

**CITY OF LEBANON,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011**

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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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon as of and for the fiscal year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lebanon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, as of December 31, 2011, and the respective changes in financial position for the year then ended and the respective budgetary comparison for the general fund, major sewage collection and disposal fund, and the major solid waste disposal fund, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 2 through 13) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 50) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

Our audit was conducted for the purpose of forming opinions 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual fund financial schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 financial schedules themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Murray A. Colby, CPA

August 24, 2012

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, 2011. This report is prepared in compliance with Statement No. 34 of the Governmental Accounting Standards Board (GASB) *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; therefore comparative information from the government-wide statements is presented.

A. FINANCIAL HIGHLIGHTS

As of the close of the most recent fiscal year:

- The total net assets of the City exceeded its liabilities by \$100,267,748, a net increase of \$2,694,706, or 2.8%, in comparison to the prior year.
- Governmental funds reported combined ending fund balances of \$29,673,205, a change of \$2,627,591, or 9.7%, in comparison to the prior year.
- Unassigned fund balance for the general fund was \$4,226,294, a change of \$321,038, or 8.2%, in comparison to the prior year's unreserved and undesignated fund balance.
- Total general obligation bonds payable was \$51,693,016, a net increase of \$5,996,742, or 13.1%, in comparison to the prior year. Total annual requirements to amortize general obligation bonds payable (principal and interest) was \$70,242,366, a net increase of \$7,398,755, or 11.8%, in comparison to the prior year.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements which are comprised of three components:

1. government-wide financial statements
2. fund financial statements
3. notes to the 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* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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.

The government-wide financial statements can be found on pages 14 and 15 of this report.

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

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *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*.

The City maintains thirteen governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, sewage collection and disposal, solid waste disposal, and capital improvements funds, which are considered to be *major* funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

Fiduciary Funds. 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. The basic fiduciary fund financial statements can be found on page 23 of this report.

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. The notes to the financial statements can be found on pages 24 - 49 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* consisting of the budgetary comparison schedule for the general fund and schedule of funding progress for other post employment benefits (OPEB) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 52 - 56 of this report.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

At the close of the most recent fiscal year total net assets of the City exceeded its liabilities by \$100,267,748, a net increase of \$2,694,706, or 2.8%, in comparison to the prior year.

The largest segment of net assets, \$79,851,685, or 79.7%, represents investment in capital assets (for example, 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.

An additional portion of net assets, \$926,544, or 0.9%, represents resources that are subject to external restrictions on how they may be used. The remaining portion of total net assets, \$19,489,519, or 19.4%, represents the part of net assets 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).

Net assets include the reflection of liabilities for compensated absences of \$1,576,153, other post employment benefits (OPEB) of \$1,034,509 and landfill closure and postclosure care costs of \$6,820,068.

Net Assets, December 31, 2011

Table No. 1

	2009	2010	2011	\$ Inc (Dec)	% Inc (Dec)
Current and Other Assets	\$41,838,710	\$46,040,010	\$51,727,181	\$5,687,171	12.4%
Capital Assets	<u>\$119,515,723</u>	<u>\$125,816,72</u>	<u>\$132,915,784</u>	<u>\$7,099,058</u>	<u>5.6%</u>
Total Assets	\$161,354,433	\$171,856,73	\$184,642,965	\$12,786,229	7.4%
Long-Term Liabilities Outstanding	\$46,651,664	\$51,106,651	\$62,494,829	\$11,388,178	22.3%
Other Liabilities	<u>\$18,347,099</u>	<u>\$23,177,043</u>	<u>\$21,880,388</u>	<u>(\$1,296,655)</u>	<u>-5.6%</u>
Total Liabilities	\$64,998,763	\$74,283,694	\$84,375,217	\$10,091,523	-13.6%
Net Assets:					
Invested in Capital Assets Net of	\$77,424,628	\$78,992,385	\$79,851,685	\$859,300	1.1%
Restricted for Perpetual Care	\$883,855	\$899,023	\$926,544	\$27,521	3.1%
Unrestricted	<u>\$18,047,187</u>	<u>\$17,681,634</u>	<u>\$19,489,519</u>	<u>\$1,807,885</u>	<u>10.2%</u>
Total Net Assets	<u>\$96,355,670</u>	<u>\$97,573,042</u>	<u>\$100,267,748</u>	<u>\$2,694,706</u>	<u>2.8%</u>

Compensated absences represents vacation and sick leave benefits that accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to service already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. This is a decrease of \$104,934 from the prior year.

