

**CITY OF LEBANON,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014**

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council
City of Lebanon
Lebanon, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Lebanon as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Lebanon as of December 31, 2014, and the respective changes in financial position, the respective budgetary comparison for the major general fund and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 13) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 54) 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 them

City of Lebanon
Independent Auditor's Report

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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

Other Information - Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lebanon's basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Sheryl A. Platt, CPA

September 10, 2015

PLODZIK & SANDERSON
Professional Association

City of Lebanon, New Hampshire
Management's Discussion and Analysis

As management of the City of Lebanon, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and the disclosures that follow this section.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements, which are comprised of three components: 1. government-wide financial statements, 2. fund financial statements, and 3. notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements – *Statement of Net Position; Statement of Activities* -- are designed to provide readers with both short- and long-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The *Statement of Net Position* presents information on all of the City's assets, liabilities, and deferred inflow of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, welfare, culture and recreation, conservation, and interest on long-term debt. The business-type activities included solid waste disposal, water treatment and distribution, sewage collection and disposal, and municipal airport activities.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City are divided into three categories: *governmental funds, proprietary funds, and fiduciary 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 near-term inflows and outflows of spendable 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 near-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 the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds are used to account for activities that receive significant support from fees and charges. A type of proprietary fund is an enterprise fund; enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. It was determined in 2014 that based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 that the City's

solid waste disposal, water treatment and distribution, sewage collection and disposal, and municipal airport funds qualify for presentation in the financial statements as business-type activities. See *Note 2-C Change in Accounting Principle* and *Note 20* for restatement to Net Position for 12/31/2013.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for private enterprises.

Notes to the 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.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

In comparison to the prior year, as of the close of the current fiscal year:

- Total assets of the City exceeded its liabilities and deferred inflows of resources by \$113,071,495.
- Governmental funds reported combined ending fund balances of \$12,168,531, a decrease of <\$11,736,181>. (The solid waste disposal, water treatment and distribution, sewage collection and disposal, and municipal airport funds have been reclassified as proprietary funds, accounting for the substantial decrease.)
- General fund unassigned fund balance was \$5,255,434, an increase of \$287,638.
- General obligation bonds payable (governmental and business-type activities combined) was \$49,667,739, a decrease of <\$113,986>.
- Annual requirements (governmental and business-type activities combined) to amortize general obligation bonds payable (principal and interest) was \$65,191,821, a decrease of <\$900,233>.
- Authorized and unissued debt was \$33,173,922, an increase of \$4,743,738.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

At the close of the current fiscal year, total assets of the City exceeded its liabilities and deferred inflows of resources by \$113,071,495, an increase of \$5,677,879 in comparison to the prior year.

The largest portion of net position (\$104,937,998) represents investment in capital assets (land, building, machinery and equipment and infrastructure) less related debt used to acquire those assets that is still outstanding. These capital assets are used by the City to provide services to citizens and are, consequently, not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$27,069,968	\$51,951,994	\$24,447,659	-	\$51,517,627	\$51,951,994
Capital Assets	\$81,012,274	\$143,922,616	\$75,219,212	-	\$156,231,486	\$143,922,616
Total Assets	\$108,082,242	\$195,874,610	\$99,666,871	-	\$207,749,113	\$195,874,610
Long-term Liabilities Outstanding	\$29,968,910	\$62,018,662	\$32,382,128	-	\$62,351,038	\$62,018,662
Other Liabilities	\$14,259,499	\$26,462,332	\$14,247,606	-	\$28,507,105	\$26,462,332
Total Liabilities	\$44,228,409	\$88,480,994	\$46,629,734	-	\$90,858,143	\$88,480,994
Deferred Inflows of Resources	\$1,778,613	-	\$2,040,862	-	\$3,819,475	-
Net Position:						
Net Investment in Capital Assets	\$53,687,590	\$92,512,073	\$51,250,408	-	\$104,937,998	\$92,512,073
Restricted	\$4,101,849	\$1,224,250	\$1,460,630	-	\$5,562,479	\$1,224,250
Unrestricted	\$4,285,781	\$13,657,293	(\$1,714,763)	-	\$2,571,018	\$13,657,293
Total Net Position	\$62,075,220	\$107,393,616	\$50,996,275	-	\$113,071,495	\$107,393,616

An additional portion of net position (\$5,562,479) represents resources that are subject to external restrictions on how they may be used; the remaining balance (\$2,571,018) represents the part of net position of the City that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements (unrestricted).

CHANGES IN NET POSITION						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues --						
Charges for Services	\$1,454,171	\$11,596,194	\$10,579,832	-	\$12,034,003	\$11,596,194
Operating Grants and Contributions	\$487,586	\$1,011,688	\$391,432	-	\$879,018	\$1,011,688
Capital Grants and Contributions	\$10,000	\$265,573	\$1,053,599	-	\$1,063,599	\$265,573
General Revenues --						
Property and Other Taxes	\$19,000,133	\$19,252,352	\$0	-	\$19,000,133	\$19,252,352
Licenses & Permits	\$2,505,928	\$2,850,450	\$0	-	\$2,505,928	\$2,850,450
Grants and Contributions Not Restricted to Specific Programs	\$2,731,242	\$599,926	\$0	-	\$2,731,242	\$599,926
Other General Revenues	\$532,791	\$1,685,216	\$725,376	-	\$1,258,167	\$1,685,216
Total Revenues	\$26,721,851	\$37,261,399	\$12,750,239	-	\$39,472,090	\$37,261,399
Transfers	\$1,037,825	\$0	(\$1,037,825)	-	\$0	\$0
Total Revenues Including Transfers	\$27,759,676	\$37,261,399	\$11,712,414	-	\$39,472,090	\$37,261,399
Expenses:						
General Government	\$5,251,091	\$6,648,249	\$0	-	\$5,251,091	\$6,648,249
Public Safety	\$9,980,068	\$9,000,030	\$0	-	\$9,980,068	\$9,000,030
Highway and Streets	\$3,131,240	\$3,089,659	\$0	-	\$3,131,240	\$3,089,659
Sanitation	\$0	\$4,683,908	\$0	-	\$0	\$4,683,908
Sewage Collection and Disposal	\$0	\$0	\$5,610,519	-	\$5,610,519	\$0
Solid Waste Disposal	\$0	\$0	\$2,437,831	-	\$2,437,831	\$0

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Water Distribution and Treatment	\$0	\$1,925,486	\$1,965,032	-	\$1,965,032	\$1,925,486
Welfare	\$401,680	\$776,808	\$0	-	\$401,680	\$776,808
Municipal Airport	\$0	\$1,082,123	\$1,462,396	-	\$1,462,396	\$1,082,123
Culture and Recreation	\$2,148,554	\$2,093,603	\$0	-	\$2,148,554	\$2,093,603
Conservation	\$58,817	\$38,409	\$0	-	\$58,817	\$38,409
Interest on Long-term Debt	\$1,346,983	\$2,002,103	\$0	-	\$1,346,983	\$2,002,103
Capital Outlay	\$0	\$928,168	\$0	-	\$0	\$928,168
Total Expenses	\$22,318,433	\$32,268,546	\$11,475,778	-	\$33,794,211	\$32,268,546
Change in Net Position	\$5,441,243	\$4,992,853	\$236,636	-	\$5,677,879	\$4,992,853
Net Position Beginning 1/1 (Restated)	\$56,633,977	\$102,400,763	\$50,759,639	-	\$107,393,616	\$102,400,763
Net Position Ending 12/31	<u>\$62,075,220</u>	<u>\$107,393,616</u>	<u>\$50,996,275</u>	-	<u>\$113,071,495</u>	<u>\$107,393,616</u>
The Net Position for 12/31/2013 has been restated because the solid waste disposal, water treatment and distribution, sewage collection and disposal, and municipal airport funds have been reclassified as proprietary funds. See Note 2C and Note 20.						

Governmental Activities. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental activities for the year resulted in a change in net position of \$5,441,243.

	Amount
Change in general fund balance	(\$1,064,778)
Change in capital improvements fund balance	\$2,517,944
Change in other governmental funds fund balance	(\$3,773)
Capital outlays exceed depreciation expense and asset disposals	\$5,025,283
Revenue that does not provide current financial resources	\$66,078
Offset the effect of providing/using resources through the issuance/repayment of long-term principal debt	(\$1,058,116)
Change in accrued interest expense, compensated absences payable, and postemployment benefits payable	(\$41,395)
Total	\$5,441,243

Program revenues of \$1,951,757 covered 8.8% of program expenses. The remaining 91.2% was financed by general revenues including property and other taxes, licenses & permits, grants and contributions not restricted to specific programs and other general revenues. The primary funding source for governmental activities is taxes of \$19,000,133 (property taxes, \$17,322,292; other taxes, \$1,677,841, including several payment-in-lieu of property taxes totaling \$1,299,350). Property taxes are about 64.8% of total program and general revenues. The Public Safety function makes up 44.7% of the total governmental activities expenses followed by General Government, 23.5%, and Public Works 14.0%.

	Total Cost of Services		Net Cost of Services	
	Amount	%	Amount	%
Governmental Activities:				
General Government	\$5,251,091	23.5%	(\$5,012,716)	24.6%
Public Safety	\$9,980,068	44.7%	(\$8,861,864)	43.5%
Highway and Streets	\$3,131,240	14.0%	(\$2,853,997)	14.0%
Welfare	\$401,680	1.8%	(\$401,680)	2.0%
Culture and Recreation	\$2,148,554	9.6%	(\$1,830,619)	9.0%
Conservation	\$58,817	0.3%	(\$58,817)	0.3%
Interest on Long-Term Debt	\$1,346,983	6.0%	(\$1,346,983)	6.6%
Total	\$22,318,433	100.0%	(\$20,366,676)	100.0%

Business-type Activities. Business-type activities for the year resulted in a change in net position of \$236,636.

	Amount
Solid waste disposal operations	\$233,553
Water treatment and distribution operations	\$651,728
Sewage collection and disposal operations	(\$598,547)
Municipal airport operations	(\$50,098)
Total	\$236,636

	Total Cost of Services		Net Cost of Services	
	Amount	%	Amount	%
Business Type Activities:				
Solid Waste Disposal	\$5,610,519	48.9%	(\$330,234)	-60.1%
Water Treatment and Distribution	\$2,437,831	21.2%	\$763,097	139.0%
Sewage Collection and Disposal	\$1,965,032	17.1%	\$900,368	164.0%
Municipal Airport	\$1,462,396	12.7%	(\$784,146)	-142.8%
Total	\$11,475,778	100.0%	\$549,085	100.0%

D. FINANCIAL ANALYSIS OF CITY OF LEBANON FUNDS

The City of Lebanon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of this section is specific to funds and types of funds versus entity-wide.

Governmental Funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in determining financing requirements. Of particular interest is unassigned fund balance, which may serve as a useful measure of net resources available for spending at the end of the fiscal year. Unassigned Fund Balance is the residual classification for the City's general fund and includes all amounts not contained in other fund balance component classifications and therefore not subject to any constraints.

At the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,168,531, a decrease of <\$11,736,181>. (The solid waste disposal, water treatment and distribution, sewage collection and disposal, and municipal airport funds have been reclassified as proprietary funds, accounting for the substantial decrease.)

The City Council Fund Balance Policy states that it is the goal of the City to maintain an unassigned fund balance of 15.0% to 17.0% of current year general fund budgeted expenditures. The City considers a balance of less than 15.0% to be a cause for concern and, taking into account factors or circumstances that may require a higher than normal maximum level of unassigned fund balance, a balance of more than 17.0% as excessive. An amount in excess of 15.0% may be considered to reduce tax levy requirements determined in conjunction with the annual budget process, as a capital improvement funding component, for reservation to accumulate funding for future capital improvements, or for any legal purpose deemed appropriate and desirable by the City Council.

In the event unassigned fund balance is less than 15.0%, restorative steps shall be taken in the immediate subsequent fiscal years.

KEY ELEMENTS OF CHANGE IN COMBINED FUND BALANCES	
General fund expenditures and transfers out exceed revenues and transfers in	(\$1,064,778)
Capital improvements fund revenues, transfers in, bond proceeds, and premium on bond issued exceed expenditures	\$2,517,944
Other governmental funds expenditures and transfers out exceed revenues and transfers in	(\$3,773)
Net Change in Fund Balances	<u>\$1,449,393</u>
Other Governmental Funds:	
Library fund expenditures exceed revenues and transfers in	(\$15,569)
Public safety revolving fund (Police) expenditures exceed revenues	(\$55,010)
Lebanon open space fund expenditures exceed revenues and transfers in	(\$11,240)
Farmers market fund revenues exceed expenditures	\$456
Permanent fund (cemetery perpetual care) revenues exceed expenditures and transfers out	\$77,590
Net Change in Fund Balances	<u>(\$3,773)</u>
UNASSIGNED FUND BALANCE, DECEMBER 31, 2014	
Non-GAAP Budgetary Basis:	
Unassigned Fund Balance 1/1	<u>\$6,996,142</u>
Percentage of total general fund current year budgeted expenditures	27.5%
Changes:	
Unassigned fund balance used to reduce 2014 tax rate and voted from surplus	(\$2,724,733)
Revenue surplus	\$148,815
Unexpended balance of appropriations	\$1,299,744
Increase in nonspendable fund balance	(\$35,870)
Increase in assigned for abatement contingency	(\$2,156)
Unassigned fund balance 12/31 non-GAAP budgetary basis	<u>\$5,681,942</u>
Percentage of total general fund current year budgeted expenditures	20.3%
Reconciliation of Non-GAAP Basis to GAAP Basis:	
Deferral of property taxes not collected within 60 days of year-end	(\$596,565)
Elimination of the allowance for uncollectible taxes	\$199,619
Unassigned (deficit) fund balance of funds blended with general fund (GASB Statement No. 54)	(\$29,562)
Unassigned fund balance 12/31 GAAP basis	<u>\$5,255,434</u>

The Fund Balance Policy is not intended to preclude the administrative application of unassigned fund balance as a companion to the budgeted application of unassigned fund balance as a mitigating utility in setting the annual municipal tax rate.

Other funds, such as the solid waste disposal, water treatment and distribution, sewage collection and disposal, municipal airport, emergency management and capital improvements funds, exist primarily to ensure and demonstrate compliance with limitations on the use of existing resources. The general fund, as the chief operating fund of the City, has a broader mandate. Accordingly, the Fund Balance Policy is limited to the general fund.

E. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Total investment in capital assets at year end was \$156,231,486 (net of accumulated depreciation).

