net Assets.

Proceeds from issuance of debt (3,310,000)
Debt principal paid 4,695,064

Change in net assets of governmental activities. \$ (6,341)

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

CITY OF LEBANON, OREGON
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2011

ASSETS

Current assets

Cash and investments	\$ 6,265,183
Accounts receivable	961,725
Property taxes receivable	1,107
	<hr/>
<i>Total Current Assets</i>	7,228,015

Noncurrent assets

Deferred charges	249,175
Nondepreciable capital assets	1,948,413
Other capital assets, net of depreciation	28,694,657
	<hr/>
<i>Total Assets</i>	38,120,260

LIABILITIES

Current liabilities

Accounts payable	178,885
Deposits	149,855
Accrued interest payable	115,561
Loan payable - current portion	265,531
Bonds payable - current portion	771,351
Compensated absences - current portion	32,948
	<hr/>
<i>Total Current Liabilities</i>	1,514,131

Noncurrent liabilities

Loans payable	3,390,238
Bonds payable	11,351,067
Bond premium	261,154
Compensated absences payable	42,724
	<hr/>
<i>Total Noncurrent Liabilities</i>	15,045,183

Total Liabilities

16,559,314

NET ASSETS

Investment in capital assets (net of related debt)	19,734,883
Restricted for debt service	372,511
Unrestricted	1,453,552
	<hr/>
<i>Total Net Assets</i>	<u><u>\$ 21,560,946</u></u>

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

CITY OF LEBANON, OREGON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2011

OPERATING REVENUES

Charges for services	\$ 7,238,339
Miscellaneous	260,784

Total Operating Revenues 7,499,123

OPERATING EXPENSES

Personal services	1,485,406
Materials and services	1,057,119
Depreciation	1,008,966

Total Operating Expenses 3,551,491

OPERATING INCOME

3,947,632

NONOPERATING REVENUES (EXPENSES)

Interest income	29,473
Interest expense	(648,238)
Loss on refunding	(63,407)

Total Nonoperating Revenue (Expenses) (682,172)

INCOME BEFORE TRANSFERS

3,265,460

TRANSFERS

Transfers in (cash)	2,818,869
Transfers in (noncash)	322,111
Transfers out	(5,106,576)

CHANGE IN NET ASSETS

1,299,864

NET ASSETS, Beginning of year

20,261,082

NET ASSETS, End of year

\$ 21,560,946

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

CITY OF LEBANON, OREGON
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 7,406,773
Cash paid to employees for services	(1,572,337)
Cash paid to suppliers for goods and services	(943,501)

<i>Net Cash Provided by Operating Activities</i>	4,890,935
--	-----------

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Transfers in	2,818,869
Transfers out	(5,106,576)

<i>Net Cash Used in Non-Capital Financing Activities</i>	(2,287,707)
--	-------------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(1,175,450)
Bond premium received	267,850
Principal paid on contracts/bonds payable	(2,993,900)
Proceeds from issuance of debt	7,010,000
Change in reserve for claims	(164,249)
Interest paid	(519,242)

<i>Net Cash Used in Capital and Related Financing Activities</i>	2,425,009
--	-----------

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	29,473
-------------------------	--------

<i>Net Change in Cash and Investments</i>	5,057,710
---	-----------

CASH AND INVESTMENTS, Beginning of year	1,207,473
--	-----------

CASH AND INVESTMENTS, End of year	\$ 6,265,183
--	--------------

RECONCILIATION OF CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING INCOME (LOSS)

Operating income	\$ 3,947,632
Depreciation	1,008,966
<i>Change in assets and liabilities</i>	
Accounts receivable	(118,390)
Accounts payable	113,618
Compensated absences payable	(86,931)
Deposits	26,040

<i>Net Cash Provided by Operating Activities</i>	\$ 4,890,935
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Capital asset transfers in from governmental activities	\$ 322,111
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The accompanying notes are an integral part of the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The City of Lebanon, Oregon is governed by an elected mayor and six council members who comprise the City Council. The City Council exercises supervisory responsibilities over the City operations, but day-to-day management control is the responsibility of a city manager. All significant activities and organizations for which the City is financially accountable are included in the financial statements for the year ended June 30, 2011.

The governing boards of Cheadle Lake Urban Renewal Agency, Northwest Gateway Urban Renewal Agency and Northwest Urban Renewal Agency of the City of Lebanon consist of all of the members of the Lebanon City Council. The area served by the Agencies is either within the existing City limits of the City of Lebanon or under a delayed annexation agreement requiring annexation to the City at the option of the Lebanon City Council. Cheadle Lake Urban Renewal Agency, Northwest Gateway Urban Renewal Agency and Northwest Urban Renewal Agency are reported as blended component units of the City. These agencies issue separate financial statements.

There are certain governmental agencies and various service districts which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. When both restricted and unrestricted resources are available for use, the City's policy is to utilize the restricted resources first; unrestricted resources are then utilized as needed.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has governmental (general, special revenue, capital projects, debt service) and proprietary type funds. Major individual governmental funds, governmental and major individual proprietary funds are

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements (Continued)

reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column in the financial section of the basic financial statements and are detailed in the other supplementary information.

Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, receipts and disbursements. The various funds are reported by generic classification within the financial statements.

The reporting model sets forth minimum criteria (percentage of the assets liabilities, revenues or expenses of either fund category or the government and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

General Fund - this fund accounts for the activities of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, franchise fees and state and county shared revenues. Primary expenditures are for police protection, parks, planning and general government.

Special Revenue Funds

Intergovernmental Fund - this fund accounts for revenue derived from specific tax or other earmarked revenue sources, including state gas tax, grants and funds set aside to finance particular functions or activities.

Northwest Urban Renewal Fund - this fund accounts for revenue derived from specific tax or other earmarked revenue sources set aside to finance development in the northwest urban renewal district.

Debt Service Fund

Debt Service Fund - The Debt Service Fund accounts for the payment of principal and interest on general obligation bonds.

Capital Projects Fund

Capital Projects Fund - the City has one capital projects fund which accounts for the acquisition of capital assets or construction of major capital projects not being financed by the proprietary fund.

The City reports the following nonmajor governmental funds:

Special Revenue Funds

Northwest Urban Renewal Fund - this fund accounts for revenue derived from specific tax or other earmarked revenue sources set aside to finance development in the urban renewal district.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Special Revenue Funds (Continued)

Cheadle Lake Urban Renewal Fund - this fund accounts for revenue derived from specific tax or other earmarked revenue sources set aside to finance development in the Cheadle Lake urban renewal district.

Northwest Gateway Urban Renewal Fund - this fund accounts for revenue derived from specific tax or other earmarked revenue sources set aside to finance development in the Cheadle Lake urban renewal district.

Recorder Fund - this fund accounts for transactions involving employee benefits.

Bail Refund Fund - this fund accounts for bails received from defendants awaiting a court appearance.

Debt Service Fund

Bancroft Bond Fund – This Fund accounts for the collection of assessments and debt service payments.

The City reports one major proprietary fund:

Enterprise Fund

The City has one enterprise fund, which is comprised of seven departments. These departments account for the acquisition, operation and maintenance of the municipal sewer and water systems.

Fund Balance

In the year ended June 30, 2011, the City adopted GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Although not a major impact on the financial statements, Governmental Fund type fund balances are now reported in the following classifications.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used.

The City Council can modify or rescind the commitment at any time through taking a similar formal action.

CITY OF LEBANON, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget. The City's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds. In addition, certain Special Revenue Funds will be reported as part of the General Fund if their source of funds is primarily transfers from the General Fund. Any negative fund balances in funds other than the General Fund will also be reported as unassigned.

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund. Principal sources of revenues are property taxes, franchise fees and state and county shared revenues. Primary expenditures are for police protection, parks, planning and general government.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenues sources" means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

Debt Service Funds are utilized to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide financial statements and the proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets are segregated into investment in capital assets, net of related debt, restricted and unrestricted components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, franchise fees, licenses, interest revenue and charges for services. Fines and permits revenues are not susceptible to accrual because generally they are not measurable until received in cash. Receivables for court fines and permits are offset by deferred revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary ongoing operations. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary funds are accounted for utilizing the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded at the time they are earned and expenses are recorded at the time liabilities are incurred. The proprietary funds have adopted, under GASB No. 20, not to follow FASB pronouncements issued after November 30, 1989, unless specifically adopted by GASB.

Interfund transfers, interfund services provided and used, interfund reimbursements and interfund payables and receivables are all interfund activities. The effect of interfund activities and administrative charges are eliminated from the government-wide financial statements. Interfund services that are provided and used are not eliminated from the government-wide statements since elimination would distort the program revenues and direct costs of the City's functions.

The basis of accounting described above is in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses as of and for the year ended June 30, 2011. Actual results may differ from such estimates.

Cash and Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, banker's acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the State Treasurer's Investment Pool.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments (Continued)

Investments are stated at cost, which approximates fair value. Fair value is defined as the amount at which an investment could be exchanged between willing parties, other than in a forced or liquidation sale. The fair value adjustment is an “unrealized” gain or loss and is reported with other interest income. No investments are carried at amortized cost.

It is the City's policy to report at amortized cost all short-term, highly liquid money market investments (including corporate bonds, commercial paper, bankers' acceptances, municipal bonds, US Treasury and US

Agency obligations) and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase. Investments with a remaining maturity at time of purchase or more than one year are valued at fair value in accordance with GASB Statement No. 31.

For purposes of the statement of cash flows, the proprietary funds consider cash and cash equivalents to include cash and investment pool amounts since they have the characteristics of demand deposits.

Receivables and Deferred Revenues

Receivables for state, county and local shared revenues, included in accounts receivable, are recorded as revenue in the governmental funds as earned.

Receivables of the business-type funds are recorded as revenue as earned.

Property taxes receivable for the governmental fund types, which have been collected within sixty days subsequent to year end, are considered measurable and available and are recognized as revenues. All other property taxes are offset by deferred property tax revenues and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the City and become liens against the property as of July 1 of each year and are payable in three installments which are due on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by February 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Property taxes receivable by the City represent the City's allocated share of delinquent property taxes and other amounts to be collected from property owners.

Assessment liens in the governmental fund types are recognized as receivables at the time property owners are assessed for property improvements. All assessments receivable are offset by a deferred revenue account and, accordingly, have not been recorded as revenue on the fund financial statements.