Other post employment benefits (OPEB) liability represents the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45. The purpose of the statement is to reflect the liability of health care or OPEB provided to separated or retired employees.

The portion of the liability reflected in the Financial Statements is the fourth year of a 30 year amortization of the total liability. The first year was \$279,335; second year \$559,274; third year \$799,129; fourth year \$1,034,509.

GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. Pre-funding, however, 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 partially funds (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with 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 actuarially liabilities over a period not to exceed 30 years.

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 is \$6,820,068 as of December 31, 2011 (an increase of \$1,194,768 from the prior year), which is based on 100% usage of the old unlined landfills and 82% of the secure landfill Phases I and II (A, B and C). The estimated total current cost of the landfill closure and postclosure care (\$18,400) 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, 2011.

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.

An analysis of how the net assets have changed follows. This report shows that governmental activities resulted in a net asset increase of \$2,694,706 compared to the prior year.

Governmental Activities. Program revenues of \$13,257,645 covered 39.0% of program expenses compared to 40.7% for the prior year. The remaining 61.0% was financed by general revenues including property and other taxes, licenses & permits, grants and contributions not restricted to specific programs and other general revenues.

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Change in Net Assets, December 31, 2011, Governmental Activities

Table No. 2

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues:			
Program Revenues --			
Charges for Services	\$9,391,313	\$10,716,880	\$11,798,115
Operating Grants and Contributions	\$1,525,129	\$1,565,748	\$1,288,642
Capital Grants and Contributions	\$4,416,646	\$1,153,006	\$170,888
General Revenues --			
Property and Other Taxes	\$16,918,707	\$17,417,698	\$17,668,729
Licenses & Permits	\$2,177,182	\$2,333,959	\$2,588,794
Grants and Contributions Not Restricted to Specific Programs	\$638,399	\$647,310	\$591,271
Other General Revenues	<u>\$423,440</u>	<u>\$707,068</u>	<u>\$1,958,545</u>
Total Revenues	\$35,490,816	\$34,541,669	\$36,064,984
Special Item*	<u>\$0</u>	<u>\$0</u>	<u>\$647,031</u>
Total Revenues and Special Item	\$35,490,816	\$34,541,669	\$36,712,015
Expenses:			
General Government	\$4,830,626	\$4,804,591	\$5,183,556
Public Safety (Police, Fire and Code Enforcement)	\$8,855,597	\$9,746,238	\$9,936,474
Highway and Streets	\$4,345,699	\$4,017,569	\$5,020,032
Sanitation (Solid Waste Disposal and Sewage Collection and Disposal)	\$3,648,216	\$4,019,459	\$5,528,316
Water Distribution and Treatment	\$2,090,203	\$1,850,336	\$1,725,337
Health (Human Services)	\$501,545	\$447,311	\$1,584,028
Municipal Airport	\$1,595,255	\$1,616,717	\$485,332
Culture and Recreation (Library and Parks and Recreation)	\$1,933,731	\$1,968,178	\$2,170,338
Conservation	\$24,278	\$87,311	\$14,264
Interest on Long-term Debt	\$1,877,951	\$1,985,111	\$2,078,897
Capital Outlay	<u>\$1,246,394</u>	<u>\$2,493,968</u>	<u>\$290,735</u>
Total Expenses	\$30,949,495	\$33,036,789	\$34,017,309
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Change in Net Assets	\$4,541,321	\$1,504,880	\$2,694,706
Net Assets Beginning 1/1	<u>\$91,814,349</u>	<u>\$96,355,670</u>	<u>\$97,573,042</u>
Net Assets Ending 12/31	<u>\$96,355,670</u>	<u>\$97,860,550</u>	<u>\$100,267,748</u>
Restatement		<u>(\$287,508)</u>	**
Net Assets Restated Ending 1/1		<u>\$97,573,042</u>	

*The City borrowed \$1,294,062 to finance a water meter conversion project in 2011 under the Drinking Water State Revolving Fund Program. Specific to this borrowing, the City is eligible for 50% forgiveness of the principal in the amount of \$647,031. The outstanding balance and required debt payments shown in the financial statements do not reflect this discount as the principal is not forgiven until the first payment is made in May of 2012. The \$647,031 is reported in the government-wide financial statements as an intergovernmental receivable on the State of Net Assets and a special item on the Statement of Activities.