2014 CAPITAL ASSETS			
	<u>Amount</u>		<u>Amount</u>
Governmental Activities		Business-type Activities:	
Not being depreciated:		Not being depreciated:	
Land	\$7,216,472	Land	\$616,500
Intangible assets	\$82,197	Construction in progress	\$17,248,998
Construction in progress	\$11,638,099	Total	\$17,865,498
Total	\$18,936,768	Net of depreciation:	
Net of depreciation:		Land Improvements	\$8,843,701
Land Improvements	\$1,299,593	Building and Building Improvements	\$10,850,868
Building and Building Improvements	\$14,851,927	Machinery and Equipment	\$2,340,135
Machinery and Equipment	\$3,769,622	Infrastructure	\$35,319,010
Infrastructure	\$42,154,364	Total	\$57,353,714
Total	\$62,075,506	Net BV business-type activities capital assets	\$75,219,212
Net BV value governmental activities capital assets	\$81,012,274	Net BV all capital assets	\$156,231,486

BV = Book Value

2014 CAPITAL BUDGET			
Purpose:	<u>Amount</u>	Source of Financing:	<u>Amount</u>
Streets and Utilities	\$16,600,000	Intergovernmental (Grants)	\$5,194,184
Buildings	\$3,232,400	Debt Proceeds	\$14,121,473
Vehicles and Equipment	\$2,460,000	Interfund Transfers	\$4,270,133
Airport Infrastructure	\$1,040,000	Other	\$26,610
Other	\$280,000		\$0
Total	\$23,612,400	Total	\$23,612,400
The Above Includes:			
Combined Sewer Overflow Separation and Utility R	\$4,570,000		
Wastewater Treatment Facility Upgrade	\$3,100,000		
July 2013 Storm Damage Repairs Related	\$10,310,000		
Total	\$17,980,000		

The capital improvements fund is where the acquisition or construction of major, expensive, and long-lived capital facilities are budgeted. Operating budgets are period oriented (January 1 to December 31); the capital improvements budget is project oriented. The capital improvements budget for 2014 was \$23,612,400, consisting of an original budget of \$13,302,400 that was supplemented on April 16, 2014 by a \$10,310,000 appropriation for the purpose of executing what is expected to be long-term repairs to storm damage sustained during July of 2013.

Long-Term Debt.

At the close of the current fiscal year, general obligation bonds payable (governmental and business-type activities combined) was \$51,229,295, a decrease of <\$129,776>; annual requirements (governmental and business-type activities combined) to amortize general obligation bonds payable (principal and interest) was \$65,191,821, a decrease of <\$900,233>; and authorized and unissued debt was \$33,173,922, an increase of \$4,743,738. All outstanding debt is general obligation debt backed by the full faith and credit of the City.

LONG-TERM LIABILITIES, DECEMBER 31, 2014				
Governmental activities:				
	<u>Balance 1/1</u> <u>(as restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31</u>
General Obligation Bonds Payable	\$26,985,539	\$3,567,891	(\$3,993,667)	\$26,559,763
Unamortized Bond Premium	\$661,741	\$95,000	(\$56,013)	\$700,728
Total bonds payable	\$27,647,280	\$3,662,891	(\$4,049,680)	\$27,260,491
Capital Leases Payable	\$51,472	\$48,898	(\$36,177)	\$64,193
Compensated Absences Payable	\$1,286,124	\$12,139	(\$74,426)	\$1,223,837
Net Other Postemployment Benefits	\$1,304,547	\$115,842	\$0	\$1,420,389
Total	\$30,289,423	\$3,839,770	(\$4,160,283)	\$29,968,910
Business-type activities:				
	<u>Balance 1/1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31</u>
General Obligation Bonds Payable	\$22,796,186	\$4,369,336	(\$4,057,546)	\$23,107,976
Unamortized Bond Premium	\$915,605	\$0	(\$54,777)	\$860,828
Total bonds payable	\$23,711,791	\$4,369,336	(\$4,112,323)	\$23,968,804
Compensated Absences Payable	\$373,839	\$111,999	(\$164,312)	\$321,526
Accrued Landfill Closure and Postclosure Care Costs	\$7,643,609	\$448,189	\$0	\$8,091,798
Total	\$31,729,239	\$4,929,524	(\$4,276,635)	\$32,382,128

Combined Sewer Overflow Separation and Utility Replacement Program: The U.S. Environmental Protection Agency (EPA) notified the City in November 2007 that it planned to file a lawsuit in the U.S. District Court for the State of New Hampshire regarding alleged violations of the Clean Water Act based on a sewer and storm water system in certain older sections of the City that discharged untreated sewer and storm water into two rivers and a brook. As of 2000, the City's system consisted of approximately 38 miles of sewer and interceptors, with approximately 40% of the sewer system comprised of combined sewers conveying both sanitary sewer and storm water flows. In 2000, the EPA issued an Administrative Order that required the City to eliminate six of seven combined sewer overflows by December 31, 2008 and the seventh by December 31, 2012. The City made substantial progress on this but faced a series of logistical challenges that hampered its efforts and delayed the schedule. Because of the delay and the inability of the City to fulfill the requirements of the Administrative Order, the EPA and City negotiated the terms of a consent decree with a revised schedule to settle the lawsuit that was filed at the same time at the federal district court on May 27, 2009. The revised schedule will complete the elimination of combined sewer overflows no later than 2020.

It was clear from the beginning that the mandated work was going to substantially affect a significant portion of the City. It was therefore decided by the City Council to expand the scope of the work to include not just combined sewer overflow separation but also replacement of the aging water and sewer infrastructure and necessary streetscape improvements and upgrades at the same time.

From 2000 through 2015, the City has appropriated \$51.678 million for combined sewer overflow separation and utility replacement; an additional \$7.620 million was identified in the City's 2016 - 2021 Capital Improvements Program for appropriation 2016 - 2017 making the total appropriation for the work when completed \$59.298 million. Future appropriations are subject to revision depending on construction market activity and how that activity translates into costs and timelines, construction conditions and engineering revisions.

Debt (general obligation and loans through the State Revolving Fund) is the primary source of financing the combined sewer overflow separation and utility replacement work. The consequent cost of borrowing is apportioned to the general fund, water treatment and distribution fund, and sewage collection and disposal fund on a 40%, 30%, and 30% basis, respectively. The former is primarily supported through property taxation; the latter two by user fees.

<u>Source of Financing</u>	<u>Amount</u>
Water Treatment and Distribution Fund	\$575,556
Sewage Collection and Disposal Fund	\$20,900
General Fund	\$114,617
Water Investment Fees Fund	\$143,076
Capital Reserve Fund	\$432,790
General Obligation Debt	\$30,905,430
Premium on General Obligation Debt	\$775,890
State Revolving Fund	\$17,409,905
EPA Grants	\$299,400
Community Development Block Grant	\$1,000,000
Total	<u>\$51,677,564</u>

The combined sewer overflow separation work was an Army Corps of Engineers (ACOE) project the first two or three years (2000 – 2002); without that involvement the total expected cost to the City might have been considerably larger (possibly \$3.5 million). Also, the City received a CDBG of \$1.0 million and an EPA grant of \$299,400 early on in the process. When the plug was pulled on ACOE involvement no financial assistance was made available from the federal government; the work became the sole responsibility of the City to finance.

The following table details authorized debt that has not yet been issued.

<u>AUTHORIZED AND UNISSUED DEBT, DECEMBER 31, 2014</u>					
<u>Authorized</u>	<u>Purpose</u>	<u>All</u>	<u>Responsible Fund</u>		
			<u>General (Property Taxes)</u>	<u>Water Treatment and Distribution (Service Fees)</u>	<u>Sewage Collection and Disposal (Service Fees)</u>
2001 - 2007	Wastewater Treatment Facility Improvements Combined Sewer Overflow Separation and Utility Replacement	\$10,874,184	\$0	\$0	\$10,874,184
21-Dec-11	Mechanic Street Bridge Combined Sewer Overflow Separation and Utility Replacement	\$3,750,000	\$1,500,000	\$1,125,000	\$1,125,000
21-Dec-11	NH120 and Etna Road Sewer Improvements Route 4/4A Sewer Force Main Realignment and Replacement	\$126,000	\$126,000	\$0	\$0
19-Dec-12	Mechanic Street Bridge Combined Sewer Overflow Separation and Utility Replacement	\$3,500,000	\$1,400,000	\$1,050,000	\$1,050,000
19-Dec-12	NH120 and Etna Road Sewer Improvements Route 4/4A Sewer Force Main Realignment and Replacement	\$700,000	\$0	\$0	\$700,000
19-Dec-12	LPD Communications Radio Console Upgrade	\$510,000	\$0	\$0	\$510,000
18-Dec-13	LPD Communications Radio Console Upgrade	\$219,800	\$219,800	\$0	\$0
18-Dec-13	Mascoma River Greenway Design and Engineering Combined Sewer Overflow Separation and Utility Replacement	\$227,200	\$227,200	\$0	\$0
18-Dec-13	Mechanic Street Bridge Combined Sewer Overflow Separation and Utility Replacement	\$4,570,000	\$1,828,000	\$1,371,000	\$1,371,000
18-Dec-13	NH120 and Etna Road Sewer Improvements	\$1,870,000	\$0	\$0	\$1,870,000
18-Dec-13	Wastewater Pump Station and Infrastructure	\$260,000	\$0	\$0	\$260,000
18-Dec-13	Wastewater Treatment Facility Improvements	\$3,100,000	\$0	\$0	\$3,100,000
16-Apr-14	Slayton Hill Road Reconstruction	\$1,976,738	\$1,976,738	\$0	\$0
16-Apr-14	Dulac Street Reconstruction	\$1,490,000	\$1,490,000	\$0	\$0
Total		<u>\$33,173,922</u>	<u>\$8,767,738</u>	<u>\$3,546,000</u>	<u>\$20,860,184</u>

F. NEXT YEAR'S BUDGETS AND RATES

- The 2014 total net assessed valuation, on which the tax rate for municipal, county and local education tax is computed, decreased <\$1,309,694> to \$1,864,131,631 from 2013. A citywide assessment update will take place in 2015. The last update was in 2010. According to State law, annually, the assessors – Lebanon Board of Assessors – shall adjust assessments to reflect changes so that all assessments are reasonably proportional within the City and that all real estate be reappraised so that assessment are at full and true value at least as often as every five years.
- The property tax rate is computed as a means to bridge the gap between non-property tax revenues, spending and statutory tax credits and property assessment abatements. The Total Tax Rate is made up of four constituent rates: Municipal (general City services), School: Local, School: State and County. Appropriations (authorization to spend public moneys) are a legislative act. The Lebanon City Council is the City's legislative body; the Lebanon School District annual meeting and Grafton County delegation (comprised of state representatives from Grafton County) are the legislative bodies for the school and county.
- The 2015 City Budget estimates a 2015 Municipal Tax Rate (excluding school and county components) of \$10.04 per \$1,000 of assessed value, \$0.34, or 3.5%, higher than the comparable 2014 rate. A property assessed for tax purposes for \$250,000 will have an estimated 2015 municipal tax bill of about \$2,510, an increase of \$85 over the 2014 municipal tax bill. (It is not clear what effect the citywide assessment update will have on the net assessed valuation of the City. Increases in total net assessed valuation influence the tax rate downward; the opposite occurs for decreases.)

The tax rate is set (calculated) by the New Hampshire Department of Revenue Administration usually in October. The tax rate for each of the four tax rate components is calculated by subtracting non-property tax revenues and applied spendable fund balance from legal appropriations and, in the case of the Municipal Tax Rate, adding provision for taxes that either will not be collected (War Service Tax Credits) or might not be collected to varying degrees (abatements), dividing the result, and converting same, to a rate expressed per \$1,000 of assessed real estate value, by the Net Valuation on Which the Tax Rate for Municipal, County & Local Education Tax is Computed and, for state education tax rate, the Net Valuation on Which Tax Rate for State Education Tax is Computed. The 2015 City Budget concerns the Municipal Tax Rate only.

HOW the Amount to Be Raised by Property Taxes is distributed is determined by property values that the Lebanon Board of Assessors has to ensure by law are reasonably proportional within the City and that all taxable property was appraised to the best of the Board's knowledge and belief at its full value, in accordance with state appraisal standards. WHAT the amount to be raised by property taxes consists of is determined through the city, school, state and county budget processes.

Tax bills are mailed on or around June 1 and November 1 each year, with interest accruing at a rate of 12% on bills outstanding for more than 30 days. Within 18 months of the date assessed (April 1), the Tax Collector places a lien on properties for all uncollected property taxes. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed (taxes, penalties and interest) within the 2-year redemption period, the property is tax deeded to the city. The June billing is considered an estimate only. It is based by law on one-half of the prior year's tax rate. The balance of taxes due, taking into account current year budget activity, is billed in the fall after the New Hampshire Department of Revenue Administration has calculated the City's tax rate.

Property taxes billed and collected by the City include taxes levied for the Lebanon School District and Grafton County, which are remitted to those governmental units as required by law. The former is paid over the course of the based on a cash requirements schedule provided by the district; the latter is paid in December. Both the Lebanon School District and Grafton County receive their respective assessment no matter what may transpire respecting abatement activity and outcomes as ultimate responsibility for the collection of taxes rests with the City.

- Landfill Fees: No change in the fee for disposing solid waste at the landfill was executed for 2015. The estimated annual cost for an individual is \$36.60.
- Water Service Fees: An increase of 4.0% to water service rates was approved by the City Council December 3, 2014, to be effective January 1, 2015. The estimated annualized metered water usage cost for an individual is \$153.00 -- up \$6.00; for a household \$378.00 -- up \$14.00.
- Sewer Service Fees: An increase of 6.0% to sewer service rates was approved by the City Council December 3, 2014, to be effective January 1, 2015. The estimated annual sewage usage cost (based on metered water consumption) for an individual is \$302.00 -- up \$17.00; for a household \$749.00 -- up \$42.00.

- Labor Force Composition: The 2015 City Budget has 175.08 active full-time equivalent (FTE) positions (167.00 full-time; 8.08 regular part-time positions excluding seasonal and occasional employees and call firefighters). 116.00 positions, or 69.5%, are represented by one of four unions. Positions may be occupied or vacant, funded or unfunded. Positions are required to have an approved budget before they can be filled.
- The 2015 City Budget provides expenditures in the amount of \$50,952,125 -- a decrease of <\$12,645,688>, or <19.9%>, from 2014 -- for the cost of general City government, solid waste disposal, water treatment and distribution, sewage collection and disposal, municipal airport operations, emergency management, and the acquisition or construction of major, expensive and long-lived capital facilities and equipment. The original budget of \$50,152,475 was appropriated December 17, 2014; a supplemental budget of \$49,650 (to execute a successor collective bargaining agreement with the fire union) was appropriated February 4, 2015; a \$750,000 capital improvement was appropriated July 15, 2015 (NH120 Sewer Improvements).
- The general fund is 53.3% of the total 2015 City Budget; capital improvements fund 22.8%; sewage collection and disposal fund 9.0%; solid waste disposal fund 6.4%; water treatment and distribution fund 6.2%; municipal airport fund 2.2%; and emergency management fund 0.1%.
- The operations and maintenance budget – excluding capital improvements, debt service, and interfund transfers – is 58.2% of the total budget, or \$29,626,775, an increase of \$1,547,785, or 5.5%.
- Personnel services (wages and statutory and non-statutory employee benefits) are 67.6% of the operations and maintenance budget, contractual services 21.0%, materials and supplies 11.1%, and property 0.3%. The expenditure mix varies by fund.
- The non-operations and maintenance budget – capital improvements, debt service, and interfund transfers – is 41.8% of the total budget, or \$21,325,350, a decrease of <\$14,193,473>, or <40.1%>. The decrease is attributable to the 2014 budget including supplemental capital improvements appropriations of \$10,310,000 for work in connection with July 2013 storm damage repairs and supplemental appropriations of \$1,697,343 as transfers from the general fund to partially finance the repairs.
- Capital improvements are 54.4% of the non-operations and maintenance budget, debt service 29.9%, and interfund transfers 15.7%.