Interest earned on assessments in the governmental fund types is accrued when due and is approximately offset by the related improvement bond interest expenditure which is also recognized when due.

Prepaid Pension Obligation Costs

The City issued debt in 2002 to fund a portion of the City's Public Employees Retirement System (PERS) unfunded actuarial liability. The amounts that were paid to PERS were recorded as prepaid pension obligation costs in the year of debt issuance and are amortized on a straight-line basis over the life of each debt issue.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are stated at cost or estimated historical cost. Donated assets are recorded at fair market value at date of donation. Estimated fair market value of donated assets is determined based on engineering estimates of current cost or price indexed cost.

Normal maintenance and repairs are charged to operations as incurred. Major additions, improvements and replacements are capitalized. Gains or losses from sales or retirements of fixed assets are included in operations.

During the year, the City reclassified capital assets for both governmental and business-type activities. There was no change in useful lives or depreciation related to the reclassification.

Capital assets include land, right-of-way (included with land), buildings, improvements, equipment, infrastructure, and other tangible and intangible assets costing over \$5,000 used in operations that have initial useful lives extending beyond a single reporting period. Infrastructure is those capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most other capital assets. Infrastructure reported in governmental activities consists of roads, bridges, sidewalks, and traffic and lighting systems. Infrastructure reported in business-type activities consists of water, stormwater and wastewater collection systems.

As permitted by the reporting model, the City has limited the retroactive capitalization of governmental fund infrastructure to fiscal years ended after June 30, 1980. Although, the majority of such infrastructure was placed in service before that date, it has not been included in these financial statements since they have been primarily depreciated.

Capital assets are depreciated unless they are inexhaustible in nature (e.g., land and right-of-ways). Depreciation is an accounting process to allocate the cost of capital assets to expense in a systematic and rational manner to those periods expected to benefit from the use of capital assets. Depreciation is not intended to represent an estimate in the decline of fair market value, nor are capital assets, net of accumulated depreciation, intended to represent an estimate of the current condition of the assets, or the maintenance requirements needed to maintain the assets at their current level of condition.

Depreciation is computed over the estimated useful lives of the capital assets. All estimates of useful lives are based on actual experience by City departments with identical or similar capital assets. Depreciation is calculated on the straight-line basis, except for infrastructure and improvements other than buildings reported in the governmental activities column of the government-wide financial statements, which are calculated using a composite depreciation method. The estimated useful lives of the various categories of assets are as follows:

Buildings	50 years
Water and sewer systems	40 years
Equipment	5-40 years
Infrastructure	50 years

Upon disposal of capital assets, cost and accumulated depreciation are removed from the accounts and, if appropriate, a gain or loss on the disposal is recognized. In accordance with the composite depreciation method, no gain or loss is recorded upon disposal, but rather, cost is removed from the capital asset account and charged to the accumulated depreciation account.

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Debt

Long-term debt directly related and expected to be paid from the enterprise funds is recorded in these funds. Unmatured long-term debt related to governmental activities is recorded on the Statement of Net Assets.

Accrued Vacation Pay

Accumulated vested vacation pay is accrued in the enterprise funds as it is earned by employees. In governmental fund types the amounts, if any, expected to be liquidated with expendable available resources are accrued as liabilities of the funds and the amount payable from future resources is recorded on the Statement of Net Assets. Accrued compensated absences are generally paid by all funds except the debt service funds. Sick pay, which does not vest, is recorded in all funds when leave is taken.

Budget and Budgetary Accounting

A budget is prepared for each fund. Appropriations are adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, debt service, and capital projects. The City complies with the budgetary process requirements established by the appropriate sections of the Oregon Revised Statutes. Budgets are adopted at the department level in the general fund and expenditure type for other funds. The budgets for the enterprise fund are adopted on the same basis as the budgets for the governmental funds, except for revenues, which are budgeted when received. Expenditures may not legally exceed appropriations. Appropriations lapse at the end of each fiscal year. Budget amounts include original approved amounts and all subsequent appropriation transfers approved by the City Council. After budget approval, the City Council may approve supplemental appropriations if an occurrence, condition, or need exists which had not been ascertained at the time the budget was adopted. Management may not amend the budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the City Council. During the fiscal year ended June 30, 2011, minor appropriation transfers were made and approved by the City Council.

CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed as part of "cash and investments."

Cash and investments are comprised of the following at June 30, 2011:

	<u>Carrying Value</u>	<u>Fair Value</u>
Cash		
Cash on hand	\$ 1,800	\$ 1,800
Deposits with financial institutions	4,356,855	4,356,855
Investments		
Local Government Investment Pool	9,633,880	9,633,880
Securities	2,024,188	2,024,188
	<u>\$ 16,016,723</u>	<u>\$ 16,016,723</u>

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

CASH AND INVESTMENTS (Continued)

Deposits

The City's deposits with various financial institutions had a bank value of \$4,627,285 at June 30, 2011. All deposits not covered by FDIC insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon.

Custodial Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2011, \$4,377,285 of the City's bank balances were exposed to custodial credit risk as they were collateralized with securities held by the pledging financial institution's agent but not in the City's name.

Investments

As of June 30, 2011, the City held the following investments and maturities:

<i>Investment type</i>	<i>Carrying Value</i>	<i>Average Maturity (years)</i>	<i>Percent of Investment Portfolio</i>
Local government investment pool	\$ 9,633,880	< one year	83%
Securities	974,188	< one year	8%
Securities	1,050,000	< 15 months	9%
	<u>\$ 11,658,068</u>		<u>100%</u>

The "weighted average maturity in years" calculation assumes that all investments are held until maturity.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All the investments above, except for the investment in the Local Government Investment Pool which is not evidenced by securities, are held in safekeeping by the financial institution counterparty in the financial institution's general customer account name.

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

CASH AND INVESTMENTS (Continued)

Investments (Continued)

The City's policy, which adheres to State of Oregon law, is to limit its investments to the following: Issuers within Oregon must be rated "A" (bonds) or A-2 / P-2 (commercial paper) or better by Standard & Poor's, Moody's Investors Service or any other nationally recognized statistical rating organization. Issuers not in Oregon must be rated AA/Aa (bonds) or A-1 / P-1 (commercial paper) or better.

At June 30, 2011, the City's investments are rated as follows:

Rating by Moody's Investors Service

<i>Investment type</i>	<i>LGIP</i>	<i>Securities</i>	<i>Total</i>
Not rated	\$ 9,633,880	\$ -	\$ 9,633,880
Moody AAA	-	816,908	816,908
Moody AA2	-	955,355	955,355
Moody AA3	-	251,925	251,925
	<u>\$ 9,633,880</u>	<u>\$ 2,024,188</u>	<u>\$ 11,658,068</u>

The City's policy for investing in individual issuers varies depending on the type of investments. U.S. treasury and agency securities do not have restrictions regarding concentration with any one issuer. At June 30, 2011, more than 6% of the City's portfolio is invested in FHLB securities.

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2011, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting investment maturity.

Custodial Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

CASH AND INVESTMENTS (Continued)

Custodial Risk - Investments (Continued)

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-loan diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

RECEIVABLES

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Total</u>
Accounts and other	\$ 232,092	\$ 205,324	\$ 218,270	\$ 6,436	\$ 961,725	\$ 1,623,847
Property taxes	329,480	184,860	-	120,112	1,107	635,559
Special assessments / loans	-	648,974	-	-	-	648,974
Court fines	759,502	-	-	-	-	759,502
	<u>\$ 1,321,074</u>	<u>\$ 1,039,158</u>	<u>\$ 218,270</u>	<u>\$ 126,548</u>	<u>\$ 962,832</u>	<u>\$ 3,667,882</u>

Property Taxes - Collection Procedures

Taxes are levied on July 1 and are payable in three installments due November 15, February 15, and May 15. The County bills and collects property taxes for the City.

	<u>Balances July 1, 2010</u>	<u>2010-2011 Levy</u>	<u>Added to Rolls</u>	<u>Interest, Discounts & Adjustments</u>	<u>Collections</u>	<u>Balances June 30, 2011</u>
<i>General and Debt Service Fund</i>						
Current	\$ -	\$ 5,229,541	\$ 2,423	\$ (142,719)	\$ (4,846,330)	\$ 242,915
Prior	404,735	-	285	(14,007)	(184,336)	206,677
	<u>\$ 404,735</u>	<u>\$ 5,229,541</u>	<u>\$ 2,708</u>	<u>\$ (156,726)</u>	<u>\$ (5,030,666)</u>	<u>\$ 449,592</u>

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

RECEIVABLES (Continued)

Property Taxes - Collection Procedures (Continued)

	<i>Balances July 1, 2010</i>	<i>2010-2011 Levy</i>	<i>Added to Rolls</i>	<i>Interest, Discounts & Adjustments</i>	<i>Collections</i>	<i>Balances June 30, 2011</i>
<i>NW Urban Renewal</i>						
Current	\$ -	\$ 1,914,062	\$ 887	\$ (52,236)	\$ (1,773,803)	\$ 88,910
Prior	133,135	-	121	(5,071)	(60,404)	67,781
	<u>\$ 133,135</u>	<u>\$ 1,914,062</u>	<u>\$ 1,008</u>	<u>\$ (57,307)</u>	<u>\$ (1,834,207)</u>	<u>\$ 156,691</u>
<i>Cheadle Lake Urban Renewal</i>						
Current	\$ -	\$ 237,602	\$ 110	\$ (6,484)	\$ (220,191)	\$ 11,037
Prior	16,714	-	10	(515)	(7,651)	8,558
	<u>\$ 16,714</u>	<u>\$ 237,602</u>	<u>\$ 120</u>	<u>\$ (6,999)</u>	<u>\$ (227,842)</u>	<u>\$ 19,595</u>
<i>NW Gateway Urban Renewal</i>						
Current	\$ -	\$ 142,157	\$ 66	\$ (3,880)	\$ (131,740)	\$ 6,603
Prior	3,844	-	-	(54)	(1,819)	1,971
	<u>\$ 3,844</u>	<u>\$ 142,157</u>	<u>\$ 66</u>	<u>\$ (3,934)</u>	<u>\$ (133,559)</u>	<u>\$ 8,574</u>
<i>Wastewater</i>						
Current	\$ -	\$ 17,300	\$ 8	\$ (472)	\$ (16,032)	\$ 804
Prior	1,107	-	1	(39)	(766)	303
	<u>\$ 1,107</u>	<u>\$ 17,300</u>	<u>\$ 9</u>	<u>\$ (511)</u>	<u>\$ (16,798)</u>	<u>\$ 1,107</u>