**Adjustment of a receivable due from the State at year end December 31, 2010 in connection with a capital improvement.

The primary funding source for governmental activities are taxes of \$17,668,729 (consisting of property taxes of \$16,121,323 and other taxes of \$1,547,406; the latter includes several payment-in-lieu of property taxes amounting to \$1,245,755), which account for 49.0% of all revenues before the special item, compared to 50.4% for the prior year, followed by charges for services at 32.7% compared to 31.0% for the prior year. Charges for services for the solid waste disposal fund, water treatment and distribution fund, sewage collection and disposal fund, and municipal airport fund programs are \$10,220,525, comprising 86.6% of the total charges for services compared to 84.5% for the prior year.

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 the City of Lebanon's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in determining the City's financing requirements. Of particular interest is the unassigned fund balance which may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year ending December 31, 2011, governmental funds reported combined ending fund balances of \$29,673,205, an increase of \$2,627,591 in comparison to the prior year.

In fiscal year 2011, the City implemented Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions. In general, amounts previously reported as unreserved, undesignated fund balance, are now reported as unassigned fund balance (general fund) or committed fund balance. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Additionally, amounts previously reported in capital reserve funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund of the City. At the end of the fiscal year ending December 31, 2011, general fund unassigned fund balance was \$4,226,294, while total fund balance was \$6,018,655. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total general fund expenditures and other financing uses:

Table No. 3

<u>Unassigned Fund Balance</u>	<u>Expenditures and Other Financing Uses</u>	<u>% of Total General Fund Expenditures and Other Finance Uses</u>
\$4,226,294	\$24,937,412	17.0%

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.

The City Council's Fund Balance Policy expresses that it is the goal of the City to endeavor to maintain an unassigned fund balance equal to between 15.0% and 17.0% of general fund expenditures (including other financing uses). The City considers a balance of less than 15.0% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 17.0% as excessive, taking into consideration factors that may require a higher than normal maximum level of unassigned fund balance. An amount in excess of 17.0% is to be considered for reservation to accumulate funding for capital projects and equipment and/or to reduce tax levy requirements to be determined in conjunction with the annual budget process. In the event that such balance is less than 15.0%, to the extent practicable, restorative steps shall be taken in the immediate subsequent fiscal years. As a mitigating utility in setting the annual municipal tax rate, this Policy is not intended to preclude the administrative application of unassigned fund as a companion to the budgeted application of unassigned fund balance.

Other governmental funds, such as the solid waste disposal fund, water treatment and distribution fund, sewage collection and disposal fund, municipal airport fund, emergency management fund and capital improvements fund, 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 \$132,915,784 (net of accumulated depreciation), an increase of \$7,099,058 from the prior year. Under GASB standards, governmental assets are recorded at historical costs. The table below summarizes the base line information for all governmental capital assets (net of depreciation) for governmental activities. Major capital asset events during the year included the following:

- Construction and Engineering for Continuing Combined Sewer Overflow and Utility Replacement Improvements.
- Streets Rehabilitation and Reconstruction.
- Hanover Street Sewer Replacement.
- Water Main Improvements.
- Lebanon Municipal Airport Improvements.
- Bridge Improvement Construction.
- Landfill Shredding Equipment Acquisition.
- Engineering for Landfill Phase 2C Construction.
- Storrs Hill Electrical Upgrades.
- Railroad Avenue Storm Water Upgrades.
- Engineering and Design for Phase II Wastewater Treatment Facility Improvements.

Capital Assets (Net of Depreciation)

Table No. 4

	<u>2010</u>	<u>2011</u>
Land	\$7,901,900	\$7,901,900
Land Improvements	\$13,924,979	\$13,010,713
Buildings and Building Improvements	\$28,430,038	\$27,832,805
Machinery and Equipment	\$5,735,539	\$5,881,407
Infrastructure	\$58,267,461	\$57,367,505
Intangible Assets	\$82,197	\$82,197
Construction In Progress	<u>\$11,474,612</u>	<u>\$20,839,257</u>
Total	<u>\$125,816,726</u>	<u>\$132,915,784</u>

- The capital improvements fund is where the acquisition or construction of major, expensive and long-lived capital facilities is budgeted. Operating budgets are period oriented (January 1 to December 31); the capital improvements budget is project oriented.
- The capital improvements fund budget for 2011 was \$12,510,000. The original capital improvements fund budget adopted by the City Council on December 15, 2010 was \$11,995,000. There was one amendment during the year for \$515,000 for repairs in connection with tropical storm Irene.
- Highlights of the 2011 capital budget include:

Table No. 5

<u>Type of Project</u>	<u>Amount</u>
Bridges	\$4,750,000
Streets and Utilities	\$5,700,000
Pedestrian Facilities	\$685,000
Landfill Equipment and Infrastructure	\$700,000
Airport Equipment and Infrastructure	\$100,000
Other (Mill Road Trail Bank Stabilization; Tropical Storm Irene Damage Repairs)	<u>\$575,000</u>
Total	<u>\$12,510,000</u>

Long-Term Liabilities. At the end of the fiscal year, total general obligation bonds payable was \$51,693,016, a net increase of \$5,996,742 compared to the prior year.