CITY BUDGETS					
Fund	2014	2015			Change
	Revised	Original	Supplemental	Revised	
General	\$27,989,723	\$27,116,490	\$49,650	\$27,166,140	(\$823,583)
Solid Waste Disposal	\$3,198,660	\$3,257,290	\$0	\$3,257,290	\$58,630
Water Treatment and Distribution	\$3,222,990	\$3,166,625	\$0	\$3,166,625	(\$56,365)
Sewage Collection and Disposal	\$4,499,490	\$4,607,080	\$0	\$4,607,080	\$107,590
Municipal Airport	\$1,049,550	\$1,134,990	\$0	\$1,134,990	\$85,440
Emergency Management	\$25,000	\$25,000	\$0	\$25,000	\$0
Capital	\$23,612,400	\$10,845,000	\$750,000	\$11,595,000	(\$12,017,400)
Total	\$63,597,813	\$50,152,475	\$799,650	\$50,952,125	(\$12,645,688)
Expenditure Type					
Personnel Services	\$19,011,420	\$19,884,890	\$136,410	\$20,021,300	\$1,009,880
Contractual Services	\$26,808,160	\$15,916,435	\$656,580	\$16,573,015	(\$10,235,145)
Materials and Supplies	\$3,180,510	\$3,268,080	\$6,520	\$3,274,600	\$94,090
Property	\$2,672,400	\$1,352,720	\$140	\$1,352,860	(\$1,319,540)
Debt Service	\$6,874,580	\$6,379,410	\$0	\$6,379,410	(\$495,170)
Interfund Transfers	\$5,031,843	\$3,350,940	\$0	\$3,350,940	(\$1,680,903)
Total	\$63,578,913	\$50,152,475	\$799,650	\$50,952,125	(\$12,626,788)
Operation and Maintenance	\$28,060,090	\$14,633,652	\$49,650	\$14,683,302	\$1,566,685
Debt Service	\$6,874,580	\$6,874,580	\$0	\$6,874,580	(\$495,170)
Interfund Transfers	\$5,031,843	\$5,031,843	\$0	\$5,031,843	(\$1,680,903)
Capital	\$23,612,400	\$23,612,400	\$750,000	\$24,362,400	(\$12,017,400)
Total	\$63,578,913	\$50,152,475	\$799,650	\$50,952,125	(\$12,626,788)

- The 2015 City Budget provides estimated revenues of \$49,595,120, a decrease of <\$10,876,360>, or <18.0%>, from 2014. The change is attributable to the 2014 budget including funding for supplemental capital improvements appropriations of \$10,310,000 for work in connection with July 2013 storm damage repairs.
- The general fund makes up 52.9% of total revenues; capital improvements fund 23.4%; sewage collection and disposal 10.0%; water treatment and distribution 6.2%; solid waste disposal fund 5.6%; municipal airport fund 1.8%; and emergency management fund 0.1%.
- Total applied spendable fund balance is \$1,357,005, a decrease of <\$1,769,328>, or <56.6%>, from 2014. The change is substantially attributable to the 2014 budget including a \$1,697,343 supplemental appropriation as transfer from the general fund to partially finance July 2013 storm damage repairs.
- The 2015 Capital Budget of \$11,595,000 is comprised of fifteen (15) projects – of which seven (8) will be financed fully, or partially, through the issuance of long-term debt (general obligation or through the State Revolving Fund). No debt authorized for issuance in 2015 will be issued. Instead effort will be made on spending current available bond proceeds and managing ongoing projects.

G. REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the finances of the City of Lebanon. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Finance Director, City Hall, 51 North Park Street, Lebanon, New Hampshire 03766.

BASIC FINANCIAL STATEMENTS

EXHIBIT A
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Net Position
December 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 17,864,396	\$ 10,954,052	\$ 28,818,448
Investments	3,583,512	10,432,700	14,016,212
Receivables, net of allowance for uncollectible:			
Accounts	118,513	519,155	637,668
Taxes	2,002,521	-	2,002,521
Intergovernmental	2,099,261	2,536,207	4,635,468
Internal balances receivable	182,384	(182,384)	-
Prepaid items	172,954	187,929	360,883
Restricted assets:			
Cash and cash equivalents	852,247	-	852,247
Investments	150,435	-	150,435
Intergovernmental receivable	43,745	-	43,745
Capital assets:			
Land and construction in progress	18,936,768	17,865,498	36,802,266
Other capital assets, net of depreciation	62,075,506	57,353,714	119,429,220
Total assets	<u>108,082,242</u>	<u>99,666,871</u>	<u>207,749,113</u>
LIABILITIES			
Accounts payable	189,136	139,044	328,180
Contracts payable	597,102	1,838,482	2,435,584
Retainage payable	289,608	822,453	1,112,061
Accrued interest payable	391,584	340,691	732,275
Intergovernmental payable	12,757,719	11,098,736	23,856,455
Escrow and performance deposits	34,350	8,200	42,550
Long-term liabilities:			
Due within one year	2,563,774	2,027,320	4,591,094
Due in more than one year	27,405,136	30,354,808	57,759,944
Total liabilities	<u>44,228,409</u>	<u>46,629,734</u>	<u>90,858,143</u>
DEFERRED INFLOWS OF RESOURCES			
Debt forgiveness	1,360,575	2,040,862	3,401,437
Unearned revenue - Grants	418,038	-	418,038
Total deferred outflows of resources	<u>1,778,613</u>	<u>2,040,862</u>	<u>3,819,475</u>
NET POSITION			
Net investment in capital assets	53,687,590	51,250,408	104,937,998
Restricted	4,101,849	1,460,630	5,562,479
Unrestricted (deficit)	4,285,781	(1,714,763)	2,571,018
Total net position	<u>\$ 62,075,220</u>	<u>\$ 50,996,275</u>	<u>\$ 113,071,495</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2014

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 5,251,091	\$ 143,756	\$ 84,619	\$ 10,000	\$ (5,012,716)	\$ -	\$ (5,012,716)
Public safety	9,980,068	1,045,210	72,994	-	(8,861,864)	-	(8,861,864)
Highways and streets	3,131,240	2,810	274,433	-	(2,853,997)	-	(2,853,997)
Welfare	401,680	-	-	-	(401,680)	-	(401,680)
Culture and recreation	2,148,554	262,395	55,540	-	(1,830,619)	-	(1,830,619)
Conservation	58,817	-	-	-	(58,817)	-	(58,817)
Interest on long-term debt	1,346,983	-	-	-	(1,346,983)	-	(1,346,983)
Total governmental activities	<u>22,318,433</u>	<u>1,454,171</u>	<u>487,586</u>	<u>10,000</u>	<u>(20,366,676)</u>	<u>-</u>	<u>(20,366,676)</u>
Business-type activities:							
Sewage collection and disposal	5,610,519	4,454,345	65,899	760,041	-	(330,234)	(330,234)
Solid waste disposal	2,437,831	3,024,153	72,018	104,757	-	763,097	763,097
Water treatment and distribution	1,965,032	2,610,512	66,087	188,801	-	900,368	900,368
Municipal airport	1,462,396	490,822	187,428	-	-	(784,146)	(784,146)
Total business-type activities	<u>11,475,778</u>	<u>10,579,832</u>	<u>391,432</u>	<u>1,053,599</u>	<u>-</u>	<u>549,085</u>	<u>549,085</u>
Total	<u>\$ 33,794,211</u>	<u>\$ 12,034,003</u>	<u>\$ 879,018</u>	<u>\$ 1,063,599</u>	<u>(20,366,676)</u>	<u>549,085</u>	<u>(19,817,591)</u>
General revenues:							
Taxes:							
Property					17,322,292	-	17,322,292
Other					1,677,841	-	1,677,841
Motor vehicle permit fees					2,208,704	-	2,208,704
Licenses and other fees					297,224	-	297,224
Grants and contributions not restricted to specific programs					2,731,242	-	2,731,242
Miscellaneous					532,791	725,376	1,258,167
Total general revenues not including transfers					<u>24,770,094</u>	<u>725,376</u>	<u>25,495,470</u>
Transfers					<u>1,037,825</u>	<u>(1,037,825)</u>	<u>-</u>
Total general revenues and transfers					<u>25,807,919</u>	<u>(312,449)</u>	<u>25,495,470</u>
Change in net position					5,441,243	236,636	5,677,879
Net position, beginning, as restated (see Note 20)					56,633,977	50,759,639	107,393,616
Net position, ending					<u>\$ 62,075,220</u>	<u>\$ 50,996,275</u>	<u>\$ 113,071,495</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
CITY OF LEBANON, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2014

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 14,120,622	\$ 2,668,818	\$ 1,074,956	\$ 17,864,396
Investments	2,005,850	298,667	1,278,995	3,583,512
Receivables, net of allowances for uncollectable:				
Accounts	62,265	-	56,248	118,513
Taxes	2,202,140	-	-	2,202,140
Intergovernmental	-	1,880,723	-	1,880,723
Interfund receivable	229,909	-	4,406	234,315
Voluntary tax liens	28,505	-	-	28,505
Voluntary tax liens reserved until collected	(28,505)	-	-	(28,505)
Prepaid items	172,954	-	-	172,954
Restricted assets:				
Cash and cash equivalents	852,247	-	-	852,247
Investments	150,435	-	-	150,435
Intergovernmental receivable	43,745	-	-	43,745
Total assets	\$ 19,840,167	\$ 4,848,208	\$ 2,414,605	\$ 27,102,980
LIABILITIES				
Accounts payable	\$ 189,136	\$ -	\$ -	\$ 189,136
Contracts payable	-	597,102	-	597,102
Intergovernmental	11,622,837	1,134,882	-	12,757,719
Interfund payable	1,424	-	50,507	51,931
Retainage payable	-	289,608	-	289,608
Escrow and performance deposits	34,350	-	-	34,350
Total liabilities	11,847,747	2,021,592	50,507	13,919,846
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	596,565	-	-	596,565
Unavailable revenue - Grants	418,038	-	-	418,038
Total deferred inflows of resources	1,014,603	-	-	1,014,603
FUND BALANCES				
Nonspendable	172,954	-	1,275,233	1,448,187
Restricted	337,619	2,826,616	141,065	3,305,300
Committed	237,149	-	940,030	1,177,179
Assigned	974,661	-	7,770	982,431
Unassigned	5,255,434	-	-	5,255,434
Total fund balances	6,977,817	2,826,616	2,364,098	12,168,531
Total liabilities, deferred inflows of resources, and fund balances	\$ 19,840,167	\$ 4,848,208	\$ 2,414,605	\$ 27,102,980

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2014

Total fund balances of governmental funds (Exhibit C-1)		\$ 12,168,531
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 110,177,417	
Less accumulated depreciation	<u>(29,165,143)</u>	81,012,274
Long term revenue (taxes) is not available to pay current-period expenditures and, therefore, is deferred in the governmental funds.		596,565
Deferred inflows of resources related to debt forgiveness that will be recognized annually in equal amounts for the duration of the bond issuance repayment		(1,360,575)
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(199,619)
Long term assets (State aid receivable) are not available to pay for current-period expenditures and therefore, are not reported in the governmental funds.		218,538
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(391,584)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds	\$ 26,559,763	
Unamortized bond premiums	700,728	
Capital leases	64,193	
Compensated absences	1,223,837	
Other postemployment benefits	<u>1,420,389</u>	(29,968,910)
Net position of governmental activities (Exhibit A)		<u>\$ 62,075,220</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
CITY OF LEBANON, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2014

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 19,206,191	\$ -	\$ 18,010	\$ 19,224,201
Licenses and permits	2,505,928	-	-	2,505,928
Intergovernmental	1,143,462	1,704,325	-	2,847,787
Charges for services	1,194,369	-	259,803	1,454,172
Miscellaneous	422,272	21,717	179,695	623,684
Total revenues	<u>24,472,222</u>	<u>1,726,042</u>	<u>457,508</u>	<u>26,655,772</u>
EXPENDITURES				
Current:				
General government	5,246,877	-	6,800	5,253,677
Public safety	9,551,282	-	314,813	9,866,095
Highways and streets	3,129,520	-	-	3,129,520
Culture and recreation	2,100,286	-	97,892	2,198,178
Conservation	8,838	-	30,785	39,623
Debt service:				
Principal	2,561,476	-	-	2,561,476
Interest	1,293,852	-	-	1,293,852
Capital outlay	94,381	4,996,204	-	5,090,585
Total expenditures	<u>24,388,192</u>	<u>4,996,204</u>	<u>450,290</u>	<u>29,834,686</u>
Excess (deficiency) of revenues over (under) expenditures	<u>84,030</u>	<u>(3,270,162)</u>	<u>7,218</u>	<u>(3,178,914)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,433,000	2,246,524	5,074	3,684,598
Transfers out	(2,630,706)	-	(16,065)	(2,646,771)
Bond proceeds	-	3,446,582	-	3,446,582
Premium on bond issued	-	95,000	-	95,000
Capital leases	48,898	-	-	48,898
Total other financing sources (uses)	<u>(1,148,808)</u>	<u>5,788,106</u>	<u>(10,991)</u>	<u>4,628,307</u>
Net change in fund balances	(1,064,778)	2,517,944	(3,773)	1,449,393
Fund balances, beginning, as restated (see Note 20)	8,042,595	308,672	2,367,871	10,719,138
Fund balances, ending	<u>\$ 6,977,817</u>	<u>\$ 2,826,616</u>	<u>\$ 2,364,098</u>	<u>\$ 12,168,531</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2014