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS

The changes in the capital assets for governmental activities for the year ended June 30, 2011 are as follows:

	<i>Balances July 1, 2010</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2011</i>
Land	\$ 2,107,969	\$ 253,687	\$ -	\$ 2,361,656
Construction in progress	430,339	-	(423,255)	7,084
<i>Total nondepreciable assets</i>	2,538,308	253,687	(423,255)	2,368,740
Buildings and improvements	18,404,299	-	-	18,404,299
Machinery and equipment	2,695,595	237,992	-	2,933,587
Vehicles and rolling stock	1,850,881	134,200	-	1,985,081
Infrastructure	62,659,416	641,930	-	63,301,346
<i>Total depreciable assets</i>	85,610,191	1,014,122	-	86,624,313
Accumulated depreciation:				
building	(37,028,792)	(348,015)	-	(37,376,807)
machinery	(1,599,686)	(204,907)	-	(1,804,593)
vehicles	(1,566,950)	(125,308)	-	(1,692,258)
infrastructure	(3,872,007)	(2,826,231)	-	(6,698,238)
<i>Total accumulated depreciation</i>	(44,067,435)	(3,504,461)	-	(47,571,896)
<i>Total capital assets, net</i>	\$ 44,081,064	\$ (2,236,652)	\$ (423,255)	\$ 41,421,157

Depreciation expense was charged as follows:

General government	\$ 560,713
Community services and development	2,908,703
Public safety	35,045
	<hr/>
Total	<u>\$3,504,461</u>

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS (Continued)

The summary of capital assets for the business-type activities for the year ended June 30, 2011 is as follows:

	<i>Balances July 1, 2010</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2011</i>
Land	\$ 1,103,142	\$ -	\$ -	\$ 1,103,142
Construction in progress	55,018	831,770	(41,517)	845,271
<i>Total nondepreciable assets</i>	1,158,160	831,770	(41,517)	1,948,413
Buildings	8,424,953	-	-	8,424,953
Machinery and equipment	4,347,647	-	-	4,347,647
Vehicles and rolling stock	1,010,549	-	-	1,010,549
Infrastructure	41,325	-	-	41,325
Water/sewer assets	27,462,465	707,307	-	28,169,772
<i>Total depreciable assets</i>	41,286,939	707,307	-	41,994,246
Accumulated depreciation - water	(4,320,827)	(261,884)	-	(4,582,711)
Accumulated depreciation - sewer	(7,969,796)	(747,082)	-	(8,716,878)
<i>Total accumulated depreciation</i>	(12,290,623)	(1,008,966)	-	(13,299,589)
<i>Total capital assets, net</i>	<u>\$ 30,154,476</u>	<u>\$ 530,111</u>	<u>\$ (41,517)</u>	<u>\$ 30,643,070</u>

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

LONG-TERM OBLIGATIONS

Long-term debt transactions for the year were as follows:

	<i>Outstanding July 1, 2010</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2011</i>	<i>Due Within One Year</i>
<i>Governmental activities</i>					
2000 GO Urban Renewal	\$ 3,420,000	\$ -	\$ (3,420,000)	\$ -	\$ -
2002 Pension Obligation bonds	1,961,302	-	(262,144)	1,699,158	27,634
2007 GO Refunding	18,485,000	-	(555,000)	17,930,000	650,000
NWURD SPWF	3,424,426	-	(96,858)	3,327,568	102,533
General Fund SPWF	1,719,093	-	(61,062)	1,658,031	61,394
2010 NWURD Refunding bonds	-	3,310,000	(300,000)	3,010,000	295,000
	<u>29,009,821</u>	<u>3,310,000</u>	<u>(4,695,064)</u>	<u>27,624,757</u>	<u>1,136,561</u>
Accrued compensated absences	832,323	(491,915)	(74,962)	265,446	137,139
	<u>\$ 12,946,241</u>	<u>\$ 2,818,085</u>	<u>\$ (4,770,026)</u>	<u>\$ 27,890,203</u>	<u>\$ 1,273,700</u>
	<i>Outstanding July 1, 2010</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2011</i>	<i>Due Within One Year</i>
<i>Business-type activities</i>					
2000 Wastewater Revenue	\$ 2,140,000	\$ -	\$ (2,140,000)	\$ -	\$ -
2003 Wastewater Revenue Refunding	2,410,000	-	(210,000)	2,200,000	210,000
2004 Water Refunding	2,415,000	-	(165,000)	2,250,000	165,000
2007 Cannibal Project Financing	3,914,360	-	(258,591)	3,655,769	265,531
2009 Wastewater CIP SRF Loan	882,727	-	(35,309)	847,418	36,351
2010 Wastewater revenue bonds	-	7,010,000	(185,000)	6,825,000	360,000
	<u>11,762,087</u>	<u>7,010,000</u>	<u>(2,993,900)</u>	<u>15,778,187</u>	<u>1,036,882</u>
Accrued compensated absences	162,603	(53,940)	(32,991)	75,672	32,948
	<u>\$ 11,924,690</u>	<u>\$ 6,956,060</u>	<u>\$ (3,026,891)</u>	<u>\$ 15,853,859</u>	<u>\$ 1,069,830</u>

The 2000 Urban Renewal general obligation bonds were issued to provide financing for urban renewal projects. The original amount of the issue was \$5,435,000 and had interest rates ranging from 4.75% to 6.00%. Annual principal and semiannual interest payments range from approximately \$461,000 to \$469,000. The final bonds were scheduled to mature in 2019-20. The outstanding balance was paid by the issuance of refunding bonds in the current year.

The 2002 general obligation pension bonds were issued to pay down the City's actuarial liability with PERS. The original amount of the issue was \$2,081,188 and had interest rates ranging from 2.00% to 7.36%. Annual principal and semiannual interest payments range from approximately \$148,000 to \$325,000. The final bonds mature in 2027-2028.

CITY OF LEBANON, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

LONG-TERM OBLIGATIONS *(Continued)*

The 2007 general obligation refunding bonds were issued to prepay or partially prepay three outstanding general obligation bond issues, including \$1,245,000 on the 1995 general obligation refunding bonds. The original amount of the issue was \$19,970,000 and had interest rates ranging from 4% to 5%. Annual principal and semiannual interest payments range from approximately \$1,306,000 to \$2,000,000. The final bonds mature in 2036-27.

The NW Urban Renewal District special public works fund loan proceeds were used for urban renewal projects. The interest rates on the loan range from 4.00% to 4.375%. Annual payments range from approximately \$241,000 to \$246,000. The loan is scheduled to be repaid by 2032.

The general obligation General Fund Special Public Works Fund loan has an interest rate ranging from 3.00% to 5.25%. The loan is scheduled to mature in 2028.

The revenue supported 2000 wastewater revenue bonds were issued in the amount of \$3,320,000 with interest rates ranging from 4.7% to 5.7%. Annual principal and semiannual interest payments range from approximately \$284,000 to \$289,000. The final bonds were scheduled to mature in 2019-20. The outstanding balance was paid by the issuance of refunding bonds in the current year.

The revenue supported 2003 wastewater revenue refunding bonds were issued to prepay a previously outstanding wastewater bond. The original amount of the issue was \$3,775,000 and had interest rates ranging from 2.00% to 4.125%. Annual principal and semiannual interest payments range from approximately \$291,000 to \$296,000. The final bonds mature in 2019-20.

The 2004 water refunding bonds are revenue supported and were issued in the original amount of \$3,000,000 to prepay a portion of a previously outstanding water bond issue. Interest rates range from 2.0% to 4.2%. Annual principal and semiannual interest payments range from approximately \$249,000 to \$259,000. The final bonds mature in 2020-21.

The revenue supported 2007 Cannibal Project financing loan was used to pay the costs of wastewater improvement projects. Interest rates range from 2.1% to 4.22%. Annual principal and interest payments are \$415,956. The final payment will be in 2021-22.

The 2010 NW URD refunding bonds were issued to pay off the remaining balance of the 2000 G. O. Urban Renewal bonds. Interest rates range from 2.00% to 3.50%. The final bonds mature in 2019-20. The debt service requirements on the old debt were \$4,636,235. The debt service requirements on the new debt are \$3,876,496. The net present value of savings to the City was not available.

The 2010 Wastewater revenue bonds were issued in part to pay off the outstanding balance of the 2000 wastewater revenue bonds, and to provide additional funds for construction of infrastructure. Interest rates range from 2.00% to 4.00%. The final bonds mature in 2030-31. The debt service requirements on the old debt were \$2,856,870. The debt service requirements on the new debt attributable to the refunding and the net present value of savings to the City was not available.

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

LONG-TERM OBLIGATIONS (Continued)

The future maturities of obligations outstanding as of June 30, 2011:

Governmental Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,136,561	\$ 1,254,145	\$ 2,390,706
2013	1,230,262	1,222,168	2,452,430
2014	1,141,399	1,182,505	2,323,904
2015	1,228,997	1,150,133	2,379,130
2016	1,316,381	1,114,349	2,430,730
2017-2021	7,825,805	4,750,753	12,576,558
2022-2026	9,983,474	2,531,170	12,514,644
2027-2031	3,527,054	354,021	3,881,075
2032	234,824	10,274	245,098
	\$ 27,624,757	\$ 13,569,518	\$ 41,194,275

Business-type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,036,882	\$ 586,310	\$ 1,623,192
2013	1,079,277	554,617	1,633,894
2014	1,112,187	518,844	1,631,031
2015	1,150,634	479,586	1,630,220
2016	1,194,639	439,780	1,634,419
2017-2021	6,164,506	1,460,302	7,624,808
2022-2026	2,256,334	536,636	2,792,970
2027-2031	1,783,728	194,453	1,978,181
	\$ 15,778,187	\$ 4,770,528	\$ 20,548,715

CITY OF LEBANON, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

PENSION PLANS

Plan Description

The City is a participating employer in the Oregon Public Employees Retirement System (“OPERS”), a cost-sharing multiple-employer defined benefit pension plan. The 2003 legislature adopted certain changes in the Oregon Public Employee Retirement System, and created a new system for all people hired after August 29, 2003. The Public Employee Retirement System (PERS), which was established under Oregon Revised Statute (ORS) 238.600, applies to all employees who had established membership prior to August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), which was established under ORS 238A and went into effect on January 1, 2004, applies to all people who are first employed with a public employer after August 29, 2003. The Public Employees Retirement Board (PERB) governs and acts as a common investment and administrative agent for both plans which are the retirement plans for most public employers in the State of Oregon. Benefits are established by state statute, and employer contributions are made at the actuarially determined rate for each system as adopted by the PERB. The Oregon Public Employees Retirement System, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Both PERS and OPSRP plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Funding Status

Covered employees are required by state statute to contribute 6.0 percent of their salary to the plan which is invested in the Individual Account Program (IAP). Employers are permitted to pay employee contributions to the fund. The City pays the employee contribution to the fund.