Total annual requirements to amortize general obligation bonds payable (principal and interest) was \$70,242,366, a net increase of \$7,398,755, or 11.8%, compared to the prior year. All outstanding debt is general obligation debt backed by the full faith and credit of the City.

Table No. 6

	<u>Balance 1/1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31</u>
General Obligation Bonds Payable	\$45,696,274	\$9,666,562	(\$3,669,820)	\$51,693,016
Unamortized Bond Premium	\$1,128,067	\$247,500	(\$74,884)	\$1,300,683
Capital Leases Payable	\$0	\$141,963	(\$71,563)	\$70,400
Compensated Absences Payable	\$1,681,087	\$0	(\$104,934)	\$1,576,153
Accrued Landfill Closure and Postclosure Care Costs	<u>\$5,625,309</u>	<u>\$1,194,759</u>	<u>\$0</u>	<u>\$6,820,068</u>
Total	<u>\$54,130,737</u>	<u>\$11,250,784</u>	<u>(\$3,921,201)</u>	<u>\$61,460,320</u>
General Obligation Bonds Supported by:				
General Fund	\$30,481,507	\$3,651,784	(\$2,519,753)	\$31,613,538
Solid Waste Disposal Fund	\$380,000	\$0	(\$90,000)	\$290,000
Water Distribution and Treatment Fund	\$5,800,476	\$4,008,638	(\$509,185)	\$9,299,929
Sewage Collection and Disposal Fund	\$7,937,450	\$2,006,140	(\$484,304)	\$9,459,286
Municipal Airport Fund	<u>\$1,096,842</u>	<u>\$0</u>	<u>(\$66,579)</u>	<u>\$1,030,263</u>
Total General Obligation Bonds	<u>\$45,696,274</u>	<u>\$9,666,562</u>	<u>(\$3,669,821)</u>	<u>\$51,693,016</u>

- The general fund is primarily property tax supported. The solid waste disposal fund, water distribution and treatment fund, sewage collection and disposal fund, and municipal airport fund are supported by user fees and, in the instance of the municipal airport fund, since 2009 by user fees and subsidy from the general fund.
- The City has authorized debt that has not yet been issued. The following table details those authorizations.

Table No. 7

<u>Date Authorized</u>	<u>Purpose</u>	<u>Fund Responsible for Debt Service Payments</u>	<u>Amount</u>
December 19, 2001	Wastewater Treatment Facility Improvements	Sewage Collection and Disposal	\$1,102,184
December 18, 2002	Wastewater Treatment Facility Improvements	Sewage Collection and Disposal	\$1,715,000
December 17, 2003	Wastewater Treatment Facility Improvements	Sewage Collection and Disposal	\$687,000
December 9, 2004	Wastewater Treatment Facility Improvements	Sewage Collection and Disposal	\$720,000
December 15,	Wastewater Treatment Facility Improvements	Sewage Collection and Disposal	\$1,350,000
November 7, 2007	Wastewater Treatment Facility Improvements	Sewage Collection and Disposal	\$5,300,000
May 6, 2009	CSU and Utility Replacement	General	\$3,288,000
May 6, 2009	CSO and Utility Replacement	Water Treatment and Distribution	\$2,466,000
May 6, 2009	CSO and Utility Replacement	Sewage Collection and Disposal	\$2,466,000
October 7, 2009	Water Meter Radio Read Conversion	Water Treatment and Distribution	<u>\$10,958</u>
		Total	<u>\$19,105,142</u>

F. NEXT YEAR'S BUDGETS AND RATES

- The total net assessed valuation (on which the tax rate for municipal, county and local education tax is computed) in 2011 increased \$9,110,911 from 2010, or 0.5%, from \$1,827,672,520 to \$1,836,783,431, the result of bricks and mortar incremental growth. (A citywide assessment update took place in 2010 consisting of bricks and mortar incremental growth and statistical adjustment.) 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 – RSA 75:8 and that all real estate be reappraised so that assessment are at full and true value at least as often as every five years – RSA 75:8-a. Incremental growth of 1.5% is assumed for 2012. Increases in total net assessed valuation influence the tax rate downward. The opposite occurs for decreases in total net assessed valuation.
- The tax rate is computed as a means to bridge the gap between non-property tax revenues and spending and statutory tax credits and property assessment abatements. This is done in October by the New Hampshire Department of Revenue Administration. The Total Tax Rate is made up of constituent tax rates: Municipal (general City services), School: Local, School: State and County. Appropriations (authorization to spend public moneys) is 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.