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 1,449,393
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense and capital asset disposals in the current period.		
Capitalized capital outlay	\$ 12,029,391	
Capital asset disposals	(5,012,747)	
Depreciation expense	<u>(1,991,361)</u>	5,025,283
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred tax revenue	\$ (224,068)	
Decrease in deferred aid revenue	<u>290,147</u>	66,079
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Proceeds of debt	\$ (3,567,891)	
Capital lease inception	(48,898)	
Bond premium on new issuance	(95,000)	
Repayment of bond principal	3,993,667	
Debt forgiveness received to be amortized	(1,432,184)	
Repayment of capital leases	36,177	
Amortization of bond premium	<u>56,013</u>	(1,058,116)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 12,158	
Decrease in compensated absences payable	62,288	
Increase in postemployment benefits payable	<u>(115,842)</u>	(41,396)
Change in net position of governmental activities (Exhibit B)		<u><u>\$ 5,441,243</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 19,291,768	\$ 19,291,768	\$ 18,982,123	\$ (309,645)
Licenses and permits	2,303,800	2,303,800	2,505,928	202,128
Intergovernmental	1,002,272	1,002,272	1,091,224	88,952
Charges for services	1,080,210	1,080,210	1,115,846	35,636
Miscellaneous	149,500	149,500	285,684	136,184
Total revenues	<u>23,827,550</u>	<u>23,827,550</u>	<u>23,980,805</u>	<u>153,255</u>
EXPENDITURES				
Current:				
General government	5,466,380	5,476,240	5,316,326	159,914
Public safety	10,292,320	10,247,660	9,430,871	816,789
Highways and streets	3,264,310	3,297,730	3,140,347	157,383
Welfare	498,550	498,550	401,680	96,870
Culture and recreation	2,089,640	2,091,020	2,021,280	69,740
Conservation	9,110	9,110	8,441	669
Debt service:				
Principal	2,487,460	2,561,500	2,561,476	24
Interest	1,368,120	1,294,080	1,293,852	228
Total expenditures	<u>25,475,890</u>	<u>25,475,890</u>	<u>24,174,273</u>	<u>1,301,617</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,648,340)</u>	<u>(1,648,340)</u>	<u>(193,468)</u>	<u>1,454,872</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,437,440	1,437,440	1,433,000	(4,440)
Transfers out	(2,513,833)	(2,513,833)	(2,515,706)	(1,873)
Total other financing sources (uses)	<u>(1,076,393)</u>	<u>(1,076,393)</u>	<u>(1,082,706)</u>	<u>(6,313)</u>
Net change in fund balance	<u>\$ (2,724,733)</u>	<u>\$ (2,724,733)</u>	(1,276,174)	<u>\$ 1,448,559</u>
Increase in nonspendable fund balance			(35,870)	
Increase in assigned for abatement contingency			(2,156)	
Unassigned fund balance, beginning, as restated (see Note 20)			<u>6,996,142</u>	
Unassigned fund balance, ending			<u>\$ 5,681,942</u>	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-1
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Fiduciary Net Position
December 31, 2014

	Business-type Activities				
	Enterprise Funds				
	Major Funds		Nonmajor Funds		
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	Total
ASSETS					
Cash and cash equivalents	\$ 2,856,829	\$ 4,530,167	\$ 3,250,678	\$ 316,378	\$ 10,954,052
Investments	1,671,093	8,182,583	579,024	-	10,432,700
Receivables:					
Accounts	143,747	262,938	48,206	64,264	519,155
Intergovernmental	1,891,291	104,757	511,346	28,813	2,536,207
Prepaid items	124,914	25,815	25,893	11,307	187,929
Capital assets:					
Land and construction in progress	10,730,572	5,007,244	1,458,353	669,329	17,865,498
Other capital assets, net of depreciation	28,678,898	5,921,949	16,057,360	6,695,507	57,353,714
Total assets	<u>46,097,344</u>	<u>24,035,453</u>	<u>21,930,860</u>	<u>7,785,598</u>	<u>99,849,255</u>
LIABILITIES					
Current liabilities:					
Accounts payable	40,604	49,898	28,654	19,888	139,044
Contract payable	1,383,215	278,133	177,134	-	1,838,482
Retainage payable	741,483	-	80,970	-	822,453
Internal balances	-	-	-	182,384	182,384
Accrued interest payable	166,612	44,157	117,677	12,245	340,691
Intergovernmental payable	10,278,295	-	820,441	-	11,098,736
Escrow and performance deposits	-	-	-	8,200	8,200
Long-term liabilities:					
Due within one year	783,199	460,188	716,255	67,678	2,027,320
Due in more than one year	11,101,646	10,852,536	7,577,555	823,071	30,354,808
Total liabilities	<u>24,495,054</u>	<u>11,684,912</u>	<u>9,518,686</u>	<u>1,113,466</u>	<u>46,812,118</u>
DEFERRED INFLOWS OF RESOURCES					
Debt forgiveness	1,020,431	-	1,020,431	-	2,040,862
NET POSITION					
Net investment in capital assets	27,627,704	7,744,048	9,356,894	6,521,762	51,250,408
Restricted	-	542,504	687,758	230,368	1,460,630
Unrestricted (deficit)	(7,045,845)	4,063,989	1,347,091	(79,998)	(1,714,763)
Total net position	<u>\$ 20,581,859</u>	<u>\$ 12,350,541</u>	<u>\$ 11,391,743</u>	<u>\$ 6,672,132</u>	<u>\$ 50,996,275</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-2
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended December 31, 2014

	Business-type Activities				Total
	Enterprise Fund				
	Major Funds		Nonmajor Funds		
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	
Operating revenues:					
User charges	\$ 4,454,345	\$ 3,024,153	\$ 2,610,512	\$ 490,822	\$ 10,579,832
Miscellaneous	92,865	194,202	82,075	334,474	703,616
Total operating revenues	<u>4,547,210</u>	<u>3,218,355</u>	<u>2,692,587</u>	<u>825,296</u>	<u>11,283,448</u>
Operating expenses:					
Salaries and wages	915,636	721,318	688,483	394,044	2,719,481
Operation and maintenance	3,543,541	1,079,138	345,933	406,960	5,375,572
Depreciation and amortization	627,904	529,811	558,881	619,950	2,336,546
Total operating expenses	<u>5,087,081</u>	<u>2,330,267</u>	<u>1,593,297</u>	<u>1,420,954</u>	<u>10,431,599</u>
Operating gain (loss)	<u>(539,871)</u>	<u>888,088</u>	<u>1,099,290</u>	<u>(595,658)</u>	<u>851,849</u>
Nonoperating revenue (expense):					
Intergovernment revenues	825,940	176,775	254,888	187,428	1,445,031
Sale of City owned property	21,760	-	-	-	21,760
Interest expense	(523,438)	(107,564)	(371,735)	(41,442)	(1,044,179)
Total nonoperating revenues	<u>324,262</u>	<u>69,211</u>	<u>(116,847)</u>	<u>145,986</u>	<u>422,612</u>
Other financing sources (uses):					
Transfers in	27,372	-	73,105	482,856	583,333
Transfers out	(410,310)	(723,746)	(403,820)	(83,282)	(1,621,158)
Total other financing sources (uses)	<u>(382,938)</u>	<u>(723,746)</u>	<u>(330,715)</u>	<u>399,574</u>	<u>(1,037,825)</u>
Change in net position	(598,547)	233,553	651,728	(50,098)	236,636
Net position, beginning, as restated (see Note 20)	21,180,406	12,116,988	10,740,015	6,722,230	50,759,639
Net position, ending	<u>\$ 20,581,859</u>	<u>\$ 12,350,541</u>	<u>\$ 11,391,743</u>	<u>\$ 6,672,132</u>	<u>\$ 50,996,275</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-3
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2014

	Business-type Activities				
	Enterprise Fund				
	Major Funds		Nonmajor Funds		
	Sewerage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 2,615,186	\$ 3,124,483	\$ 2,211,703	\$ 878,467	\$ 8,829,839
Payments to employees and suppliers	4,824,839	(1,010,688)	(24,169)	(785,313)	3,004,669
Net cash provided by operating activities	<u>7,440,025</u>	<u>2,113,795</u>	<u>2,187,534</u>	<u>93,154</u>	<u>11,834,508</u>
Cash flows from capital and related financing activities:					
Proceeds of long term debt	2,184,668	-	2,184,668	-	4,369,336
Principal paid on bonds	(750,193)	(390,000)	(702,506)	(66,579)	(1,909,278)
Sale of City owned property	21,760	-	-	-	21,760
Acquisition and construction of fixed assets	(7,650,523)	(406,350)	(1,421,955)	(238,021)	(9,716,849)
Payments from the state	825,940	176,775	254,888	187,428	1,445,031
Interest paid	523,438	(107,564)	(371,735)	(41,442)	2,697
Net cash used by capital and related financing activities	<u>(4,844,910)</u>	<u>(513,914)</u>	<u>(56,640)</u>	<u>(279,463)</u>	<u>(9,714,152)</u>
Cash flows from non-capital financing activities:					
Operating transfers in(out)	<u>(382,938)</u>	<u>(723,746)</u>	<u>(330,715)</u>	<u>399,574</u>	<u>(1,037,825)</u>
Cash flows from investing activities:					
Sale / (purchase) of investments	<u>(1,641,471)</u>	<u>985,851</u>	<u>(244,159)</u>	<u>-</u>	<u>(899,779)</u>
Net cash used by investing activities	<u>(1,641,471)</u>	<u>985,851</u>	<u>(244,159)</u>	<u>-</u>	<u>(899,779)</u>
Net increase in cash	570,706	1,861,986	1,556,020	213,265	4,201,977
Cash, beginning	2,286,123	2,668,181	1,694,658	103,113	6,752,075
Cash, ending	<u>\$ 2,856,829</u>	<u>\$ 4,530,167</u>	<u>\$ 3,250,678</u>	<u>\$ 316,378</u>	<u>\$ 10,954,052</u>
Reconciliation of Operating Gain / (Loss) to Net Cash Provided by Operating Activities					
Operating gain (loss)	\$ (539,871)	\$ 888,088	\$ 1,099,290	\$ (595,658)	\$ 851,849
Adjustments to reconcile operating gain to net cash provided by operating activities:					
Depreciation expense	627,904	529,811	558,881	619,950	2,336,546
(Increase) / Decrease in other receivables	(1,932,024)	(93,872)	(480,884)	51,321	(2,455,459)
Increase in escrow deposits	-	-	-	1,000	1,000
Increase / (Decrease) in accounts payable	1,389,807	306,524	198,934	(33,473)	1,861,792
Increase / (Decrease) in internal balances	(9,444)	-	(49,930)	29,756	(29,618)
Increase in other liabilities	-	-	-	850	850
Increase / (Decrease) in prepaid expenses	(413)	613	(2,248)	(1,758)	(3,806)
Increase in intergovernmental payables	6,845,218	-	820,441	-	7,665,659
Increase in landfill liability	-	448,189	-	-	448,189
Increase in accrued interest payable	166,612	44,156	117,677	12,245	340,690
Increase / (Decrease) in compensated absences	150,753	(9,714)	(154,598)	8,921	(4,638)
Decrease in retainage payable	741,483	-	79,971	-	821,454
Total adjustments	<u>7,979,896</u>	<u>1,225,707</u>	<u>1,088,244</u>	<u>688,812</u>	<u>10,982,659</u>
Net cash provided by operating activities	<u>\$ 7,440,025</u>	<u>\$ 2,113,795</u>	<u>\$ 2,187,534</u>	<u>\$ 93,154</u>	<u>\$ 11,834,508</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT F
CITY OF LEBANON, NEW HAMPSHIRE
Fiduciary Fund
Statement of Fiduciary Net Position
December 31, 2014

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 1,232,259
Investments	<u>3,909,994</u>
Total assets	<u>\$ 5,142,253</u>
LIABILITIES	
Due to others	\$ 501,136
Due to other governmental units	<u>4,641,117</u>
Total liabilities	<u>\$ 5,142,253</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

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CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

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CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lebanon, New Hampshire (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The more significant of the City's accounting policies are described below.

1-A Reporting Entity

The City of Lebanon is a municipal corporation governed by an elected City Council. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board, and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the City's financial reporting entity.

1-B Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the financial position of the governmental activities and business-type activities of the City at year-end. This statement includes all of the City's assets, liabilities, deferred inflows of resources, and net position. Net position is reported as one of three categories: net investment in capital assets; restricted, or unrestricted.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1-C Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies, and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

Capital Improvements Fund – the capital improvements fund accounts for the activity pertaining to the multiple construction and renovation projects the City is currently involved with.

All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The City reports the following major proprietary funds:

Sewage Collection and Disposal – accounts for the operation of the sewer treatment plant, pumping station, and sewer lines in the City.

Solid Waste Disposal Fund – accounts for the operation of the City transfer station and landfills.

Additionally, the City reports the following fund types:

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

Permanent Fund - is used to record activity of legal trusts for which the interest on the corpus provides funds for the City's cemetery operations.

Fiduciary Funds – The City also reports the following fiduciary fund type:

Agency Fund – is used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments.

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1-D Cash and Cash Equivalents

The City considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents."

The treasurer is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383:22. Funds may be deposited in banks outside of the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations to the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-E Restricted Assets

Certain cash, investment, and accounts receivable balances are classified as restricted assets on the balance sheet because their use is designated for a specific purpose and therefore not available for immediate and general use by the City.

1-F Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the City to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the City. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments for the City are reported at fair value generally based on quoted market prices.

1-G Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

1-H Receivables

Receivables recorded in the financial statements represent amounts due to the City at December 31. They are aggregated into a single accounts and intergovernmental receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. They consist primarily of taxes, billing for charges, grants, and other user fees.

1-I Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "Interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

1-J Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements, and expenses as the items are used.

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1-K Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide and business-type activities financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated minimum useful life in excess of one year. As the City constructs or acquires additional capital assets each year, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Capital Asset Classes:	
Land improvements	20-30
Buildings and building improvements	20-30
Machinery and equipment	3-25
Infrastructure	50

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

1-L Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element *represents* an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items, one which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, the other which arises under a full accrual basis of accounting and the third is reported under both basis' of accounting. Accordingly, these items, unavailable revenue, are reported in the governmental funds balance sheet for property taxes and grants, and in the business-type activities for the debt forgiveness and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

1-M Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Billings for the year were on May 14, 2014 and October 23, 2014 with supplemental warrants issued on July 25, 2014 and August 13, 2014. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

In connection with the setting of the tax rate, City officials, with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for tax abatement and refunds, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any reserve for uncollectable at year end. The property taxes collected by the City include taxes levied for the State of New Hampshire, Lebanon School District, and Grafton County, which are remitted to these entities as required by law.

The City net assessed valuation as of April 1, 2014 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 1,777,460,631
For all other taxes	\$ 1,864,131,631

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The tax rates and amounts assessed for the year ended December 31, 2014 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$9.70	\$ 18,075,739
School portion:		
State of New Hampshire	\$2.56	4,558,377
Local	\$12.30	22,928,946
County portion	\$1.71	3,185,798
Total	\$26.27	\$ 48,748,860

1-N Compensated Absences

Vacation - The City’s policy allows certain employees to earn varying amounts of vacation based on the employee’s length of employment. Upon separation from service, employees are paid in full for any accrued leave earned as set forth by personnel policy or collective bargaining agreement. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

Sick Leave – Benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the City’s experience of making termination payments.

1-O Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, both governmental and business-type activities fund types recognize bond premiums during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources.