The City is required by statute to contribute actuarially computed amounts as determined by OPERS. OPERS completes an actuarial valuation as of December 31 of odd numbered years for new rates to be implemented July 1 of the next odd numbered year. Rates are subject to change as a result of subsequent actuarial valuations and the proportion of the system that is funded for each local government employer. For rate changes implemented July 1, 2005, the PERB voted to phase in the rate changes for PERS (for most employers a rate increase). On July 1, 2009 the City’s rate increased to 7.71 percent based on the 2007 actuarial valuation.

For OPSRP, all employers are included in a single pool, with separate rates assigned for police and fire participants and general service participants. These rates are 14.66% for Tier 1/Tier 2 subject payroll, 6.48% for OPSRP general service subject payroll, and 9.19% for OPSRP police and fire subject payroll based on the December 31, 2007 valuation.

Annual Pension Cost

The City’s contributions to PERS for the fiscal years ending June 30, 2009, 2010, and 2011 were \$985,791, \$777,661, and \$854,421 respectively, which equaled the required contribution for the year.

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

TRANSFERS

Budgetary basis transfers for the year were as follows.

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 354,342	\$ 623,370
Intergovernmental	2,415,439	377,453
NW Urban Renewal	-	61,031
Cheadle Lake Urban Renewal	129,000	81,040
NW Gateway Urban Renewal	-	10,566
Debt Service	218,287	-
Capital Projects	337,670	13,571
Water	-	1,800,973
Water CIP	758,000	-
Small Water Line	-	63
Storm Drain Utility	63	48,752
Wastewater	-	2,830,616
Wastewater CIP	1,645,998	11,364
	<u>\$ 5,858,799</u>	<u>\$ 5,858,799</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

INSURANCE RESERVES

For the past several years, the City has been setting aside funds in an insurance reserve account to use for self-insurance against various risks. The deductibles on most City policies range from \$1,000 to \$5,000. However, the greatest portion of the reserve is set aside to meet the deductible on the earthquake policy, which is \$200,000. In addition, from time to time, when special expenditures are needed for safety reasons, funds from this reserve are used. The insurance reserves are classified as unrestricted net assets on the Statement of Net Assets.

CONTINGENCIES

From time to time, the City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position and cannot be reasonably estimated.

CITY OF LEBANON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2011

OVEREXPENDITURES OF APPROPRIATIONS AND DEFICIT FUND BALANCES

The City over-expended appropriations as follows:

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General fund			
Administration	\$ 82,727	\$ 92,794	\$ (10,067)
Intergovernmental fund			
Traffic team	-	143	(143)
Debt Service fund			
Principal	582,144	817,144	(235,000)
Capital Projects fund			
SDC drainage	12,000	13,197	(1,197)
Cheadle Lake Urban Renewal District fund			
Materials and services	18,564	23,091	(4,527)
NW Gateway Urban Renewal fund			
Materials and services	2,985	6,266	(3,281)

At June 30, 2011, the Cheadle Lake Urban Renewal fund had a negative fund balance of \$74,624.

SUBSEQUENT EVENTS

The City follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through December 28, 2011, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEBANON, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Budget</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>	<i>Basis</i>	
REVENUES				
Taxes and assessments	\$ 3,541,300	\$ 3,627,900	\$ 3,655,355	\$ 27,455
Licenses and permits	1,428,862	1,522,500	1,413,181	(109,319)
Charges for services	13,050	13,050	6,466	(6,584)
Intergovernmental	350,000	345,000	348,589	3,589
Fines and forfeitures	331,000	281,000	434,245	153,245
Miscellaneous	154,200	404,200	233,849	(170,351)
<i>Total Revenues</i>	5,818,412	6,193,650	6,091,685	(101,965)
EXPENDITURES				
Administration	81,714	82,727	92,794	(10,067)
City attorney	33,244	33,244	32,669	575
Planning	41,517	42,249	38,001	4,248
Public works	5,942	6,081	5,733	348
Parks	458,390	493,373	370,289	123,084
Finance	82,371	118,483	79,968	38,515
Legislative	41,914	42,499	33,821	8,678
Library	385,921	396,284	382,621	13,663
Municipal court	293,120	300,045	286,645	13,400
Police	3,911,732	4,075,014	3,868,928	206,086
Senior services	127,906	129,624	126,671	2,953
Nondepartmental	389,425	428,425	378,322	50,103
Contingency	667,846	889,186	-	889,186
<i>Total Expenditures</i>	6,521,042	7,037,234	5,696,462	1,340,772
REVENUES OVER (UNDER)				
EXPENDITURES	(702,630)	(843,584)	395,223	1,238,807
OTHER FINANCING SOURCES (USES)				
Transfers in	329,000	329,000	354,342	25,342
Transfers out	(623,370)	(530,416)	(623,370)	(92,954)
Sale of assets	192,000	250,000	217,868	(32,132)
<i>Total Other Financing Sources (Uses)</i>	(102,370)	48,584	(51,160)	(99,744)
NET CHANGE IN FUND BALANCE	(805,000)	(795,000)	344,063	1,139,063
FUND BALANCE, Beginning of year	805,000	795,000	857,078	62,078
FUND BALANCE, End of year	\$ -	\$ -	\$ 1,201,141	\$ 1,201,141

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - INTERGOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Budget</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>	<i>Basis</i>	
REVENUES				
Taxes and assessments	\$ 37,500	\$ 37,500	\$ 37,230	\$ (270)
Licenses and permits	227,150	227,150	195,378	(31,772)
Charges for services	20,000	20,000	9,820	(10,180)
Intergovernmental	1,809,658	1,782,165	1,343,806	(438,359)
Miscellaneous	106,867	106,867	153,252	46,385
<i>Total Revenues</i>	2,201,175	2,173,682	1,739,486	(434,196)
EXPENDITURES				
City Hall repairs	5,000	5,000	1,305	3,695
Motel tax	33,500	33,500	27,935	5,565
Building inspections	466,436	474,440	389,098	85,342
Park enterprise	62,166	64,390	50,361	14,029
Park grants	244,021	244,021	58,698	185,323
Operation and environment	1,651,459	1,653,618	1,430,418	223,200
GIS	212,046	212,963	119,105	93,858
Information system	439,127	523,321	419,570	103,751
Sidewalk and bikepath	11,000	11,000	-	11,000
Engineering development	19,981	20,452	19,344	1,108
Streets	653,747	710,609	586,488	124,121
911 communications	75,000	75,000	-	75,000
School resource officer	105,692	108,013	97,577	10,436
Dial-A-Bus	236,216	239,516	213,577	25,939
STP street project	395,000	395,000	297,369	97,631
85-86 housing rehabilitation unres.	5,000	5,000	-	5,000
Gills Landing	3,618	4,301	1,164	3,137
1998 housing rehabilitation grant	45,310	45,310	7,693	37,617
Traffic team	-	-	143	(143)
Downtown beautification CIF grant	2,000	2,000	-	2,000
Federal community policing	4,565	4,565	-	4,565
Maintenance services	146,888	149,194	133,242	15,952
Byrne assistance grant	30,150	30,150	-	30,150
Library LSTA grant	27,493	-	19,215	(19,215)
Contingency	400,170	390,743	-	390,743
<i>Total Expenditures</i>	5,275,585	5,402,106	3,872,302	1,529,804

	<i>Budgeted Amounts</i>		<i>Budget</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>	<i>Basis</i>	
REVENUES OVER (UNDER)				
EXPENDITURES	\$ (3,074,410)	\$ (3,228,424)	\$ (2,132,816)	\$ 1,095,608
OTHER FINANCING SOURCES (USES)				
Transfers in	2,418,504	2,522,249	2,415,439	(106,810)
Transfers out	(384,518)	(334,249)	(377,453)	(43,204)
<i>Total Other Financing Sources (Uses)</i>	2,033,986	2,188,000	2,037,986	(150,014)
NET CHANGE IN FUND BALANCE	(1,040,424)	(1,040,424)	(94,830)	945,594
FUND BALANCE, Beginning of year	1,040,424	1,040,424	1,321,182	280,758
FUND BALANCE, End of year	\$ -	\$ -	\$ 1,226,352	\$ 1,226,352

CITY OF LEBANON, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - NW URBAN RENEWAL FUND
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes and assessments	\$ 2,245,868	\$ 2,245,868	\$ 1,836,672	\$ (409,196)
Miscellaneous	19,500	19,500	36,897	17,397
<i>Total Revenues</i>	2,265,368	2,265,368	1,873,569	(391,799)
EXPENDITURES				
Personal services	422,593	438,990	412,107	26,883
Materials and services	961,410	461,410	82,522	378,888
Capital outlay	150,080	650,080	-	650,080
Debt service				
Principal	356,858	356,858	506,858	(150,000) *
Interest	346,343	346,343	303,574	42,769
Contingency	2,320,156	2,310,614	-	2,310,614
<i>Total Expenditures</i>	4,557,440	4,564,295	1,305,061	3,259,234
REVENUES OVER (UNDER) EXPENDITURES	(2,292,072)	(2,298,927)	568,508	2,867,435
OTHER FINANCING SOURCES (USES)				
Transfers in	-	500,000	-	(500,000)
Transfers out	(61,031)	(554,176)	(61,031)	493,145
Bond proceeds	-	-	3,310,000	3,310,000
Bond defeasance	-	-	(3,310,000)	(3,310,000)
Bond premium	-	-	11,281	11,281
<i>Total Other Financing Sources (Uses)</i>	(61,031)	(54,176)	(49,750)	4,426
NET CHANGE IN FUND BALANCE	(2,353,103)	(2,353,103)	518,758	2,871,861
FUND BALANCE, Beginning of year	2,353,103	2,353,103	2,510,637	157,534
FUND BALANCE, End of year	\$ -	\$ -	\$ 3,029,395	\$ 3,029,395