- Estimated 2012 Municipal Tax Rate:* The loss of non-property tax revenues, or if those revenues are not realized as originally expected when the budget is adopted, results in a larger amount to be raised by property taxes and thus a higher tax rate. The estimated 2012 Municipal Tax Rate is \$9.25, \$0.10, or 1.1% higher than the 2011 rate. Estimated school and county rates are not available at this time. What the 2012 Municipal Tax Rate ultimately will be depends on several things: the extent to which actual non-property tax revenues are realized compared to estimates being made 10 months before the tax rate is set; changes in Net Assessed Valuation; the condition of the general fund's unassigned (spendable) fund balance; and supplemental appropriations funded in whole or part through the application of unassigned (spendable) fund balance. Based on the average assessed value of a single family property of \$241,300, the 2012 Municipal Tax Rate impact will be about \$2,232, or about \$24 higher than 2011.
- Property Tax Collections;* 96.7% of the 2011 property tax levy was collected as of December 31, 2011. This represents 55.8% of the total net taxes receivable of \$2,620,482 as of December 31, 2011. 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 and is normally one-half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated the City's tax rate.
- Landfill Fees:* In 2007, the fee for disposing solid waste at the City's landfill was increased 3% to \$68.68/ton. Since then, no further adjustment has been implemented. Assuming individual annual waste generation of 2.92 pounds (4.43 pounds gross less 1.51 pounds recycled and composted – or 0.5329 tons) the annual cost for waste disposal per person is \$36.60 (\$68.68 service fee x 0.5329 tons). For the past five years processed tonnage has trended downward – 48,029, 46,568, 43,233, 40,289 and 39,209 for 2007-2011, respectively. 22,031 tons have been processed through July 2012, suggesting a 2012 total of about 41,000 tons. Processed tonnage affects the general fund as income is received from a per ton host community fee. (The reduction in tonnage started with economic factors – i.e. less trash being generated. The reasons for the reduction are changing. Waste haulers are delivering trash generated in the landfill's service area to alternate disposal sites.) Staff continues to watch monthly tonnage and monitoring customer deliveries closely; options are being researched as to how to respond to the drop in tonnage and reduction in revenues.
- Water Service Fees:* The City Council approved an 8% water service rate increase effective April 1, 2011 to \$38.45 per 1,000 cubic feet of metered water consumption. Assuming that 60 gallons (8.02 cubic feet/7.48 gallons equals one cubic foot) of water consumption per day for an individual is reasonably accurate – estimates vary due to individual circumstances including the type and condition of appliance, fixtures and plumbing, and may be more or less than 60 gallons and then, in some instances, significantly more or less – or 21,900 gallons (2,927 cubic feet) per year, the estimated annual metered usage cost is \$112.54 (2,927 cubic feet X \$38.45 per 1,000 cubic feet of meter water consumption). A rate increase will be considered in 2012 for implementation on January 1, 2013.
- Sewer Service Fees:* The City Council approved an 8% sewer service rate increase effective April 1, 2011 to \$66.03 per 1,000 cubic feet of metered water consumption. Assuming that 60 gallons (8.02 cubic feet/7.48 gallons equals one cubic foot) of water consumption per day for an individual is reasonably accurate – estimates vary due to individual circumstances including the type and condition of appliance, fixtures and plumbing, and may be more or less than 60 gallons and then in some instances significantly more or less – or 21,900 gallons (2,927 cubic feet) per year, the estimated annual metered usage cost is \$193.27 (2,927 cubic feet X \$66.03 per 1,000 cubic feet of metered water consumption). A rate increase will be considered in 2012 for implementation on January 1, 2013.