1-P Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-Q Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In proprietary funds, transfers are reported after nonreporting revenues and expenses. In the government-wide financial statements, all interfund transfers between individual governmental and proprietary funds have been eliminated.

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I-R Net Position/Fund Balance Reporting

Government-wide Statements – Equity is classified as net position and displayed in three components:

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b) *Restricted net position* – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – Net position that does not meet the definition of “net investment in capital assets” or “restricted.”

Fund Balance Classifications - The fund balance of governmental funds is reported in five categories based on the nature of any limitations requiring the use of resources for specific programs. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The classifications used in the City’s governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts not in spendable form, such as inventory, or amounts required to be maintained intact legally or contractually such as for prepaid items and the nonexpendable portion of permanent trust funds.

Restricted – This classification includes amounts that are subject to externally enforceable legal restrictions and can be spent only for the specific purposes stipulated by law, ordinance, or regulation, external resource providers or through enabling legislation. Restrictions applicable to this fund balance may not be changed or lifted by the City without the consent of the resource providers or enabling legislation. Included are library funds, the income balance of permanent funds (trust funds), grant funds, and unspent bond proceeds.

Committed – This classification includes amounts that can be used only for the specific purposes determined by a vote of the City Council. Commitments may be rescinded, changed, or lifted only by a subsequent vote of the City Council. Included are expendable trust funds (capital reserve funds).

Assigned – This classification includes amounts the City intends to be used for specific purposes, but are neither restricted or committed. In accordance with GASB Statement No. 54, funds that are intended to be used for a specific purpose, but have not received the formal approval action at the governing body level (City Council), may be recorded as assigned fund balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the City Council. GASB Statement No. 54 states that resources can be assigned by the governing body or by another internal body or person whom the governing body gives the authority to do so. Encumbrances (purchase orders) or other contractual commitments and the provision of contingency for assessment abatements and bankruptcy proceedings are examples of assigned fund balance.

Unassigned – This classification includes the residual classification for the City’s general fund and includes all amounts not contained in other fund balance component classifications and therefore is not subject to any constraints. Appropriation from unassigned fund balance requires approval of the City Council, in addition, any governmental funds with a deficit fund balance at year-end that have that deficit are reported as unassigned fund balance.

When multiple net position/fund balance classifications are available for use, it is the government’s policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

It is the goal of the City to maintain an unassigned fund balance of 15% to 17% of current general fund budgeted expenditure activity. The City considers a balance of less than 15% to be a cause for concern and, taking into account factors or circumstances that may require a higher than normal maximum level of unassigned fund balance, a balance of more than 17% as excessive. An amount in excess of 15% may be considered to reduce tax levy requirements determined in conjunction with the annual budget process, as a capital improvement funding component, for reservation to accumulate funding for future capital improvements, or for any legal purpose deemed appropriate and desirable by the City Council. In the event unassigned fund balance is less than 15%, restorative steps shall be taken in the immediate subsequent fiscal years.

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NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the City’s operations. Annually, the City Council, as the City’s legislative body adopts a budget for the current year for the general, sewage collection and disposal, solid waste disposal, and capital improvements funds, as well as three nonmajor funds. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

Management may transfer appropriations within departments deemed necessary: the City Council must approve interdepartmental transfers. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2014, \$2,724,733 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The City employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues and Expenditures-Budgetary Basis presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

The following reconciles the *general fund* budgetary basis to the GAAP basis:

Revenues and other financing sources:	General
Per Exhibit D (budgetary basis)	\$ 25,413,808
Adjustment:	
Basis difference:	
Inception of capital leases	48,898
GASB Statement No. 54:	
To record revenue of the blended funds (expendable trusts, grants, emergency management, heritage, restricted, and CDBG funds)	267,346
Change in deferred tax revenue relating to 60-day revenue recognition	224,068
Per Exhibit C-3 (GAAP basis)	\$ 25,954,120
	(continued)

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Budgetary reconciliation of the *general fund* budgetary basis to the GAAP basis continued:

Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 26,689,979
Adjustment:	
Basis differences:	
Encumbrances, beginning	274,365
Encumbrances, ending	(409,061)
Inception of capital leases	48,898
GASB Statement No. 54:	
To record expenditures of the blended funds (expendable trusts, grants, emergency management, heritage, restricted, and CDBG funds)	299,717
Net effect of eliminated and recognized transfers of the blended funds	115,000
Per Exhibit C-3 (GAAP basis)	<u>\$ 27,018,898</u>

2-C Change in Accounting Principle

In 2014 it was determined that based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 that the City of Lebanon's sewage collection and disposal, solid waste disposal, water treatment and distribution and the municipal airport qualify for presentation in the financial statements as business-type activities. This determination is based on the criteria obtained from the GASB pronouncement which states:

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b) Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c) The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Based on this information the recognition of the sewage collection and disposal, solid waste disposal, water treatment and distribution and the municipal airport funds as proprietary funds is deemed appropriate and reasonable. See Note 20 in this report for the adjustment made.

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

At December 31, 2014, the reported amount of the City's deposits was \$30,902,954 and the bank balance was \$31,675,579. Of the bank balance, \$31,453,579 was covered by federal depository insurance or by collateral held by the City's agent in the City's name, and \$222,000 was uninsured and uncollateralized. Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 29,670,695
Cash per Statement of Fiduciary Net Position (Exhibit F)	1,232,259
Total cash and cash equivalents	<u>\$ 30,902,954</u>

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Repurchase Agreement – Included in the City’s cash equivalents at December 31, 2014, is a short-term investment in a repurchase agreement issued by a local banking institution. Under this agreement, the City will be repaid principal plus interest on a specified date which is subsequent to year-end. The agreement is guaranteed/collateralized with securities held by the banking institution which equal the amount of the agreement. To the extent that the banking institution may default on its commitment to this obligation, the City is at risk of economic loss. Management considers this exposure to be minimal. At December 31, 2014, the City held an investment in the following repurchase agreements:

Amount	Interest Rate %	Maturity Date	Collateral Pledged	
			Underlying Securities	Market Value
\$ 5,000,000	1.000000%	2/28/18	FNMA	\$ 4,956,955
\$ 5,000,000	0.600000%	11/21/16	FFCB	\$ 4,989,980
\$ 4,294,167	2.927000%	6/01/44	FNMA POOL #AW40	\$ 4,411,226
\$ 15,000,000	0.000001%	1/15/14	US Treasury	\$ 15,000,000

Custodial Credit Risk – The City’s repurchase agreements are all with banking institutions; therefore, are subject to custodial credit risk. The custodial credit risk is the risk that in the event of bank failure, the City’s deposits may not be recovered.

Interest Rate Risk – The term repurchase agreements are also subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the City’s investments.

NOTE 4 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the City funds. The City maintains a portfolio of intermediate maturity investments that are reported at fair value, based on quoted market prices. The City’s fiscal agent or custodian provides the fair value of all intermediate maturity investments.

At December 31, 2014, the City had the following investments and maturities:

Investment type:	Fair Value	Less Than 1	
		Year	1-5 Years
New Hampshire Public Deposit Investment Pool	\$ 4,106,933	\$ 4,106,933	\$ -
Exchange-traded funds	2,517,916	2,517,916	-
US Government obligations	11,451,792	5,320,704	6,131,088
Total fair value	<u>\$ 18,076,641</u>	<u>\$ 11,945,553</u>	<u>\$ 6,131,088</u>

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk - State law limits investments as explained in Note 1-F. The City’s investments in US Agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association) are rated AA+ by Standard and Poor’s and Aaa by Moody’s Investor’s Services.

Custodial Credit Risk – This is the risk that in the event of the failure of the counterparty (e.g. broker/dealer) to honor a transaction, 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.

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one issuer, however, at year-end investments held in the NH Public Deposit Investment Pool exceeded the investment threshold of 5% (City investments in any one issuer). These investments represent 22.7% of the City’s total investments.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 14,166,647
Investments per Statement of Fiduciary Net Position (Exhibit F)	3,909,994
Total investments	<u>\$ 18,076,641</u>

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NOTE 5 – RESTRICTED ASSETS

The following cash, investments, and accounts receivable are classified as restricted because of the statutory limitations placed on their use as they are earmarked for a specific purpose:

Cash and cash equivalents:	
General:	
Expendable trust	\$ 47,566
Grants	392,988
Emergency management	48,863
Heritage	4,706
Other restricted	358,124
Total general fund	<u>852,247</u>
Investments:	
Expendable trusts:	<u>150,435</u>
Intergovernmental receivable:	
General:	
Grants	<u>43,745</u>
Total restricted assets	<u><u>\$ 1,046,427</u></u>

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2014. The amount has been reduced by an allowance for an estimated uncollectible amount of \$199,619, which is removed on Exhibit C-1 due to the deferral of taxes receivable not collected within 60 days of fiscal year-end. Taxes receivable by year are as follows:

	Full Accrual Basis <u>(Exhibit A)</u>	Modified Accrual Basis <u>(Exhibit C-1)</u>
Property:		
Levy of 2013	\$ 1,255,249	\$ 1,255,249
Unredeemed (under tax lien):		
Levy of 2013	256,639	256,639
Levy of 2012	177,697	177,697
Levy of 2011	123,511	123,511
Levies of 2010 and prior	389,044	389,044
Less: allowance for estimated uncollectible taxes	<u>(199,619) *</u>	<u>-</u>
Net taxes receivable	<u><u>\$ 2,002,521</u></u>	<u><u>\$ 2,202,140</u></u>

*The allowance for uncollectible property taxes is not recognized under the modified accrual basis of accounting (Exhibit C-1 and C-3) due to the 60 day rule as explained in Note 1-C. However, the allowance is recognized under the full accrual basis of accounting (Exhibits A and B).

NOTE 7 – PREPAID ITEMS

Prepaid items at December 31, 2014 consisted of the following:

Governmental activities:	
Major fund:	
General:	
Debt	\$ 46,035
Insurance	107,657
Other	<u>19,262</u>
Total governmental activities	<u>\$ 172,954</u>

(continued)

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Prepaid items continued:

Business-type activities:			
Major funds:			
Sewage collection and disposal:			
State of New Hampshire	\$	115,810	
Insurance		9,104	
		<u>124,914</u>	
Solid waste disposal:			
Debt		20,460	
Insurance		5,355	
		<u>25,815</u>	
Nonmajor funds:			
Water treatment and distribution:			
Debt		15,345	
Insurance		10,548	
		<u>25,893</u>	
Municipal Airport:			
Insurance		11,307	
Total business-type activities			<u>187,929</u>
Total prepaid items			<u>\$ 360,883</u>

NOTE 8 – OTHER RECEIVABLES

Receivables at December 31, 2014, consisted of accounts (billings for water, sewer, ambulance, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2014 for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

Governmental funds:

	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Accounts	\$ 666,940	\$ -	\$ 56,248	\$ 723,188
Intergovernmental	-	1,880,723	-	1,880,723
Liens	28,505	-	-	28,505
Gross receivables	<u>695,445</u>	<u>1,880,723</u>	<u>56,248</u>	<u>2,632,416</u>
Less: allowances for uncollectibles	(633,180)	-	-	(633,180)
Net total receivables	<u>\$ 62,265</u>	<u>\$ 1,880,723</u>	<u>\$ 56,248</u>	<u>\$ 1,999,236</u>

Proprietary funds:

	<u>Sewage Collection and Disposal</u>	<u>Solid Waste Disposal</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Accounts	\$ 143,747	\$ 262,938	\$ 112,470	\$ 519,155
Intergovernmental	1,891,291	104,757	540,159	2,536,207
Total receivables	<u>\$ 2,035,038</u>	<u>\$ 367,695</u>	<u>\$ 652,629</u>	<u>\$ 3,055,362</u>

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NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 consisted of the following:

	Balance, beginning (as restated)	Additions	Disposals	Balance, ending
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 7,216,472	\$ -	\$ -	\$ 7,216,472
Intangible assets	82,197	-	-	82,197
Construction in progress	9,680,534	6,877,699	(4,920,134)	11,638,099
Total capital assets not being depreciated	<u>16,979,203</u>	<u>6,877,699</u>	<u>(4,920,134)</u>	<u>18,936,768</u>
Being depreciated:				
Land improvements	2,945,655	-	-	2,945,655
Buildings and building improvements	21,088,540	55,619	-	21,144,159
Machinery and equipment	7,736,241	1,383,527	(517,041)	8,602,727
Infrastructure	54,835,562	3,712,546	-	58,548,108
Total capital assets being depreciated	<u>86,605,998</u>	<u>5,151,692</u>	<u>(517,041)</u>	<u>91,240,649</u>
Total all capital assets	<u>103,585,201</u>	<u>12,029,391</u>	<u>(5,437,175)</u>	<u>110,177,417</u>
Less accumulated depreciation:				
Land improvements	(1,531,972)	(114,090)	-	(1,646,062)
Buildings and building improvements	(5,842,693)	(449,539)	-	(6,292,232)
Machinery and equipment	(4,878,563)	(378,970)	424,428	(4,833,105)
Infrastructure	(15,344,982)	(1,048,762)	-	(16,393,744)
Total accumulated depreciation	<u>(27,598,210)</u>	<u>(1,991,361)</u>	<u>424,428</u>	<u>(29,165,143)</u>
Net book value, capital assets being depreciated	<u>59,007,788</u>	<u>3,160,331</u>	<u>(92,613)</u>	<u>62,075,506</u>
Net book value, all governmental activities capital assets	<u>\$ 75,986,991</u>	<u>\$ 10,038,030</u>	<u>\$ (5,012,747)</u>	<u>\$ 81,012,274</u>
Business-type activities:				
At cost:				
Not being depreciated:				
Land	\$ 616,500	\$ -	\$ -	\$ 616,500
Construction in progress	11,030,085	7,842,748	(1,623,835)	17,248,998
Total capital assets not being depreciated	<u>11,646,585</u>	<u>7,842,748</u>	<u>(1,623,835)</u>	<u>17,865,498</u>
Being depreciated:				
Land improvements	36,444,420	-	-	36,444,420
Buildings and building improvements	23,636,666	-	-	23,636,666
Machinery and equipment	5,958,440	390,353	(48,358)	6,300,435
Infrastructure	49,567,389	3,059,225	-	52,626,614
Total capital assets being depreciated	<u>115,606,915</u>	<u>3,449,578</u>	<u>(48,358)</u>	<u>119,008,135</u>
Total all capital assets	<u>127,253,500</u>	<u>11,292,326</u>	<u>(1,672,193)</u>	<u>136,873,633</u>
Less accumulated depreciation:				
Land improvements	(26,758,494)	(842,225)	-	(27,600,719)
Buildings and building improvements	(12,541,255)	(244,543)	-	(12,785,798)
Machinery and equipment	(3,645,326)	(355,985)	41,011	(3,960,300)
Infrastructure	(16,372,800)	(934,804)	-	(17,307,604)
Total accumulated depreciation	<u>(59,317,875)</u>	<u>(2,377,557)</u>	<u>41,011</u>	<u>(61,654,421)</u>
Net book value, capital assets being depreciated	<u>56,289,040</u>	<u>1,072,021</u>	<u>(7,347)</u>	<u>57,353,714</u>
Net book value, all business-type activities capital assets	<u>\$ 67,935,625</u>	<u>\$ 8,914,769</u>	<u>\$ (1,631,182)</u>	<u>\$ 75,219,212</u>

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Depreciation expense was charged to functions of the City based on their usage of the related assets. The amounts are allocated to each function are as follows:

Governmental activities:	
General government	\$ 1,708,269
Public safety	263,898
Conservation	19,194
Total governmental activities depreciation expense	<u>\$ 1,991,361</u>
Business-type activities:	
Sewage collection and disposal	\$ 668,915
Solid waste disposal	529,811
Water treatment and distribution	558,881
Municipal airport	619,950
Total business-type activities depreciation expense	<u>\$ 2,377,557</u>

NOTE 10 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 47,525
Nonmajor governmental	General	1,424
Nonmajor governmental	Nonmajor governmental	2,982
General	Nonmajor proprietary - Municipal airport	182,384
		<u>\$ 234,315</u>

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2014 is as follows:

	<u>Transfers In:</u>					<u>Total</u>
	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		
	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Nonmajor Funds</u>	<u>Sewage and Disposal</u>	<u>Nonmajor Funds</u>	
Transfers out:						
Governmental funds:						
General	\$ -	\$ 2,246,524	\$ 5,074	\$ 27,372	\$ 351,736	\$ 2,630,706
Nonmajor	16,065	-	-	-	-	16,065
Proprietary funds:						
Sewage collection and disposal	410,310	-	-	-	-	410,310
Solid waste disposal	723,746	-	-	-	-	723,746
Nonmajor funds	282,879	-	-	-	204,225	487,104
Total	<u>\$ 1,433,000</u>	<u>\$ 2,246,524</u>	<u>\$ 5,074</u>	<u>\$ 27,372</u>	<u>\$ 555,961</u>	<u>\$ 4,267,931</u>

During the year, transfers are used to (1) move revenues from the fund with collection authority to the fund responsible for expenditure and (2) move general fund resources to provide an annual subsidy to the Municipal Airport fund, which is a nonmajor proprietary fund.