*Refunding over expenditure not in violation of Local Budget Law.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LEBANON, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Budget Basis</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 1,371,062	\$ 1,371,062	\$ 1,375,588	\$ 4,526
Intergovernmental	162,180	162,180	175,779	13,599
Miscellaneous	18,918	1,600	22,219	20,619
<i>Total Revenues</i>	<u>1,552,160</u>	<u>1,534,842</u>	<u>1,573,586</u>	<u>38,744</u>
EXPENDITURES				
Debt service				
Principal	817,144	582,144	817,144	(235,000)
Interest	964,041	963,436	956,248	7,188
<i>Total Expenditures</i>	<u>1,781,185</u>	<u>1,545,580</u>	<u>1,773,392</u>	<u>(227,812)</u>
REVENUES OVER (UNDER)				
EXPENDITURES	(229,025)	(10,738)	(199,806)	(189,068)
OTHER FINANCING SOURCES (USES)				
Transfers in	218,287	-	218,287	218,287
NET CHANGE IN FUND BALANCE	<u>(10,738)</u>	<u>(10,738)</u>	<u>18,481</u>	<u>29,219</u>
FUND BALANCE, Beginning of year	<u>10,738</u>	<u>10,738</u>	<u>(13,481)</u>	<u>(24,219)</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 5,000</u>

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Budget</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>	<i>Basis</i>	
REVENUES				
Taxes and assessments	\$ 164,350	\$ 164,350	\$ 339,947	\$ 175,597
Intergovernmental	2,430	2,430	-	(2,430)
Miscellaneous	1,176,345	1,176,345	107,281	(1,069,064)
<i>Total Revenues</i>	1,343,125	1,343,125	447,228	(895,897)
EXPENDITURES				
Equipment acquisition	329,100	329,100	294,022	35,078
Historic resources	78	78	-	78
Grant street bridge	11,185	11,185	5,910	5,275
Pioneer Cemetery	3,560	3,560	-	3,560
D.A.R.E.	352,700	352,700	4,263	348,437
Police	13,050	13,050	10,892	2,158
Library	228,000	228,000	39,810	188,190
Library building	719,000	719,000	37,757	681,243
Senior center building	13,506	13,506	714	12,792
Library/senior center building	17,250	17,250	1,343	15,907
Senior services	25,500	25,500	10,028	15,472
Snedaker trust	64,000	64,000	15,412	48,588
Streets	16,103	16,290	12,676	3,614
Streets capital projects	377,633	377,633	15,298	362,335
Infrastructure deferral	54,391	54,391	-	54,391
SDC drainage	12,000	12,000	13,197	(1,197)
SDC drainage improvement	160,455	160,825	15,156	145,669
SDC park improvement	436,213	436,480	57,797	378,683
SDC wastewater improvement	424,857	425,661	71,800	353,861
SDC wastewater reimbursement	180,000	180,000	-	180,000
SDC streets improvement	762,419	762,702	11,612	751,090
Restricted SDC water	942	942	-	942
SDC water improvement	172,419	172,702	16,863	155,839
SDC water reimbursement	70,000	70,000	-	70,000
Contingency	1,580,285	1,605,923	-	1,605,923
<i>Total Expenditures</i>	6,024,646	6,052,478	634,550	5,417,928

	<i>Budgeted Amounts</i>		<i>Budget</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>	<i>Basis</i>	
REVENUES OVER (UNDER)				
EXPENDITURES	\$ (4,681,521)	\$ (4,709,353)	\$ (187,322)	\$ 4,522,031
OTHER FINANCING SOURCES (USES)				
Transfers in	373,270	399,270	337,670	(61,600)
Transfers out	(13,571)	(11,739)	(13,571)	(1,832)
<i>Total Other Financing Sources (Uses)</i>	<u>359,699</u>	<u>387,531</u>	<u>324,099</u>	<u>(63,432)</u>
NET CHANGE IN FUND BALANCE	(4,321,822)	(4,321,822)	136,777	4,458,599
FUND BALANCE, Beginning of year	<u>4,321,822</u>	<u>4,321,822</u>	<u>4,278,256</u>	<u>(43,566)</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,415,033</u>	<u>\$ 4,415,033</u>

CITY OF LEBANON, OREGON
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	<i>Special Revenue</i>		
	<i>Cheadle Lake Urban Renewal</i>	<i>NW Gateway Urban Renewal</i>	<i>Recorder</i>
ASSETS			
Cash and investments	\$ -	\$ 119,134	\$ 104,828
Accounts receivable	-	-	21,725
Prepaid expenses	-	-	-
Property taxes receivable	19,595	8,574	-
Other receivables	1,003	457	-
<i>Total Assets</i>	<u>\$ 20,598</u>	<u>\$ 128,165</u>	<u>\$ 126,553</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 167	\$ 136	\$ 17,481
Payroll taxes payable	-	-	109,072
Deferred revenues	19,595	8,574	-
Due to other funds	75,460	-	-
<i>Total Liabilities</i>	<u>95,222</u>	<u>8,710</u>	<u>126,553</u>
Fund Balances			
Restricted for:			
Community development	-	119,455	-
Committed to:			
Debt service	-	-	-
Unrestricted	(74,624)	-	-
<i>Total Fund Balances</i>	<u>(74,624)</u>	<u>119,455</u>	<u>-</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 20,598</u>	<u>\$ 128,165</u>	<u>\$ 126,553</u>

<u>Special Revenue</u>		<u>Debt Service</u>	
<u>Bail Refund</u>	<u>Bancroft Bond</u>	<u>Totals</u>	
\$ 4,883	\$ 31,352	\$ 260,197	
-	-	21,725	
-	1,133	1,133	
-	-	28,169	
-	-	1,460	
<u>\$ 4,883</u>	<u>\$ 32,485</u>	<u>\$ 312,684</u>	
\$ 4,883	\$ -	\$ 22,667	
-	-	109,072	
-	1,133	29,302	
-	-	75,460	
<u>4,883</u>	<u>1,133</u>	<u>236,501</u>	
-	-	119,455	
-	31,352	31,352	
-	-	(74,624)	
<u>-</u>	<u>31,352</u>	<u>76,183</u>	
<u>\$ 4,883</u>	<u>\$ 32,485</u>	<u>\$ 312,684</u>	

CITY OF LEBANON, OREGON**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011**

	<i>Cheadle Lake Urban Renewal</i>	<i>NW Gateway Urban Renewal</i>	<i>Bail Refund</i>
REVENUES			
Taxes and assessments	\$ 226,436	\$ 133,034	\$ -
Fines and forfeitures	-	-	132,967
Miscellaneous	786	1,048	6,492
<i>Total Revenues</i>	<u>227,222</u>	<u>134,082</u>	<u>139,459</u>
EXPENDITURES			
Current operating:			
Community services and development	167,066	61,690	-
Public safety	-	-	139,225
Capital outlay	18,000	-	-
<i>Total Expenditures</i>	<u>185,066</u>	<u>61,690</u>	<u>139,225</u>
REVENUES OVER (UNDER) EXPENDITURES	42,156	72,392	234
OTHER FINANCING SOURCES (USES)			
Transfers in	129,000	-	-
Transfers out	(81,040)	(10,566)	-
<i>Total Other Financing Sources (Uses)</i>	<u>47,960</u>	<u>(10,566)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	90,116	61,826	234
FUND BALANCES (DEFICIT), Beginning of year	<u>(164,740)</u>	<u>57,629</u>	<u>(234)</u>
FUND BALANCES (DEFICIT), End of year	<u><u>\$ (74,624)</u></u>	<u><u>\$ 119,455</u></u>	<u><u>\$ -</u></u>

<i>Bancroft Bond</i>	<i>Totals</i>
\$ 5,429	\$ 364,899
-	132,967
242	8,568
<hr/> 5,671	<hr/> 506,434
-	228,756
-	139,225
-	18,000
<hr/> -	<hr/> 385,981
5,671	120,453
-	129,000
-	(91,606)
<hr/> -	<hr/> 37,394
5,671	157,847
25,681	(81,664)
<hr/> \$ 31,352	<hr/> \$ 76,183

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CHEADLE LAKE URBAN RENEWAL FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes and assessments	\$ 239,700	\$ 239,700	\$ 226,436	\$ (13,264)
Miscellaneous	68	68	786	718
<i>Total Revenues</i>	<u>239,768</u>	<u>239,768</u>	<u>227,222</u>	<u>(12,546)</u>
EXPENDITURES				
Personal services	173,403	179,034	143,975	35,059
Materials and services	18,564	18,564	23,091	(4,527)
Capital outlay	18,389	18,389	18,000	389
Debt service				
Principal	235,000	235,000	-	235,000
Interest	4,700	4,700	-	4,700
Contingency	131,872	-	-	-
<i>Total Expenditures</i>	<u>581,928</u>	<u>455,687</u>	<u>185,066</u>	<u>270,621</u>
REVENUES OVER (UNDER) EXPENDITURES	(342,160)	(215,919)	42,156	258,075
OTHER FINANCING SOURCES (USES)				
Loan proceeds	239,700	239,700	-	(239,700)
Transfers in	129,000	-	129,000	129,000
Transfers out	(81,040)	(78,281)	(81,040)	(2,759)
<i>Total Other Financing Sources (Uses)</i>	<u>287,660</u>	<u>161,419</u>	<u>47,960</u>	<u>(113,459)</u>
NET CHANGE IN FUND BALANCE	(54,500)	(54,500)	90,116	144,616
FUND BALANCE, Beginning of year	<u>54,500</u>	<u>54,500</u>	<u>(164,740)</u>	<u>(219,240)</u>
FUND BALANCE (DEFICIT), End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (74,624)</u>	<u>\$ (74,624)</u>