- *Impact of Continuing Municipal Airport Operating Deficit:* Following a change on December 3, 2008, to Chapter 8: Airport Operations of the City Code, the City Council has appropriated \$1,695,076 as subsidy to the municipal airport fund for the purpose of eliminating the cumulative fund balance deficits. During the annual budget process, the preceding year's actual municipal airport fund deficit is considered for budgeting as a contribution to the municipal airport fund from the general fund to be paid for by property taxes accompanied by the related tax rate impact.
- *Labor Force Composition:* The 2012 City Budget has 181.03 full-time equivalent (FTE) positions (171.83 full-time/9.21 regular part-time positions excluding seasonal and occasional employees and call firefighters) 124.2 positions, or 68.6%, are represented by a union. The public works union's contract expired 12/31/11; the fire union's contract expires 12/31/12. Negotiations with both unions have commenced toward successor agreements.
- *Kilton Public Library:* From 2002 through 2010, a total of \$5.2 million was appropriated by the City Council for design, engineering, and construction of the Kilton Public Library (KPL) in West Lebanon. Construction began 2009; the KPL opened for business mid-year 2010. The \$5.2 million construction was funded as follows: \$2.6 million from the library fund; \$1.5 million from the City; and \$1.1 million short-term borrowing with the understanding that the related debt service was to be paid by the Library Board of Trustees as follows:

<u>Year</u>		<u>Amount</u>
2011	\$	251,216
2012	\$	240,972
2013	\$	234,479
2014	\$	227,986
2015	\$	221,493

The 2011 and 2012 payments have been made leaving a current balance of \$683,958. Sale of the West Lebanon Library, deemed surplus because of construction of the Kilton Public Library, is pending. If consummated in 2012 the proceeds (\$141,000 less applicable expenses) will be applied to the outstanding balance.

- Adopted 2012 City expenditures and other financing uses budget follows:

Table No. 8

<u>Appropriations by Fund</u>	<u>2011</u>		<u>2012</u>		
	<u>Final Budget</u>	<u>Original</u>	<u>\$ Chng</u>	<u>% Chng</u>	<u>% of Total</u>
General	\$24,458,130	\$24,935,570	\$477,440	2.0%	50.7%
Solid Waste Disposal	\$2,883,680	\$2,807,310	(\$76,370)	-2.6%	5.7%
Water Treatment and Distribution	\$2,509,110	\$2,850,810	\$341,700	13.6%	5.8%
Sewage Collection and Disposal	\$3,610,210	\$4,122,780	\$512,570	14.2%	8.4%
Municipal Airport	\$977,620	\$979,120	\$1,500	0.2%	2.0%
Emergency Management	\$8,000	\$18,000	\$10,000	125.0%	0.0%
Capital Improvements	<u>\$12,510,000</u>	<u>\$13,475,000</u>	<u>\$965,000</u>	<u>7.7%</u>	<u>27.4%</u>
Total	<u>\$46,956,750</u>	<u>\$49,188,590</u>	<u>\$2,231,840</u>	<u>4.8%</u>	<u>100.0%</u>

- The 2012 City Budget is comprised of \$18,016,030 for personnel services (wages and statutory and non-statutory employee benefits); \$18,248,575 for contractual services (\$13,205,000 for capital improvements); \$3,145,865 for materials and supplies; \$288,000 for property; \$6,468,380 for debt service; and \$3,021,740 for interfund transfers.

\$26,223,470, or 53.3%, is for expenditures related to department operations and maintenance. This excludes debt service, interfund transfers and capital Improvements. Personnel services (wages and statutory and non-statutory employee benefits) are 68.7% of department operations and maintenance expenditures.

\$22,965,120, or 46.7%, is for non-department expenditures, consisting of capital improvements (\$13,475,000), debt service (\$6,468,380) and interfund transfers (\$3,021,740).

- *Combined Sewer Overflow and Utility Replacement Improvements:* 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 had issued an Administrative Order that had required the City to eliminate six of seven combined sewer overflows by December 31, 2008 and elimination of the seventh by December 31, 2012. The City made progress on mitigating CSOs but faced a series of logistical challenges that hampered its efforts and delayed the schedule. Because of the delay and 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. From 2000 through 2012, the City has appropriated \$39.788; an additional \$16.010 million is expected to be appropriated between 2013 – 2018 bringing the total appropriation for the work when completed to \$55.798 million subject to annual revision depending on construction market activity and how that activity translates into costs and timelines, construction conditions and engineering revisions.