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NOTE 11 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$28,497,572 at December 31, 2014 consist of the following:

Governmental funds:	
General fund:	
Balance of 2014-2015 district assessment due to the Lebanon School District	\$ 11,621,453
Fees due to the State of New Hampshire	1,384
Total general fund	<u>11,622,837</u>
Capital improvements fund:	
State of New Hampshire - drawdown requests	1,134,882
Total governmental funds	<u>12,757,719</u>
Proprietary funds:	
Sewage collection and disposal fund:	
State of New Hampshire - drawdown requests	10,278,295
Water treatment and distribution fund:	
State of New Hampshire - drawdown requests	820,441
Total proprietary fund	<u>11,098,736</u>
Agency funds:	
Trust funds held for the Lebanon School District	4,641,117
Total intergovernmental payables	<u>\$ 28,497,572</u>

NOTE 12 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of \$1,014,603 in the general fund at December 31, 2014 consists of \$596,565 in property taxes not collected within 60 days of fiscal year-end, and \$418,038 for grant money collected in advance of the expenditures being made. In the governmental activities, \$1,360,575 at December 31, 2014 is made up of debt forgiveness that will be amortized over the life of the bond received. Similarly in both the sewage collection and disposal fund and water treatment and distribution fund (proprietary funds) each have deferred inflows of \$1,020,431 for debt forgiveness, for a total of \$2,040,862.

NOTE 13 – CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2014. The projects include street construction, water and sewer improvements, airport improvements, sidewalk construction, and other capital improvements. At year-end the City's commitments with contractors are as follows:

	<u>Accounts Payable</u>	<u>Intergovernmental Payable</u>	<u>Contracts Payable</u>	<u>Retainage Payable</u>	<u>Remaining Payable</u>
Governmental activities:					
Capital improvements	\$ -	\$ 1,134,882	\$ 579,102	\$ 289,608	\$ 3,184,116
Business-type activities:					
Capital improvements	\$ -	\$ 11,098,736	\$ 1,838,482	\$ 882,453	\$ 14,422,877
Airport improvements	1,248	-	-	-	196,736
Total	<u>\$ 1,248</u>	<u>\$ 11,098,736</u>	<u>\$ 1,838,482</u>	<u>\$ 882,453</u>	<u>\$ 14,619,613</u>

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NOTE 14 – LONG-TERM LIABILITIES

Changes in the City’s long-term liabilities consisted of the following for the year ended December 31, 2014:

Governmental activities:

	Balance January 1, 2014 (as restated)	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 26,985,539	\$ 3,567,891	\$ (3,993,667)	\$ 26,559,763	\$ 2,411,483
Premiums	661,741	95,000	(56,013)	700,728	56,012
Total bonds payable	27,647,280	3,662,891	(4,049,680)	27,260,491	2,467,495
Capital leases	51,472	48,898	(36,177)	64,193	26,598
Compensated absences	1,286,124	12,139	(74,426)	1,223,837	69,681
Net other postemployment benefits	1,304,547	115,842	-	1,420,389	-
Total long-term liabilities	<u>\$ 30,289,423</u>	<u>\$ 3,839,770</u>	<u>\$ (4,160,283)</u>	<u>\$ 29,968,910</u>	<u>\$ 2,563,774</u>

Business-type activities:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 22,796,186	\$ 4,369,336	\$ (4,057,546)	\$ 23,107,976	\$ 1,843,540
Premiums	915,605	-	(54,777)	860,828	54,777
Total bonds payable	23,711,791	4,369,336	(4,112,323)	23,968,804	1,898,317
Compensated absences	373,839	111,999	(164,312)	321,526	-
Accrued landfill closure and postclosure care costs	7,643,609	448,189	-	8,091,798	-
Total long-term liabilities	<u>\$ 31,729,239</u>	<u>\$ 4,929,524</u>	<u>\$ (4,276,635)</u>	<u>\$ 32,382,128</u>	<u>\$ 1,898,317</u>

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CITY OF LEBANON, NEW HAMPSHIRE
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Long-term liabilities are comprised of the following:

Governmental activities:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2014	Current Portion
General obligation bonds payable: (Majority multi purpose)						
	\$ 1,888,427	1999	2015	4.00-4.60	\$ 45,000	\$ 45,000
	\$ 5,273,904	2000	2020	5.125-5.50	1,440,000	240,000
	\$ 2,490,682	2001	2021	4.125-5.00	834,400	119,200
	\$ 2,490,682	2002	2022	3.00-5.00	760,000	100,000
	\$ 1,118,620	2003	2023	4.00-6.00	500,940	55,660
	\$ 3,506,098	2004	2024	3.00-5.00	1,721,430	172,143
	\$ 4,583,082	2005	2025	4.00-4.50	2,475,000	225,000
	\$ 4,441,665	2006	2026	4.50-5.00	2,670,000	225,000
	\$ 6,584,511	2007	2027	4.00-4.75	4,136,800	338,600
	\$ 2,396,404	2008	2028	4.00-4.125	1,353,351	159,525
	\$ 3,797,000	2009	2029	3.02-5.02	1,984,000	156,000
	\$ 3,948,393	2010	2030	3.823	3,142,920	202,370
	\$ 3,651,784	2011	2031	3.55	3,055,000	205,000
	\$ 428,374	2012	2032	2.57-3.18	379,250	23,950
	\$ 2,912,891	2014	2034	3.392	1,406,672	74,035
	\$ 655,000	2014	2024	5.10	655,000	70,000
					26,559,763	2,411,483
Bond premium					700,728	56,012
					27,260,491	2,467,495
Capital leases payable:						
Ford F150	\$ 23,953	2011	2015	6.70	5,090	5,090
Ford Fusion	\$ 25,425	2011	2015	6.20	5,381	5,381
Ford Interceptor	\$ 20,335	2013	2017	5.45	12,178	3,846
Ground Master	\$ 69,256	2013	2015	N/A	3,684	3,684
Ford Interceptor	\$ 29,168	2014	2018	6.45	22,584	5,128
Ford Fusion	\$ 19,730	2014	2018	6.45	15,276	3,469
					64,193	26,598
Compensated absences payable:						
Accrued vacation leave					1,223,837	69,681
Other postemployment benefit					1,420,389	-
Total					\$ 29,968,910	\$ 2,563,774

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Long-term liabilities continued:

Business-type activities:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2014	Current Portion
General obligation bonds payable:						
(Majority multi purpose)	\$ 3,459,219	1995	2015	5.250-5.625	\$ 135,000	\$ 135,000
	\$ 886,223	1996	2016	5.125-5.750	30,000	15,000
	\$ 2,933,655	1999	2015	4.00-4.60	35,000	35,000
	\$ 3,297,982	2001	2021	4.125-5.00	180,600	25,800
	\$ 609,188	2002	2022	3.00-5.00	180,000	60,000
	\$ 1,769,210	2003	2023	4.00-6.00	174,060	19,340
	\$ 1,281,902	2004	2024	3.00-5.00	278,570	27,857
	\$ 1,254,393	2005	2025	4.00-4.50	673,500	73,500
	\$ 2,070,164	2006	2026	4.50-5.00	1,250,000	105,000
	\$ 1,901,689	2007	2027	4.00-4.75	1,628,200	106,400
	\$ 1,574,416	2008	2028	2.352	1,103,491	78,821
	\$ 2,030,611	2008	2028	4.00-4.125	1,476,649	105,475
	\$ 1,410,000	2009	2029	3.02-5.02	1,026,000	69,000
	\$ 3,152,607	2010	2030	3.823	2,522,080	157,630
	\$ 4,720,716	2011	2031	3.55	3,995,000	235,000
	\$ 1,294,062	2011	2031	3.55	594,068	27,614
	\$ 4,306,526	2012	2032	2.57-3.18	3,620,750	341,050
	\$ 2,207,000	2013	2033	4.10-5.60	2,095,000	115,000
	\$ 4,369,336	2014	2034	3.392	2,110,008	111,053
					23,107,976	1,843,540
Bond premium					860,828	54,777
					23,968,804	1,898,317
Accrued landfill closure and postclosure care costs payable					8,091,798	129,003
Compensated absences payable:						
Accrued vacation leave					321,526	-
Total					\$ 32,382,128	\$ 2,027,320

The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2014, including interest payments, are as follows:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2015	2,411,483	1,173,606	\$ 3,585,090
2016	2,366,483	1,076,560	3,443,043
2017	2,341,483	968,725	3,310,208
2018	2,324,893	840,485	3,165,378
2019	2,232,893	740,436	2,973,329
2020-2024	9,266,207	2,350,403	11,616,610
2025-2029	4,726,727	704,819	5,431,546
2030-2033	889,591	59,315	948,907
Totals	\$ 26,559,763	\$ 7,914,349	\$ 34,474,112

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Business-type activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2015	\$ 1,843,540	\$ 950,488	\$ 2,794,028
2016	1,665,831	880,256	2,546,086
2017	1,651,645	813,560	2,465,205
2018	1,589,071	749,667	2,338,737
2019	1,596,932	683,655	2,280,586
2020-2024	7,891,719	2,442,214	10,333,933
2025-2029	5,187,913	951,782	6,139,695
2030-2033	1,681,326	138,112	1,819,439
Totals	<u>\$ 23,107,976</u>	<u>\$ 7,609,733</u>	<u>\$ 30,717,709</u>

The premiums are being amortized on a straight-line basis over the life of the bonds.

All debt is general obligation debt of the City, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

Arbitrage – The tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years.

The City has been advised by their attorney that the proceeds of tax exempt bond issues are subject to various arbitrage restrictions under the Internal Revenue Code that may limit the ability of the City to earn and/or keep income received from the investment of bond proceeds in excess of the respective arbitrage yields on such bond issues.

Federal tax law generally allows the investment of bond proceeds above the applicable bond yield for a three-year temporary period from the date of issuance of such bonds. Any income earned on the investment of bond proceeds above the bond yield during the three-year temporary period must be rebated to the federal government unless the City meets certain spending exceptions to rebate or qualifies as a “small issuer.” If there are any unspent bond proceeds at the end of the three-year temporary period, the City is required to (a) invest such unspent proceeds as follows (such investment hereinafter referred to as “Affirmatively Yield Restricting”): (i) in Investment Property with a yield not exceeding the yield on the applicable bonds, or (ii) in assets that are not treated as Investment Property, or (b) may Yield Reduction Payments pursuant to Treasury Regulations Section 1.148-5(c) in order to ensure that such unspent proceeds are in fact are treated as invested at a yield not exceeding the yield on the applicable bonds.

The City currently has \$937,812 of unexpended proceeds of the City’s \$8,372,500 bonds dated July 21, 2011 (2011 bonds). The City has not satisfied the expenditure requirements relating to the 2-year spending exception to rebate the connection with the 2011 bonds and the City is not considered to be a “small issuer” in 2011. Therefore, the City must calculate and pay any amount earned on such proceeds above the 2011 bond yield to the federal government. Any proceeds remaining unspent after the third anniversary of the 2011 bonds (July 21, 2014) should have been either Affirmatively Yield Restricted by the City from such date or Yield Reduction Payments should be calculated and paid as required. Federal tax law requires that the City perform its first rebate and Yield Reduction Payment calculations with respect to the 2011 bonds within five year of the date of issuance of the 2011 bonds (July 21, 2016), and continue to calculate and pay any required Yield Reduction Payments every five years thereafter until such time as the 2012 bonds are no longer outstanding.

The City currently has \$750,000 of unexpended bond proceeds associated with the City’s \$2,207,000 bonds dated July 18, 2013 (2012 bonds), and \$731,929 of unexpended proceeds of the City’s \$4,734,900 bonds dated July 19, 2013 (2013 bonds). In both the 2012 and 2013 bonds the City is recognized as a “small issuer” so no rebate calculations or payments would need to be made with respect to the 2012 and 2013 bonds. However, even if the City is not subject to rebate, it is still subject to yield restriction. Any proceeds of the 2012 and 2013 bonds remaining unspent on the third anniversary of the respective date of issuance of such bonds (July 19, 2017 with respect to the 2012 bonds and July 18, 2017 with respect to the 2013 bonds) and continue to calculate and pay any Yield Reduction Payments every five years thereafter until such time as the applicable bond issue from which such unexpended amounts are derived is no longer outstanding.

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The City will be in contact with a rebate and yield reduction payment calculation specialist firm to assist the City with its required calculations.

Accrued Landfill Closure and Postclosure Care Costs – Federal and State laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site after closure. A liability is being recognized based on the future closure and postclosure care costs that will be incurred. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used through the end of the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$8,091,798 as of December 31, 2014, which is based on 100% usage of the old unlined landfills 100% usage of the secured (lined) landfill Phases I and IIA, 85% Phase IIB, and 4% Phase IIC. The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of December 31, 2014. However, the actual cost of closure and postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

The City expects to finance the closure and postclosure care costs through contemporaneous setting aside of sufficient amounts in a capital reserve fund.