CITY OF LEBANON, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NW GATEWAY URBAN RENEWAL
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Budget Basis</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 126,000	\$ 126,000	\$ 133,034	\$ 7,034
Miscellaneous	50	50	1,048	998
<i>Total Revenues</i>	126,050	126,050	134,082	8,032
EXPENDITURES				
Personal services	54,804	56,031	55,424	607
Materials and services	2,985	2,985	6,266	(3,281)
Contingency	111,695	111,110	-	111,110
<i>Total Expenditures</i>	169,484	170,126	61,690	108,436
REVENUES OVER (UNDER) EXPENDITURES	(43,434)	(44,076)	72,392	116,468
OTHER FINANCING SOURCES (USES)				
Transfers out	(10,566)	(9,924)	(10,566)	(642)
NET CHANGE IN FUND BALANCE	(54,000)	(54,000)	61,826	115,826
FUND BALANCE, Beginning of year	54,000	54,000	57,629	3,629
FUND BALANCE, End of year	\$ -	\$ -	\$ 119,455	\$ 119,455

CITY OF LEBANON, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BANCROFT BOND FUND
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes and assessments	\$ -	\$ -	\$ 5,429	\$ 5,429
Miscellaneous	-	-	242	242
<i>Total Revenues</i>	-	-	5,671	5,671
EXPENDITURES				
Materials and services	26,000	26,000	-	26,000
Contingency	200	200	-	200
<i>Total Expenditures</i>	26,200	26,200	-	26,200
REVENUES OVER (UNDER)				
EXPENDITURES	(26,200)	(26,200)	5,671	31,871
FUND BALANCE, Beginning of year	26,200	26,200	25,681	(519)
FUND BALANCE, End of year	\$ -	\$ -	\$ 31,352	\$ 31,352

CITY OF LEBANON, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BAIL REFUND FUND
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines and forfeitures	\$ 174,000	\$ 174,000	\$ 132,967	\$ (41,033)
Miscellaneous	11,000	11,000	6,492	(4,508)
<i>Total Revenues</i>	185,000	185,000	139,459	(45,541)
EXPENDITURES				
Materials and services	185,000	185,000	139,225	45,775
REVENUES OVER (UNDER)				
EXPENDITURES	-	-	234	234
FUND BALANCE, Beginning of year	-	-	(234)	(234)
FUND BALANCE (DEFICIT), End of year	\$ -	\$ -	\$ -	\$ -

CITY OF LEBANON, OREGON
SCHEDULE OF FUND NET ASSETS - ALL PROPRIETARY FUND DEPARTMENTS
JUNE 30, 2011

	<u>Water Dept.</u>	<u>Water CIP Dept.</u>	<u>Small Water Line Dept.</u>
ASSETS			
Current assets			
Cash and investments	\$ 315,260	\$ 307,345	\$ -
Accounts receivable	437,763	-	-
Property taxes receivable	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Current Assets</i>	753,023	307,345	-
Noncurrent assets			
Deferred charges	-	50,160	-
Nondepreciable capital assets	608,551	145,782	-
Other capital assets, net of depreciation	5,532,606	-	49,620
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	6,894,180	503,287	49,620
LIABILITIES			
Current liabilities			
Accounts payable	16,466	1,722	-
Deposits	149,855	-	-
Accrued interest payable	-	20,567	-
Loan payable - current portion	-	-	-
Bonds payable - current portion	-	165,000	-
Compensated absences payable - current portion	18,138	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Current Liabilities</i>	184,459	187,289	-
Noncurrent liabilities			
Loans payable	-	-	-
Bonds payable	-	2,085,000	-
Bond premium	-	-	-
Compensated absences payable	24,441	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Noncurrent Liabilities</i>	24,441	2,085,000	-
NET ASSETS			
Investment in capital assets (net of related debt)	6,141,157	(2,104,218)	49,620
Restricted for debt service	-	-	-
Unrestricted	544,123	335,216	-
	<hr/>	<hr/>	<hr/>
<i>Total Net Assets</i>	<u>\$ 6,685,280</u>	<u>\$ (1,769,002)</u>	<u>\$ 49,620</u>

<i>Storm Drain Utility Dept.</i>	<i>Wastewater Dept.</i>	<i>Wastewater CIP Dept.</i>	<i>Totals</i>
\$ 123,511	\$ 506,822	\$ 5,012,245	\$ 6,265,183
4,863	519,099	-	961,725
-	1,107	-	1,107
128,374	1,027,028	5,012,245	7,228,015
-	-	199,015	249,175
-	494,591	699,489	1,948,413
-	23,112,431	-	28,694,657
128,374	24,634,050	5,910,749	38,120,260
1,228	8,721	150,748	178,885
-	-	-	149,855
-	-	94,994	115,561
-	-	265,531	265,531
-	-	606,351	771,351
443	14,367	-	32,948
1,671	23,088	1,117,624	1,514,131
-	-	3,390,238	3,390,238
-	-	9,266,067	11,351,067
383	17,900	261,154	261,154
		-	42,724
383	17,900	12,917,459	15,045,183
-	23,607,022	(12,828,698)	14,864,883
-	-	372,511	372,511
126,320	986,040	4,331,853	6,323,552
\$ 126,320	\$ 24,593,062	\$ (8,124,334)	\$ 21,560,946

CITY OF LEBANON, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
ALL PROPRIETARY FUND DEPARTMENTS
YEAR ENDED JUNE 30, 2011

	<u>Water Dept.</u>	<u>Water CIP Dept.</u>	<u>Small Water Line Dept.</u>
OPERATING REVENUES			
Charges for services	\$ 3,091,359	\$ -	\$ -
Miscellaneous	169,363	35,787	-
<i>Total Operating Revenues</i>	3,260,722	35,787	-
OPERATING EXPENSES			
Personal services	833,708	-	-
Materials and services	373,032	55,699	-
Capital outlay/depreciation	256,568	-	5,316
<i>Total Operating Expenses</i>	1,463,308	55,699	5,316
OPERATING INCOME (LOSS)	1,797,414	(19,912)	(5,316)
NONOPERATING REVENUES (EXPENSES)			
Transfers in (cash)	414,808	758,000	-
Transfers in (noncash)	-	-	-
Transfers out	(1,800,973)	(414,808)	(63)
Transfers out (noncash)	-	-	-
Interest income	2,695	1,373	-
Interest expense	-	(107,330)	-
Debt issuance expenses	-	-	-
<i>Total Nonoperating Revenue (Expenses)</i>	(1,383,470)	237,235	(63)
CAPITAL CONTRIBUTIONS	-	-	-
CHANGE IN NET ASSETS	413,944	217,323	(5,379)
NET ASSETS (DEFICIT), Beginning of year	6,271,336	(1,986,325)	54,999
NET ASSETS (DEFICIT), End of year	\$ 6,685,280	\$ (1,769,002)	\$ 49,620

<i>Storm Drain Utility Dept.</i>	<i>Wastewater Dept.</i>	<i>Wastewater CIP Dept.</i>	<i>Railroad Dept.</i>	<i>Totals</i>
\$ 251,549	\$ 3,895,431	\$ -	\$ -	\$ 7,238,339
2,795	52,535	200	104	260,784
254,344	3,947,966	200	104	7,499,123
52,218	599,480	-	-	1,485,406
26,307	245,428	356,186	467	1,057,119
-	747,082	-	-	1,008,966
78,525	1,591,990	356,186	467	3,551,491
175,819	2,355,976	(355,986)	(363)	3,947,632
63	-	1,645,998	-	2,818,869
-	217,143	322,111	-	539,254
(48,752)	(2,830,616)	(11,364)	-	(5,106,576)
-	-	(217,143)	-	(217,143)
184	3,833	21,388	-	29,473
-	-	(540,908)	-	(648,238)
-	-	(63,407)	-	(63,407)
(48,505)	(2,609,640)	1,156,675	-	(2,647,768)
-	-	-	-	-
127,314	(253,664)	800,689	(363)	1,299,864
(994)	24,846,726	(8,925,023)	363	20,261,082
\$ 126,320	\$ 24,593,062	\$ (8,124,334)	\$ -	\$ 21,560,946

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL -
WATER DEPARTMENT
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 3,070,000	\$ 3,070,000	\$ 3,066,130	\$ 3,091,359
Interest income	8,000	8,000	2,695	2,695
Miscellaneous	147,500	147,500	169,363	169,363
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Revenues</i>	3,225,500	3,225,500	3,238,188	3,263,417
EXPENSES				
Personal services	913,003	954,678	880,254	833,708
Materials and services	363,308	363,308	382,092	373,032
Capital outlay/depreciation	8,100	8,100	7,799	256,568
Contingency	184,101	156,513	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Expenses</i>	1,468,512	1,482,599	1,270,145	1,463,308
REVENUES OVER (UNDER) EXPENSES				
	1,756,988	1,742,901	1,968,043	1,800,109
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	414,808
Transfers out	(1,803,043)	(1,788,956)	(1,800,973)	(1,800,973)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Other Financing Sources (Uses)</i>	(1,803,043)	(1,788,956)	(1,800,973)	(1,386,165)
NET CHANGE IN NET ASSETS				
	(46,055)	(46,055)	167,070	413,944
NET ASSETS, Beginning of year				
	46,055	46,055	131,723	6,271,336
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, End of year				
	\$ -	\$ -	\$ 298,793	\$ 6,685,280
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL -
WATER CAPITAL IMPROVEMENT DEPARTMENT
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest income	\$ 500	\$ 500	\$ 1,373	\$ 1,373
Miscellaneous	-	-	35,787	35,787
<i>Total Revenues</i>	500	500	37,160	37,160
EXPENSES				
Materials and services	41,200	41,200	50,683	55,699
Capital outlay/depreciation	700,000	700,000	547,089	-
Debt service				
Principal	165,000	165,000	165,000	-
Interest	166,763	166,763	86,763	107,330
Contingency	1,962	1,962	-	-
<i>Total Expenses</i>	1,074,925	1,074,925	849,535	163,029
REVENUES OVER (UNDER) EXPENSES	(1,074,425)	(1,074,425)	(812,375)	(125,869)
OTHER FINANCING SOURCES (USES)				
Transfers in	758,000	758,000	758,000	758,000
Transfers out	-	-	-	(414,808)
<i>Total Other Financing Sources (Uses)</i>	758,000	758,000	758,000	343,192
NET CHANGE IN NET ASSETS	(316,425)	(316,425)	(54,375)	217,323
NET ASSETS, Beginning of year	316,425	316,425	359,998	(1,986,325)
NET ASSETS, End of year	\$ -	\$ -	\$ 305,623	\$ (1,769,002)