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 Assets
December 31, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 39,298,733
Investments	6,704,205
Intergovernmental receivable	2,324,082
Other receivables, net of allowances for uncollectible	3,281,627
Prepaid items	118,534
Capital assets, not being depreciated:	
Land	7,901,900
Construction in progress	20,839,257
Intangible assets	82,197
Capital assets, net of accumulated depreciation:	
Land improvements	13,010,713
Buildings and building improvements	27,832,805
Machinery and equipment	5,881,407
Infrastructure	57,367,505
Total assets	184,642,965
LIABILITIES	
Accounts payable	251,353
Contract payable	868,077
Intergovernmental payable	18,890,119
Accrued interest payable	906,030
Retainage payable	585,971
Escrow and performance deposits	279,069
Unearned revenue	99,769
Noncurrent obligations:	
Due within one year:	
Bonds	4,013,853
Unamortized bond premium	74,884
Capital leases	27,346
Accrued landfill closure and postclosure care costs	18,400
Due in more than one year:	
Bonds	47,679,163
Unamortized bond premium	1,225,799
Capital leases	43,054
Compensated absences	1,576,153
Other postemployment benefits payable	1,034,509
Accrued landfill closure and postclosure care costs	6,801,668
Total liabilities	84,375,217
NET ASSETS	
Invested in capital assets, net of related debt	79,851,685
Restricted for perpetual care	926,544
Unrestricted	19,489,519
Total net assets	\$ 100,267,748

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, 2011

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 5,183,556	\$ 250,886	\$ 503,316	\$ -	\$ (4,429,354)
Public safety	9,936,474	1,139,994	183,885	-	(8,612,595)
Highways and streets	5,020,032	-	409,406	-	(4,610,626)
Sanitation	5,528,316	7,131,869	30,581	-	1,634,134
Water distribution and treatment	1,725,337	2,636,049	34,817	-	945,529
Municipal airport	1,584,028	452,607	6,723	-	(1,124,698)
Health	485,332	-	46,376	-	(438,956)
Culture and recreation	2,170,338	186,710	11,250	-	(1,972,378)
Conservation	14,264	-	-	-	(14,264)
Interest on long-term debt	2,078,897	-	-	-	(2,078,897)
Capital outlay	290,735	-	62,288	170,888	(57,559)
Total governmental activities	<u>\$ 34,017,309</u>	<u>\$ 11,798,115</u>	<u>\$ 1,288,642</u>	<u>\$ 170,888</u>	<u>(20,759,664)</u>
General revenues:					
Taxes:					
Property					16,121,323
Other					1,547,406
Motor vehicle permit fees					1,840,563
Licenses and other fees					748,231
Grants and contributions not restricted to specific programs					591,271
Miscellaneous					1,958,545
Total general revenues					<u>22,807,339</u>
Special item (see Note 12)					647,031
Total general revenues and special item					<u>23,454,370</u>
Change in net assets					2,694,706
Net assets, beginning, as restated (see Note 18)					97,573,042
Net assets, ending					<u>\$ 100,267,748</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, 2011

	General	Sewage Collection and Disposal	Solid Waste Disposal	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 13,387,359	\$ 1,397,336	\$ 1,860,912	\$ 15,363,492	\$ 1,547,093	\$ 33,556,192
Investments	-	-	-	-	1,006,191	1,006,191
Receivables, net of allowance for uncollectible:						
Taxes	2,620,482	-	-	-	-	2,620,482
Accounts	137,449	156,982	218,577	-	142,149	655,157
Intergovernmental	48,708	30,581	37,939	999,685	70,627	1,187,540
Interfund receivable	512,546	8,108	-	-	12,562	533,216
Voluntary tax liens	48,844	-	-	-	-	48,844
Voluntary tax liens reserved until collected	(48,844)	-	-	-	-	(48,844)
Prepaid items	89,466	7,259	4,180	-	17,629	118,534
Restricted - Cash and cash equivalents	771,568	287,647	3,492,151	-	1,191,175	5,742,541
Restricted - Investments	25,064	-	5,123,151	-	549,799	5,698,014
Restricted - Accounts receivable	299	-	-	-	5,689	5,988
Restricted - Intergovernmental receivable	56,924	-	-	-	-	56,924
Total assets	\$ 17,649,865	\$ 1,887,913	\$ 10,736,910	\$ 16,363,177	\$ 4,542,914	\$ 51,180,779
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 179,164	\$ 13,202	\$ 15,023	\$ -	\$ 43,964	\$ 251,353
Contract payable	-	-	-	868,077	-	868,077
Intergovernmental payable	11,163,756	-	-	7,726,363	-	18,890,119
Interfund payable	-	-	8,108	-	525,108	533,216
Retainage payable	-	-	-	585,971	-	585,971
Escrow and performance deposits	272,819	-	-	-	6,250	279,069
Deferred revenue	15,471	83,333	-	-	965	99,769
Total liabilities	11,631,210	96,535	23,131	9,180,411	576,287	21,507,574
Fund balances:						
Nonspendable	89,466	7,259	4,180	-	944,173	1,045,078
Restricted	15,909	-	-	-	956,250	972,159
Committed	250,425	1,757,511	10,699,778	-	2,194,085	14,901,799
Assigned	1,436,561	26,608	9,821	8,160,109	533,477	10,166,576
Unassigned	4,226,294	-	-	(977,343)	(661,358)	2,587,593
Total fund balances	6,018,655	1,791,378	10,713,779	7,182,766	3,966,627	29,673,205
Total liabilities and fund balances	\$ 17,649,865	\$ 1,887,913	\$ 10,736,910	\$ 16,363,177	\$ 4,542,914	\$ 51,180,779