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Bonds/Notes Authorized and Unissued – Bonds and notes authorized and unissued as of December 31, 2014 were as follows:

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Per City Meeting Vote of	Purpose	Unissued Amount	Responsible Fund
2001	Wastewater treatment facility improvements	\$ 1,102,184	Sewage collection and disposal
2002	Wastewater treatment facility improvements	922,816	Sewage collection and disposal
2002	Wastewater treatment facility improvements	792,184	Sewage collection and disposal
2003	Wastewater treatment facility improvements	687,000	Sewage collection and disposal
2004	Wastewater treatment facility improvements	720,000	Sewage collection and disposal
2005	Wastewater treatment facility improvements	1,350,000	Sewage collection and disposal
2007	Wastewater treatment facility improvements	5,300,000	Sewage collection and disposal
2011	Combined sewer overflow separation and utility replacement	300,000	General/water treatment and distribution/sewage collection and disposal
2011	Combined sewer overflow separation and utility replacement	3,450,000	General/water treatment and distribution/sewage collection and disposal
2011	Mechanic Street bridge	126,000	General
2012	Combined sewer overflow separation and utility replacement	3,500,000	General/water treatment and distribution/sewage collection and disposal
2012	NH 120 and Etna Road sewer improvements	700,000	Sewage collection and disposal
2012	Route 4/4A sewer force main realignment/replacement	510,000	Sewage collection and disposal
2014	Communications Radio Console Upgrade	219,800	General
2014	Mascoma River Greenway Design and Engineering	227,200	General
2014	CSO Separation and Utility Replacement	4,570,000	General/water treatment and distribution/sewage collection and disposal
2014	NH 120 and Etna Road sewer improvements	1,870,000	Sewage collection and disposal
2014	Wastewater Pump Station and Infrastructure	260,000	Sewage collection and disposal
2014	Phase II Wastewater treatment facility improvements	3,100,000	Sewage collection and disposal
2014	Slayton Hill Road Reconstruction	1,976,738	General
2014	Dulac Street Reconstruction	1,490,000	General
		<u>\$ 33,173,922</u>	

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NOTE 15 – LEASE OBLIGATIONS

The City has entered into certain capital lease agreements under which the related equipment will become the property of the City when all terms of the lease agreements are met. The annual requirements to amortize capital leases payable as of December 31, 2014, including interest payments, are as follows:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2015	\$ 26,598	\$ 3,831	\$ 30,429
2016	13,207	2,342	15,549
2017	14,018	1,530	15,548
2018	10,370	669	11,039
Totals	<u>\$ 64,193</u>	<u>\$ 8,372</u>	<u>\$ 72,565</u>

NOTE 16 – ENCUMBRANCES

Encumbrances outstanding of \$409,061 at December 31, 2014 are as follows:

General fund:		
General government:		
Executive		\$ 82,709
Financial administration		154,934
Personnel administration		754
Planning and zoning		80,186
Public safety:		
Police		33,943
Fire		10,490
Highways and streets:		
Public works garage		9,943
Highways and streets		36,102
Total encumbrances		<u>\$ 409,061</u>

NOTE 17 – STATE AID TO WATER POLLUTION PROJECTS

The City is due to receive from the State of New Hampshire a total of \$951,146, which represents a percentage of the annual charges on the original costs resulting from the construction of the water treatment facilities. As of December 31, 2014, the City is due to receive the following annual amounts to offset debt payments of both governmental and business-type activities:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2015	\$ 14,130	\$ 1,023	\$ 15,153
2016	14,571	1,588	16,159
2017	15,390	2,538	17,928
2018	4,890	3,706	8,596
2019	6,362	4,586	10,948
2020-2024	42,102	27,072	69,174
2025-2029	43,656	18,888	62,544
2030-2034	41,822	10,088	51,910
2035-2039	31,479	2,784	34,263
2040-2041	4,136	36	4,172
Totals	<u>\$ 218,538</u>	<u>\$ 72,309</u>	<u>\$ 290,847</u>

CITY OF LEBANON, NEW HAMPSHIRE
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State aid to water pollution projects continued:

Business-type activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2015	\$ 102,436	\$ 19,166	\$ 121,602
2016	55,768	10,218	65,986
2017	56,461	10,989	67,450
2018	40,177	12,088	52,265
2019	41,851	12,757	54,608
2020-2024	195,834	60,198	256,032
2025-2029	123,926	32,251	156,177
2030-2034	62,733	15,133	77,866
2035-2039	47,219	4,175	51,394
2040-2041	6,203	53	6,256
Totals	<u>\$ 732,608</u>	<u>\$ 177,028</u>	<u>\$ 909,636</u>

NOTE 18 – NET POSITION

The net position reported on the government-wide Statement of Net Position at December 31, 2014 includes the following:

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets:			
Netbook value of all capital assets	\$ 81,012,274	\$ 75,219,212	\$ 156,231,486
Less:			
General obligation bonds payable	(26,559,763)	(23,107,976)	(49,667,739)
Unamortized bond premiums	(700,728)	(860,828)	(1,561,556)
Capital leases payable	(64,193)	-	(64,193)
Total net investment in capital assets	<u>53,687,590</u>	<u>51,250,408</u>	<u>104,937,998</u>
Restricted net position:			
Permanent funds	1,275,233	-	\$ 1,275,233
Capital projects	2,826,616	1,460,630	4,287,246
Total restricted net position	<u>4,101,849</u>	<u>1,460,630</u>	<u>5,562,479</u>
Unrestricted	4,285,781	(1,714,763)	2,571,018
Total net position	<u>\$ 62,075,220</u>	<u>\$ 50,996,275</u>	<u>\$ 113,071,495</u>

NOTE 19 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2014 include the following:

	General Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepaid items	\$ 172,954	\$ -	\$ -	\$ 172,954
Nonexpendable portion of permanent trust funds	-	-	1,275,233	1,275,233
Total nonspendable	<u>172,954</u>	<u>-</u>	<u>1,275,233</u>	<u>1,448,187</u>
Restricted:				
General fund	337,619	-	-	337,619
Capital projects	-	2,826,616	-	2,826,616
Library	-	-	141,065	141,065
Total restricted	<u>337,619</u>	<u>2,826,616</u>	<u>141,065</u>	<u>3,305,300</u>

(continued)

CITY OF LEBANON, NEW HAMPSHIRE
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Governmental fund balances continued:

	General Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Committed:				
Expendable trust funds	232,443	-	-	232,443
Heritage Fund	4,706	-	-	4,706
Police outside detail	-	-	142,522	142,522
LOST Account	-	-	793,423	793,423
Public safety revolving	-	-	4,085	4,085
Total committed	<u>237,149</u>	<u>-</u>	<u>940,030</u>	<u>1,177,179</u>
Assigned:				
Encumbrances	409,061	-	-	409,061
Abatements	477,785	-	-	477,785
Grants	45,471	-	-	45,471
Emergency management	42,344	-	-	42,344
Public safety revolving	-	-	7,000	7,000
Farmers market	-	-	770	770
Total assigned	<u>974,661</u>	<u>-</u>	<u>7,770</u>	<u>982,431</u>
Unassigned (deficit):				
General fund	5,284,996	-	-	5,284,996
Grants	(29,562)	-	-	(29,562)
Total unassigned	<u>5,255,434</u>	<u>-</u>	<u>-</u>	<u>5,255,434</u>
Total fund balance	<u>\$ 6,977,817</u>	<u>\$ 2,826,616</u>	<u>\$ 2,364,098</u>	<u>\$ 12,168,531</u>

NOTE 20 – PRIOR PERIOD ADJUSTMENTS/CHANGE IN ACCOUNTING PRINCIPLE

Net position/fund balance at January 1, 2014 was restated to give retroactive effect to the following prior period adjustments:

	Government- wide Statements	Proprietary Funds	General Fund	Capital Improvements Fund	Other Governmental Funds
To recategorize municipal airport, sewage collection, solid waste disposal and water treatment and distribution funds as proprietary funds (see Note 2-C Change in Accounting Principle)	\$ (50,759,639)	\$ 50,759,639	\$ -	\$ 2,646,286	\$ (2,652,294)
To adjust beginning balance to reflect changes in calculation of 60 day rule	-	-	1,390,094	-	-
Net position/fund balance, as previously reported	107,393,616	-	6,652,501	(2,337,614)	5,020,165
Net position/fund balance, as restated	<u>\$ 56,633,977</u>	<u>\$ 50,759,639</u>	<u>\$ 8,042,595</u>	<u>\$ 308,672</u>	<u>\$ 2,367,871</u>

NOTE 21 – DEFICIT FUND BALANCES

The following funds had deficit fund balances at December 31, 2014 caused by current and prior year operations, and will be made up as follows:

	Amount	Made up by:
Major fund:		
General fund - Grants	\$ 29,562	Future grant receipts
Proprietary funds:		
Major fund:		
Sewage collection and disposal	\$ 7,045,845	Future issuance of bonds or notes
Nonmajor fund:		
Municipal Airport	\$ 79,998	Future operations and/or future tax revenue

CITY OF LEBANON, NEW HAMPSHIRE
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NOTE 22 – EMPLOYEE RETIREMENT PLAN

The City participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the City. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. For fiscal year 2014, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. The City’s contribution rates for 2014 for pension and medical subsidy were 25.30% for police officers, 27.74% for firefighters, and 10.77% for all other employees.

The contribution requirements for the City of Lebanon for the fiscal years 2012, 2013, and 2014 were \$1,562,097, \$1,703,858, and \$1,899,756, respectively, which were paid in full in each year.

NOTE 23 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in the preceding note, the City provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the City’s agreements, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. The City funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the City subsidizing the remaining costs. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The City has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2014:

Annual required contribution/OPEB cost	\$ 236.161
Contributions made (pay-as-you-go)	<u>(120,319)</u>
Increase in net OPEB obligation	115.842
Net OPEB obligation, beginning	<u>1,304.547</u>
Net OPEB obligation, ending	<u><u>\$ 1,420,389</u></u>

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The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the four preceding years were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2010	\$ 367,873	\$ 128,018	34.8%	\$ 799,129
December 31, 2011	\$ 385,011	\$ 149,631	38.9%	\$ 1,034,509
December 31, 2012	\$ 241,786	\$ 101,840	42.1%	\$ 1,174,455
December 31, 2013	\$ 251,291	\$ 121,199	48.2%	\$ 1,304,547
December 31, 2014	\$ 236,161	\$ 120,319	50.9%	\$ 1,420,389

As of January 1, 2014, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$2,454,840, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,454,840. The covered payroll (annual payroll of active employees covered by the plan) was \$9,243,213 during fiscal year 2014, and the ratio of the UAAL to the covered payroll was 26.56%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 9% initially, reduced by decrements to an ultimate rate of 5.0% for years 2018 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2014 was 30 years.

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CITY OF LEBANON, NEW HAMPSHIRE
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The GASB standard on accounting for postretirement benefits other than pensions requires the following disclosures in the financial statements with regard to the retiree benefit liability:

A brief description of the retiree medical insurance plan:

a. Plan Types:

Medical

Pre 65 retirees have their choice of Anthem Blue Cross / Blue Shield JY Plan, Comp 100 Plan, Comp 300 Plan, or Blue Choice Plan. Post 65 retirees have the choice of Anthem Medicomp MC 3 or Medicomp MCNRX.

b. Eligibility:

Group 1

Hired prior to 7/1/11: Members may retire at age 60; or once their age plus service equals 70.

Hired on or after 7/1/11: Members may retire at age 65.

Group 2

Vested prior to 1/1/12: Members may retire at age 60; or at age 45 with 20 years of service.

Not vested prior to 1/1/12, but hired prior to 7/1/11: Members may retire at age 60; or upon attainment of the minimum age and service requirements according to the following table:

Years of Creditable Service as of January 1, 2012	Minimum Age	Minimum Service
At least 8 but less than 10 years	46	21
At least 6 but less than 8 years	47	22
At least 4 but less than 6 years	48	23
Less than 4 years	49	24

Hired on or after 7/1/11: Members may retire at age 60; or at age 52.5 with 25 years of service.

c. Benefit/Cost Sharing

The retiree is responsible for the full price of the medical premium.

d. Spouse Benefit

Yes

e. Surviving Spouse Benefit

Yes

f. Annual Medical

Premiums 1/1/2014:

	<u>Plan</u>	<u>Single</u>	<u>Couple</u>	<u>Family</u>
Pre 65	Blue Choice Plan	\$ 9,984.00	\$ 19,968.00	\$ 26,956.92
	Comp 100 Plan	\$ 11,998.44	\$ 23,996.76	\$ 32,395.68
	Comp 300 Plan	\$ 10,939.56	\$ 21,879.12	\$ 29,536.80
	JY Plan	\$ 12,654.36	\$ 25,308.72	\$ 34,166.76
Post 65	Medicomp MC3	\$ 6,372.36		
	Medicomp MCNR	\$ 2,421.12		

NOTE 24 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2014, the City was a member of the Local Government Center Property-Liability Trust, LLC Workers' Compensation, and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance programs for member towns and cities.

CITY OF LEBANON, NEW HAMPSHIRE
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The Local Government Center Property-Liability Trust, LLC, is a Trust organized to provide certain property and liability insurance coverages to member towns, cities and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the City shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability, and public officials' liability subject to a \$1,000 deductible.

Contributions paid in fiscal year ending December 31, 2014, to be recorded as an insurance expenditure totaled \$248,214. The City also paid \$337,376 for workers' compensation insurance during 2014. There were no unpaid contributions for the year ended December 31, 2014.

NOTE 25 – CAFETERIA BENEFIT PLAN

Effective July 1, 1991, the City implemented a cafeteria benefit plan pursuant to Section 125 of the IRS code. Under this plan, eligible employees may direct a contribution, made by the City, into any combination of the following benefit categories:

1. Medical Insurance Premium Account;
2. Out of Pocket Medical Spending Account; or
3. Dependent Care Spending Account

In addition to directing the City's contribution to the above categories, eligible employees may elect to contribute pre-tax dollars to these categories. Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account. This cap applies to both City contributions and employee pre-tax contributions. The City has a limit of \$1,000 on contributions to the Medical Spending Account or Health Premium Account.

All regular full-time and part-time employees employed on a regular and continuous basis are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on July 1st and ends on June 30th of the following year. To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 and 3 above), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

NOTE 26 – CONTINGENCIES

There are various legal claims and suits pending against the City which arose in the normal course of the City's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the City.