CITY OF LEBANON, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL -
SMALL WATER LINE DEPARTMENT
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENSES				
Capital outlay/depreciation	-	-	-	5,316
REVENUES OVER (UNDER) EXPENSES	-	-	-	(5,316)
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(63)	(63)
NET CHANGE IN NET ASSETS	-	-	(63)	(5,379)
NET ASSETS, Beginning of year	-	-	63	54,999
NET ASSETS, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,620</u>

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL -
STORM DRAIN UTILITY DEPARTMENT
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Budget Basis</i>	<i>GAAP Basis</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 300,000	\$ 300,000	\$ 246,686	\$ 251,549
Interest income	-	-	184	184
Miscellaneous	-	-	2,795	2,795
<i>Total Revenues</i>	<u>300,000</u>	<u>300,000</u>	<u>249,665</u>	<u>254,528</u>
EXPENSES				
Personal services	79,794	81,448	52,387	52,218
Materials and services	36,648	36,648	26,307	26,307
Capital outlay/depreciation	100,000	100,000	-	-
Contingency	47,140	47,140	-	-
<i>Total Expenses</i>	<u>263,582</u>	<u>265,236</u>	<u>78,694</u>	<u>78,525</u>
REVENUES OVER (UNDER) EXPENSES	<u>36,418</u>	<u>34,764</u>	<u>170,971</u>	<u>176,003</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	63	63
Transfers out	(36,418)	(34,764)	(48,752)	(48,752)
<i>Total Other Financing Sources (Uses)</i>	<u>(36,418)</u>	<u>(34,764)</u>	<u>(48,689)</u>	<u>(48,689)</u>
NET CHANGE IN NET ASSETS	<u>-</u>	<u>-</u>	<u>122,282</u>	<u>127,314</u>
NET ASSETS, Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(994)</u>
NET ASSETS, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,282</u>	<u>\$ 126,320</u>

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL -
WASTEWATER DEPARTMENT
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Budget</u>	<u>GAAP</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	<u>Basis</u>
REVENUES				
Charges for services	\$ 3,663,000	\$ 3,663,000	\$ 3,829,854	\$ 3,895,431
Interest income	-	-	3,833	3,833
Miscellaneous	70,000	70,000	52,536	52,535
<i>Total Revenues</i>	<u>3,733,000</u>	<u>3,733,000</u>	<u>3,886,223</u>	<u>3,951,799</u>
EXPENSES				
Personal services	676,720	713,165	639,697	599,480
Materials and services	272,940	272,940	245,428	245,428
Capital outlay/depreciation	60,750	60,750	58,496	747,082
Contingency	240,072	214,517	-	-
<i>Total Expenses</i>	<u>1,250,482</u>	<u>1,261,372</u>	<u>943,621</u>	<u>1,591,990</u>
REVENUES OVER (UNDER) EXPENSES	2,482,518	2,471,628	2,942,602	2,359,809
OTHER FINANCING SOURCES (USES)				
Transfers in (noncash)	-	-	-	217,143
Transfers out	(2,820,738)	(2,809,848)	(2,830,616)	(2,830,616)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,820,738)</u>	<u>(2,809,848)</u>	<u>(2,830,616)</u>	<u>(2,613,473)</u>
NET CHANGE IN NET ASSETS	(338,220)	(338,220)	111,986	(253,664)
NET ASSETS, Beginning of year	<u>338,220</u>	<u>338,220</u>	<u>386,186</u>	<u>24,846,726</u>
NET ASSETS, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 498,172</u>	<u>\$ 24,593,062</u>

CITY OF LEBANON, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL -
WASTEWATER CAPITAL IMPROVEMENT DEPARTMENT
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest income	\$ 500	\$ 500	\$ 21,388	\$ 21,388
Miscellaneous	-	-	200	200
<i>Total Revenues</i>	<u>500</u>	<u>500</u>	<u>21,588</u>	<u>21,588</u>
EXPENSES				
Materials and services	30,850	30,850	822,136	356,186
Capital outlay/depreciation	625,000	625,000	242,885	-
Debt service				
Principal/other	668,900	5,681,558	2,828,900	63,407
Interest	395,998	395,998	445,917	540,908
Contingency	165,379	165,379	-	-
<i>Total Expenses</i>	<u>1,886,127</u>	<u>6,898,785</u>	<u>4,339,838</u>	<u>960,501</u>
REVENUES OVER (UNDER) EXPENSES	(1,885,627)	(6,898,285)	(4,318,250)	(938,913)
OTHER FINANCING SOURCES (USES)				
Transfers in (cash)	1,645,998	1,645,998	1,645,998	1,645,998
Transfers in (noncash)	-	-	-	322,111
Transfers out	(11,364)	(11,364)	(11,364)	(11,364)
Transfers out (noncash)	-	-	-	(217,143)
Loan Proceeds	-	5,012,658	7,277,850	-
<i>Total Other Financing Sources (Uses)</i>	<u>1,634,634</u>	<u>6,647,292</u>	<u>8,912,484</u>	<u>1,739,602</u>
NET CHANGE IN NET ASSETS	(250,993)	(250,993)	4,594,234	800,689
NET ASSETS, Beginning of year	<u>250,993</u>	<u>250,993</u>	<u>267,262</u>	<u>(8,925,023)</u>
NET ASSETS, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,861,496</u>	<u>\$ (8,124,334)</u>

CITY OF LEBANON, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL -
RAILROAD DEPARTMENT
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Budget</u>	<u>GAAP</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	<u>Basis</u>
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 104	\$ 104
EXPENSES				
Materials and services	360	360	467	467
REVENUES OVER (UNDER) EXPENSES	(360)	(360)	(363)	(363)
NET ASSETS, Beginning of year	360	360	363	363
NET ASSETS, End of year	\$ -	\$ -	\$ -	\$ -

OTHER SCHEDULES

CITY OF LEBANON, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2011

<u>Tax Year</u>	<u>2010-11 Levy</u>	<u>Uncollected Balances July 1, 2010</u>	<u>Added To Rolls</u>	<u>Interest, Discounts & Adjustments</u>	<u>Turnovers</u>	<u>Uncollected Balances June 30, 2011</u>
2010-11	\$ 7,540,662	\$ -	\$ 3,494	\$ (205,791)	\$ (6,988,096)	\$ 350,269
2009-10	-	291,325	1	(4,073)	(138,112)	149,141
2008-09	-	162,038	1	(4,819)	(66,193)	91,027
2007-08	-	65,591	-	(3,039)	(32,751)	29,801
2006-07	-	24,967	415	(2,998)	(15,800)	6,584
2005-06	-	6,402	-	(2,710)	(1,215)	2,477
2004-05	-	3,803	-	(2,002)	(537)	1,264
Prior Years	-	5,409	-	(45)	(368)	4,996
Total	<u>\$ 7,540,662</u>	<u>\$ 559,535</u>	<u>\$ 3,911</u>	<u>\$ (225,477)</u>	<u>\$ (7,243,072)</u>	<u>\$ 635,559</u>

CITY OF LEBANON, OREGON
SCHEDULE OF LONG-TERM DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2011

	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Fiscal Year of Maturity</u>
PRINCIPAL TRANSACTIONS			
Governmental Activities			
2000 GO Urban Renewal	4.75-6.000%	2000	2019-20
2002 GO Pension Pool	2.00-7.360%	2002	2027-28
2007 GO Refunding	4.00-5.000%	2007	2026-27
NWURD SPWF	4.00-4.375%	2007	2031-32
General Fund SPWF	3.77%	2007	2009-10
2010 NWURD Refunding bonds	2.00-3.50%	2010	2019-20
Business-type Activities			
2000 Wastewater Revenue	4.70-5.700%	2000	2019-20
2003 Wastewater Revenue Refunding	2.00-4.125%	2003	2019-20
2004 Water Refunding	2.00-4.200%	2004	2020-21
2007 Cannibal Project Financing	2.10-4.22%	2007	2021-22
2009 Wastewater CIP SRF Loan	2.93%	2009	2028-29
2010 Wastewater Revenue Bond	2.00-4.00%	2010	2030-31
			Unmatured Interest Outstanding
	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>July 1, 2010</u>
INTEREST TRANSACTIONS			
Governmental Activities			
2000 GO Urban Renewal	4.75-6.000%	2000	\$ 1,216,235
2002 GO Pension Pool	2.00-7.360%	2002	2,185,268
2007 GO Refunding	4.00-5.000%	2007	9,228,312
NWURD SPWF	4.00-4.375%	2007	1,937,342
General Fund SPWF	3.77%	2007	904,016
2010 NWURD Refunding bonds	2.00-3.50%	2010	-
Business-type Activities			
2000 Wastewater Revenue	4.70-5.700%	2000	716,870
2003 Wastewater Revenue Refunding	2.00-4.125%	2003	538,961
2004 Water Refunding	2.00-4.200%	2004	613,967
2007 Cannibal Project Financing	2.10-4.22%	2007	1,109,522
2009 Wastewater CIP SRF Loan	2.93%	2009	274,672
2010 Wastewater Revenue Bond	2.93%	2010	-
			\$ 18,725,165

<i>Outstanding July 1, 2010</i>	<i>Debt Issued</i>	<i>Debt Paid/Refunded</i>	<i>Outstanding June 30, 2011</i>
\$ 3,420,000	\$ -	\$ (3,420,000)	\$ -
1,961,302	-	(262,144)	1,699,158
18,485,000	-	(555,000)	17,930,000
3,424,426	-	(96,858)	3,327,568
1,719,093	-	(61,062)	1,658,031
-	3,310,000	(300,000)	3,010,000
2,140,000	-	(2,140,000)	-
2,410,000	-	(210,000)	2,200,000
2,415,000	-	(165,000)	2,250,000
3,914,360	-	(258,591)	3,655,769
882,727	-	(35,309)	847,418
-	7,010,000	(185,000)	6,825,000
<u>\$ 40,771,908</u>	<u>\$ 10,320,000</u>	<u>\$ (7,688,964)</u>	<u>\$ 43,402,944</u>