The City participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 27 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through September 10, 2015, the date the December 31, 2014 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b-a)/c])
December 31, 2010	\$ -	\$ 3,606,104	\$ 3,606,104	0.00%	\$ 9,661,569	37.30%
December 31, 2011	\$ -	\$ 3,606,104	\$ 3,606,104	0.00%	\$ 9,903,108	36.40%
December 31, 2012	\$ -	\$ 2,446,659	\$ 2,446,659	0.00%	\$ 9,745,151	25.11%
December 31, 2013	\$ -	\$ 2,572,422	\$ 2,572,422	0.00%	\$ 9,988,780	25.75%
December 31, 2014	\$ -	\$ 2,454,840	\$ 2,454,840	0.00%	\$ 9,243,213	26.56%

The note to the required supplementary information is an integral part of this schedule.

CITY OF LEBANON, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
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Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, Exhibit F represents the actuarial determined costs associated with the City's other postemployment benefits for the fiscal year ended December 31, 2014.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
CITY OF LEBANON, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2014

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 17,551,758	\$ 17,322,292	\$ (229,466)
Yield	3,000	1,240	(1,760)
Excavation	5,630	5,630	-
Payment in lieu of taxes	1,431,380	1,429,543	(1,837)
Interest and penalties on taxes	300,000	223,418	(76,582)
Total from taxes	<u>19,291,768</u>	<u>18,982,123</u>	<u>(309,645)</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	2,096,600	2,269,427	172,827
Building permits	160,000	179,914	19,914
Other	47,200	56,587	9,387
Total from licenses, permits, and fees	<u>2,303,800</u>	<u>2,505,928</u>	<u>202,128</u>
Intergovernmental:			
State:			
Meals and rooms distribution	653,691	653,691	-
Highway block grant	273,449	274,433	984
Other	-	6,688	6,688
Federal:			
FEMA	75,132	156,412	81,280
Total from intergovernmental	<u>1,002,272</u>	<u>1,091,224</u>	<u>88,952</u>
Charges for services:			
Income from departments	<u>1,080,210</u>	<u>1,115,846</u>	<u>35,636</u>
Miscellaneous:			
Sale of municipal property	1,000	85	(915)
Interest on investments	7,500	7,749	249
Rent of property	16,500	16,665	165
Fines and forfeits	24,500	34,972	10,472
Other	100,000	226,213	126,213
Total from miscellaneous	<u>149,500</u>	<u>285,684</u>	<u>136,184</u>
Other financing sources:			
Transfers in	<u>1,437,440</u>	<u>1,433,000</u>	<u>(4,440)</u>
Total other financing sources	<u>1,437,440</u>	<u>1,433,000</u>	<u>(4,440)</u>
Total revenues and other financing sources	25,264,990	<u>\$ 25,413,805</u>	<u>\$ 148,815</u>
Unassigned fund balance used to reduce tax rate	2,724,733		
Total revenues, other financing sources, and use of fund balance	<u>\$ 27,989,723</u>		

SCHEDULE 2
CITY OF LEBANON, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2014

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ 47,940	\$ 517,250	\$ 458,280	\$ 82,709	\$ 24,201
Election and registration	6,169	510,670	504,948	-	11,891
Financial administration	79,060	2,408,190	2,268,713	154,934	63,603
Legal	4,995	252,000	306,588	-	(49,593)
Personnel administration	7,000	345,630	317,649	754	34,227
Planning and zoning	61,238	679,980	612,175	80,186	48,857
General government buildings	-	276,090	248,177	-	27,913
Cemeteries	-	12,360	10,826	-	1,534
Insurance, not otherwise allocated	-	225,840	213,215	-	12,625
Advertising and regional associations	-	22,850	20,842	-	2,008
Other	-	225,380	242,732	-	(17,352)
Total general government	<u>206,402</u>	<u>5,476,240</u>	<u>5,204,145</u>	<u>318,583</u>	<u>159,914</u>
Public safety:					
Police	10,182	5,056,320	4,367,743	33,943	664,816
Fire	-	3,859,210	3,741,863	10,490	106,857
Building inspection	-	424,290	421,752	-	2,538
Other	-	907,840	865,262	-	42,578
Total public safety	<u>10,182</u>	<u>10,247,660</u>	<u>9,396,620</u>	<u>44,433</u>	<u>816,789</u>
Highways and streets:					
Public works garage	8,858	774,440	718,943	9,943	54,412
Highways and streets	26,360	2,270,990	2,142,856	36,102	118,392
Bridges	-	10,000	7,771	-	2,229
Street lighting	-	111,800	144,238	-	(32,438)
Other	-	130,500	115,712	-	14,788
Total highways and streets	<u>35,218</u>	<u>3,297,730</u>	<u>3,129,520</u>	<u>46,045</u>	<u>157,383</u>
Welfare:					
Administration	-	261,220	164,350	-	96,870
Vendor payments	-	237,330	237,330	-	-
Total welfare	<u>-</u>	<u>498,550</u>	<u>401,680</u>	<u>-</u>	<u>96,870</u>
Culture and recreation:					
Parks and recreation	2,563	910,480	864,510	-	48,533
Library	20,000	1,174,340	1,173,133	-	21,207
Patriotic purposes	-	6,200	6,200	-	-
Total culture and recreation	<u>22,563</u>	<u>2,091,020</u>	<u>2,043,843</u>	<u>-</u>	<u>69,740</u>
Conservation	-	9,110	8,441	-	669
Debt service:					
Principal of long-term debt	-	2,561,500	2,561,476	-	24
Interest on long-term debt	-	1,294,080	1,293,852	-	228
Total debt service	<u>-</u>	<u>3,855,580</u>	<u>3,855,328</u>	<u>-</u>	<u>252</u>
Other financing uses:					
Transfers out	-	2,513,833	2,515,706	-	(1,873)
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 274,365</u>	<u>\$ 27,989,723</u>	<u>\$ 26,555,283</u>	<u>\$ 409,061</u>	<u>\$ 1,299,744</u>

SCHEDULE 3
CITY OF LEBANON, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2014

Unassigned fund balance, beginning, non-GAAP budgetary basis		\$ 6,996,142
Changes:		
Unassigned fund balance used to reduce 2014 tax rate		(2,724,733)
2014 Budget summary:		
Revenue surplus (Schedule 1)	\$ 148,815	
Unexpended balance of appropriations (Schedule 2)	<u>1,299,744</u>	
2014 Budget surplus		1,448,559
Increase in nonspendable fund balance		(35,870)
Increase in assigned for abatement contingency		<u>(2,156)</u>
Unassigned fund balance, ending, non-GAAP budgetary basis		5,681,942
<i>Reconciliation of Non-GAAP Basis to GAAP Basis</i>		
To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of year-end		(596,565)
Elimination of the allowance for uncollectible taxes		199,619
Unassigned (deficit) fund balance of funds blended with the general fund in accordance with GASB Statement No. 54:		
Grants		<u>(29,562)</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 5,255,434</u></u>

SCHEDULE 4
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2014

	Special Revenue Funds						Total
	Public Library	Police Outside Detail	LOST Account	Public Safety Revolving	Farmers Market	Permanent Fund	
ASSETS							
Cash and cash equivalents	\$ 123,973	\$ 105,088	\$ 793,423	\$ 4,956	\$ 771	\$ 46,745	\$ 1,074,956
Investments	-	-	-	-	-	1,278,995	1,278,995
Accounts receivable	12,686	37,433	-	6,129	-	-	56,248
Interfund receivable	4,406	-	-	-	-	-	4,406
Total assets	<u>\$ 141,065</u>	<u>\$ 142,521</u>	<u>\$ 793,423</u>	<u>\$ 11,085</u>	<u>\$ 771</u>	<u>\$ 1,325,740</u>	<u>\$ 2,414,605</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Interfund payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,507	\$ 50,507
Fund balances:							
Nonspendable	-	-	-	-	-	1,275,233	1,275,233
Restricted	141,065	-	-	-	-	-	141,065
Committed	-	142,522	793,423	4,085	-	-	940,030
Assigned	-	-	-	7,000	770	-	7,770
Total fund balances	<u>141,065</u>	<u>142,522</u>	<u>793,423</u>	<u>11,085</u>	<u>770</u>	<u>1,275,233</u>	<u>2,364,098</u>
Total liabilities and fund balances	<u>\$ 141,065</u>	<u>\$ 142,522</u>	<u>\$ 793,423</u>	<u>\$ 11,085</u>	<u>\$ 770</u>	<u>\$ 1,325,740</u>	<u>\$ 2,414,605</u>

SCHEDULE 5
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2014

	Special Revenue Funds						Total
	Public Library	Police Outside Detail	LOST Account	Public Safety Revolving	Farmers Market	Permanent Fund	
Revenues:							
Taxes	\$ -	\$ -	\$ 18,010	\$ -	\$ -	\$ -	\$ 18,010
Charges for services	-	243,814	-	15,989	-	-	259,803
Miscellaneous	64,425	-	867	-	13,948	100,455	179,695
Total revenues	<u>64,425</u>	<u>243,814</u>	<u>18,877</u>	<u>15,989</u>	<u>13,948</u>	<u>100,455</u>	<u>457,508</u>
Expenditures:							
Current:							
General government	-	-	-	-	-	6,800	6,800
Public safety	-	289,624	-	25,189	-	-	314,813
Culture and recreation	84,400	-	-	-	13,492	-	97,892
Conservation	-	-	30,785	-	-	-	30,785
Total expenditures	<u>84,400</u>	<u>289,624</u>	<u>30,785</u>	<u>25,189</u>	<u>13,492</u>	<u>6,800</u>	<u>450,290</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(19,975)</u>	<u>(45,810)</u>	<u>(11,908)</u>	<u>(9,200)</u>	<u>456</u>	<u>93,655</u>	<u>7,218</u>
Other financing sources (uses):							
Transfers in	4,406	-	668	-	-	-	5,074
Transfers out	-	-	-	-	-	(16,065)	(16,065)
Total other financing sources (uses)	<u>4,406</u>	<u>-</u>	<u>668</u>	<u>-</u>	<u>-</u>	<u>(16,065)</u>	<u>(10,991)</u>
Net change in fund balances	(15,569)	(45,810)	(11,240)	(9,200)	456	77,590	(3,773)
Fund balances, beginning	156,634	188,331	804,663	20,285	315	1,197,643	2,367,871
Fund balances, ending	<u>\$ 141,065</u>	<u>\$ 142,521</u>	<u>\$ 793,423</u>	<u>\$ 11,085</u>	<u>\$ 771</u>	<u>\$ 1,275,233</u>	<u>\$ 2,364,098</u>

***SINGLE AUDIT ACT SCHEDULES
AND INDEPENDENT AUDITOR'S REPORTS***



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

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

To the Members of the City Council
City of Lebanon
Lebanon, New Hampshire

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Lebanon, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Lebanon's basic financial statements, and have issued our report thereon dated September 10, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lebanon's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lebanon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lebanon's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Sheryl A. Piatt, CPA

PLODZIK & SANDERSON
Professional Association

September 10, 2015



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Members of the City Council
City of Lebanon
Lebanon, New Hampshire

Report on Compliance for Each Major Federal Program

We have audited the City of Lebanon's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Lebanon's major federal programs for the year ended December 31, 2014. The City of Lebanon's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lebanon's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lebanon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lebanon's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lebanon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the City of Lebanon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lebanon's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lebanon's internal control over compliance.

City of Lebanon

*Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance in Accordance with OMB Circular A-133*

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

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

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

Sheryl A. Platt, CPA

September 10, 2015

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.923</u>	<u>Emergency Watershed Protection Program</u>
<u>66.458</u>	<u>Capitalization Grants for Clean Water State Revolving Funds</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through the State of New Hampshire Community Development Finance Authority			
Community Development Block Grant/State's Program:			
Rivermere Emergency Grant	14.228	13-094-EGHS	\$ 10,000
Fresh Air Sensors	14.228	14-094-CDED	219
<i>PROGRAM TOTAL</i>			<u>10,219</u>
Passed Through the New Hampshire Housing Finance Authority			
Community Challenge Planning Grants and the Department of Transportation's TIGER II Planning Grants:			
Mixed Use Initiative	14.704	N/A	19,690
Street Lighting	14.704	N/A	10,000
<i>PROGRAM TOTAL</i>			<u>29,690</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through the State of New Hampshire Department of Transportation			
Airport Improvement Program:			
2010 Airport Layout Plan Exh A Reconciliation	20.106	AIP-44	7,985
Hazard / Obstruction Removal	20.106	AIP-47	8,353
Airport Permitting, Environmental Assessment, and Mitigation	20.106	AIP-49	154,106
<i>PROGRAM TOTAL</i>			<u>170,444</u>
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			
Passed Through the State of New Hampshire Department of Transportation			
Highway Planning and Construction:			
Mechanic Street Reconstruction	20.205	10034B	109,681
Safe Routes to Schools	20.205	16007	8,248
NH Route 120 Pedestrian Improvements	20.205	16046	9,324
Passed Through the State of New Hampshire Department of Resources and Economic Development			
Recreation Trails Program:			
2011 Mascoma River Greenway	20.219	2011-048	(8,884)
2013 Mascoma River Greenway	20.219	2013-060	13,000
<i>CLUSTER TOTAL</i>			<u>131,369</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed Through the State of New Hampshire Department of Environmental Services			
Capitalization Grants for Clean Water State Revolving Funds: <i>(note 3)</i>			
Energy Efficiency	66.458	CS-330092-06	598,167
Combined Sewer Separation and Utility Replacement	66.458	CS-330092-07	1,992,404
<i>PROGRAM TOTAL</i>			<u>2,590,571</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	VC #177422	10,000

(continued)

The accompanying notes are an integral part of this schedule.

SCHEDULE II (continued)
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through the National Association of County and City Health Officials			
Medical Reserve Corps Small Grant Program	93.008	MRC 12 1776	3,960
Passed Through the State of Vermont, Department of Health, Division of Office of Public Health Preparedness			
National Bioterrorism Hospital Preparedness Program	93.889	03420-59905	2,000
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through the State of New Hampshire Department of Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4139-DR-NH	1,532,533
Emergency Management Performance Grants	97.042	N/A	780
Homeland Security Grant Program:			
EMS Bariatric	97.067	N/A	25,124
Fire Training	97.067	N/A	16,279
<i>PROGRAM TOTAL</i>			41,403
DIRECT FUNDING			
U.S. DEPARTMENT OF AGRICULTURE			
Emergency Watershed Protection Program:			
West Lebanon Sewer Interceptor	10.923	N/A	542,430
Parker Stream Restoration	10.923	N/A	9,846
<i>PROGRAM TOTAL</i>			552,276
U.S. DEPARTMENT OF JUSTICE			
Bullet Proof Vest Partnership Program	16.607	N/A	2,138
Total Expenditures of Federal Awards			\$ 5,077,383

The accompanying notes are an integral part of this schedule.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “schedule”) includes the federal grant activity of the City of Lebanon under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Lebanon, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Lebanon.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3. Loans Outstanding

The City of Lebanon had the following loan balances outstanding at December 31, 2014. The loans made during the year are included in the federal expenditures presented in the Schedule.

<i>CFDA Number</i>	<i>Program Name</i>	<i>Outstanding Balances at December 31, 2014</i>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$3,440,301