<i>New Issues</i>	<i>Interest Paid/ Refunded</i>	<i>Unmatured Interest June 30, Paid/Refunded</i>
\$ -	\$ (1,216,235)	\$ -
-	(145,921)	2,039,347
-	(827,800)	8,400,512
-	(144,793)	1,792,549
-	(75,396)	828,620
566,496	(58,006)	508,490
-	(716,870)	-
-	(89,816)	449,145
-	(86,763)	527,204
-	(161,285)	948,237
-	(25,607)	249,065
2,682,788	(85,911)	2,596,877
<u>\$ 3,249,284</u>	<u>\$ (3,634,403)</u>	<u>\$ 18,340,046</u>

CITY OF LEBANON, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS
JUNE 30, 2011

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>2002 GO Pension Pool</i>			<i>2007 GO Refunding</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 27,634	\$ 140,146	\$ 167,780	\$ 650,000	\$ 805,600	\$ 1,455,600
2013	30,293	147,487	177,780	725,000	779,600	1,504,600
2014	30,290	152,490	182,780	620,000	750,600	1,370,600
2015	31,704	161,076	192,780	690,000	725,800	1,415,800
2016	32,796	169,984	202,780	760,000	698,200	1,458,200
2017	33,687	179,093	212,780	830,000	667,800	1,497,800
2018	32,872	184,908	217,780	905,000	631,600	1,536,600
2019	33,233	194,547	227,780	1,000,000	595,400	1,595,400
2020	51,649	186,131	237,780	1,080,000	555,400	1,635,400
2021	140,000	111,068	251,068	1,175,000	506,800	1,681,800
2022	160,000	101,478	261,478	1,280,000	450,988	1,730,988
2023	185,000	90,518	275,518	1,390,000	390,187	1,780,187
2024	205,000	77,845	282,845	1,510,000	324,162	1,834,162
2025	235,000	63,802	298,802	1,635,000	252,437	1,887,437
2026	260,000	48,292	308,292	1,775,000	170,688	1,945,688
2027	210,000	30,482	240,482	1,905,000	95,250	2,000,250
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
	<u>\$ 1,699,158</u>	<u>\$ 2,039,347</u>	<u>\$ 3,738,505</u>	<u>\$ 17,930,000</u>	<u>\$ 8,400,512</u>	<u>\$ 26,330,512</u>

<i>NWURD SPWF</i>			<i>General Fund SPWF</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 102,533	\$ 140,919	\$ 243,452	\$ 61,394	\$ 73,565	\$ 134,959
108,234	136,818	245,052	66,735	71,723	138,458
108,963	132,488	241,451	67,146	69,387	136,533
114,722	128,130	242,852	72,571	67,037	139,608
120,511	123,541	244,052	73,074	64,134	137,208
126,331	118,720	245,051	78,597	61,211	139,808
132,184	113,667	245,851	79,141	58,067	137,208
133,072	108,380	241,452	84,707	54,902	139,609
138,994	103,057	242,051	85,332	51,302	136,634
144,984	97,323	242,307	91,022	47,462	138,484
151,034	91,234	242,268	91,663	43,821	135,484
157,140	84,815	241,955	97,496	39,237	136,733
168,293	78,137	246,430	103,371	34,363	137,734
174,510	70,900	245,410	109,105	30,228	139,333
180,801	63,265	244,066	115,061	24,773	139,834
187,149	55,355	242,504	121,114	18,732	139,846
198,555	47,167	245,722	127,169	12,676	139,845
205,023	38,481	243,504	133,333	6,000	139,333
216,556	29,511	246,067	-	-	-
223,155	20,367	243,522	-	-	-
234,824	10,274	245,098	-	-	-
\$ 3,327,568	\$ 1,792,549	\$ 5,120,117	\$ 1,658,031	\$ 828,620	\$ 2,486,651

CITY OF LEBANON, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)
JUNE 30, 2011

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>2010 NW URD bonds</i>			<i>Total, Governmental</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 295,000	\$ 93,915	\$ 388,915	\$ 1,136,561	\$ 1,254,145	\$ 2,390,706
2013	300,000	86,540	386,540	1,230,262	1,222,168	2,452,430
2014	315,000	77,540	392,540	1,141,399	1,182,505	2,323,904
2015	320,000	68,090	388,090	1,228,997	1,150,133	2,379,130
2016	330,000	58,490	388,490	1,316,381	1,114,349	2,430,730
2017	345,000	48,590	393,590	1,413,615	1,075,414	2,489,029
2018	355,000	36,515	391,515	1,504,197	1,024,757	2,528,954
2019	370,000	25,510	395,510	1,621,012	978,739	2,599,751
2020	380,000	13,300	393,300	1,735,975	909,190	2,645,165
2021	-	-	-	1,551,006	762,653	2,313,659
2022	-	-	-	1,682,697	687,521	2,370,218
2023	-	-	-	1,829,636	604,757	2,434,393
2024	-	-	-	1,986,664	514,507	2,501,171
2025	-	-	-	2,153,615	417,367	2,570,982
2026	-	-	-	2,330,862	307,018	2,637,880
2027	-	-	-	2,423,263	199,819	2,623,082
2028	-	-	-	325,724	59,843	385,567
2029	-	-	-	338,356	44,481	382,837
2030	-	-	-	216,556	29,511	246,067
2031	-	-	-	223,155	20,367	243,522
2032	-	-	-	234,824	10,274	245,098
	<u>\$ 3,010,000</u>	<u>\$ 508,490</u>	<u>\$ 3,518,490</u>	<u>\$ 27,624,757</u>	<u>\$ 13,569,518</u>	<u>\$ 41,194,275</u>

CITY OF LEBANON, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)
JUNE 30, 2011

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>2003 Wastewater Revenue Refunding</i>			<i>2004 Water Refunding</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 210,000	\$ 83,329	\$ 293,329	\$ 165,000	\$ 82,266	\$ 247,266
2013	220,000	76,294	296,294	175,000	77,203	252,203
2014	225,000	68,319	293,319	180,000	71,565	251,565
2015	235,000	60,163	295,163	185,000	65,310	250,310
2016	245,000	51,627	296,627	195,000	58,470	253,470
2017	255,000	42,563	297,563	205,000	50,860	255,860
2018	260,000	32,850	292,850	210,000	42,560	252,560
2019	270,000	22,450	292,450	225,000	33,860	258,860
2020	280,000	11,550	291,550	230,000	24,760	254,760
2021	-	-	-	235,000	15,225	250,225
2022	-	-	-	245,000	5,125	250,125
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
	<u>\$ 2,200,000</u>	<u>\$ 449,145</u>	<u>\$ 2,649,145</u>	<u>\$ 2,250,000</u>	<u>\$ 527,204</u>	<u>\$ 2,777,204</u>

<i>2007 Cannibal Project Financing</i>			<i>2009 Water CIP SRF Loan</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 265,531	\$ 150,425	\$ 415,956	\$ 36,351	\$ 24,565	\$ 60,916
276,853	139,103	415,956	37,424	23,492	60,916
288,659	127,297	415,956	38,528	22,388	60,916
300,968	114,988	415,956	39,666	21,250	60,916
313,802	102,154	415,956	40,837	20,079	60,916
327,184	88,772	415,956	42,042	18,874	60,916
341,136	74,820	415,956	43,283	17,633	60,916
355,683	60,273	415,956	44,560	16,356	60,916
370,850	45,106	415,956	45,875	15,041	60,916
386,664	28,412	415,076	47,229	13,687	60,916
428,439	16,887	445,326	48,623	12,293	60,916
-	-	-	50,058	10,858	60,916
-	-	-	51,535	9,381	60,916
-	-	-	53,056	7,860	60,916
-	-	-	54,623	6,293	60,916
-	-	-	56,235	4,681	60,916
-	-	-	57,895	3,021	60,916
-	-	-	59,598	1,313	60,911
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 3,655,769</u>	<u>\$ 948,237</u>	<u>\$ 4,604,006</u>	<u>\$ 847,418</u>	<u>\$ 249,065</u>	<u>\$ 1,096,483</u>

CITY OF LEBANON, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)
JUNE 30, 2011

<i>Fiscal Year</i> Ending June 30,	2010 Wastewater Revenue Bonds			Totals, Business-type		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 360,000	\$ 245,725	\$ 605,725	\$ 1,036,882	\$ 586,310	\$ 1,623,192
2013	370,000	238,525	608,525	1,079,277	554,617	1,633,894
2014	380,000	229,275	609,275	1,112,187	518,844	1,631,031
2015	390,000	217,875	607,875	1,150,634	479,586	1,630,220
2016	400,000	207,450	607,450	1,194,639	439,780	1,634,419
2017	415,000	195,450	610,450	1,244,226	396,519	1,640,745
2018	435,000	178,850	613,850	1,289,419	346,713	1,636,132
2019	445,000	161,450	606,450	1,340,243	294,389	1,634,632
2020	460,000	143,650	603,650	1,386,725	240,107	1,626,832
2021	235,000	125,250	360,250	903,893	182,574	1,086,467
2022	245,000	115,263	360,263	967,062	149,568	1,116,630
2023	255,000	104,850	359,850	305,058	115,708	420,766
2024	265,000	94,013	359,013	316,535	103,394	419,929
2025	275,000	82,750	357,750	328,056	90,610	418,666
2026	285,000	71,063	356,063	339,623	77,356	416,979
2027	300,000	60,375	360,375	356,235	65,056	421,291
2028	310,000	49,125	359,125	367,895	52,146	420,041
2029	320,000	37,500	357,500	379,598	38,813	418,411
2030	335,000	25,500	360,500	335,000	25,500	360,500
2031	345,000	12,938	357,938	345,000	12,938	357,938
2032	-	-	-	-	-	-
	<u>\$ 6,825,000</u>	<u>\$ 2,596,877</u>	<u>\$ 9,421,877</u>	<u>\$ 15,778,187</u>	<u>\$ 4,770,528</u>	<u>\$ 20,548,715</u>

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

To the Honorable Mayor, Members of the
City Council
City of Lebanon
925 South Main
Lebanon, Oregon 97355

We have audited the basic financial statements of the City of Lebanon, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City of Lebanon, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

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. Except as discussed below, the results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

1. Overexpenditures of appropriations as disclosed in the note to the financial statements
2. Deficit fund balances as described in the notes to the financial statements.

OAR 162-10-0230 Internal Control

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


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

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 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 by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did issue a separate significant deficiency letter to management dated December 28, 2011.

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

*GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS*

By: 

Charles A. Swank, A Shareholder
December 28, 2011