EXHIBIT C-2
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets
December 31, 2011

Total fund balances of governmental funds (Exhibit C-1)		\$ 29,673,205
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost	\$ 212,139,286	
Less accumulated depreciation	<u>(79,223,502)</u>	132,915,784
Long-term assets are not available to pay for current-period expenditures, and therefore, are not reported in governmental funds		
Intergovernmental receivable		1,079,618
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Assets.		
Receivables	\$ (533,216)	
Payables	<u>533,216</u>	
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(906,030)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	\$ 51,693,016	
Unamortized bond premium	1,300,683	
Capital leases	70,400	
Compensated absences	1,576,153	
Other postemployment benefits	1,034,509	
Accrued landfill closure and postclosure care costs	<u>6,820,068</u>	
		<u>(62,494,829)</u>
Total net assets of governmental activities (Exhibit A)		<u>\$ 100,267,748</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, 2011

	General	Sewage Collection and Disposal	Solid Waste Disposal	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 17,647,858	\$ -	\$ -	\$ -	\$ 20,871	\$ 17,668,729
Licenses and permits	2,588,794	-	-	-	-	2,588,794
Intergovernmental	1,799,595	30,581	-	62,288	212,634	2,105,098
Charges for services	1,132,084	3,965,066	3,166,803	-	3,534,162	11,798,115
Miscellaneous	877,401	49,180	55,252	6,205	970,507	1,958,545
Total revenues	<u>24,045,732</u>	<u>4,044,827</u>	<u>3,222,055</u>	<u>68,493</u>	<u>4,738,174</u>	<u>36,119,281</u>
Expenditures:						
Current:						
General government	4,796,404	-	-	-	6,202	4,802,606
Public safety	9,483,393	-	-	-	400,412	9,883,805
Highways and streets	3,551,288	-	-	-	-	3,551,288
Water distribution and treatment	-	-	-	-	1,312,572	1,312,572
Municipal airport	-	-	-	-	799,733	799,733
Sanitation	-	2,112,116	1,364,931	-	-	3,477,047
Health	491,812	-	-	-	-	491,812
Culture and recreation	2,058,363	-	-	-	124,197	2,182,560
Conservation	3,341	-	-	-	10,923	14,264
Debt service:						
Principal	2,519,753	484,304	90,000	-	575,764	3,669,821
Interest	1,422,317	328,182	18,000	-	325,567	2,094,066
Capital outlay	-	-	-	11,074,100	194,041	11,268,141
Total expenditures	<u>24,326,671</u>	<u>2,924,602</u>	<u>1,472,931</u>	<u>11,074,100</u>	<u>3,749,411</u>	<u>43,547,715</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(280,939)</u>	<u>1,120,225</u>	<u>1,749,124</u>	<u>(11,005,607)</u>	<u>988,763</u>	<u>(7,428,434)</u>
Other financing sources (uses):						
Transfers in	1,517,134	-	411,818	1,168,750	493,974	3,591,676
Transfers out	(610,741)	(477,520)	(1,396,341)	(411,818)	(695,256)	(3,591,676)
Debt proceeds	-	-	-	9,666,562	-	9,666,562
Premium on debt proceeds	-	-	-	247,500	-	247,500
Inception of capital leases	141,963	-	-	-	-	141,963
Total other financing sources and uses	<u>1,048,356</u>	<u>(477,520)</u>	<u>(984,523)</u>	<u>10,670,994</u>	<u>(201,282)</u>	<u>10,056,025</u>
Net change in fund balances	767,417	642,705	764,601	(334,613)	787,481	2,627,591
Fund balances, beginning, as restated (see Note 18)	5,251,238	1,148,673	9,949,178	7,517,379	3,179,146	27,045,614
Fund balances, ending	<u>\$ 6,018,655</u>	<u>\$ 1,791,378</u>	<u>\$ 10,713,779</u>	<u>\$ 7,182,766</u>	<u>\$ 3,966,627</u>	<u>\$ 29,673,205</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, 2011

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 2,627,591
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 in the current period.		
Capitalized capital outlay	\$ 11,335,075	
Depreciation expense	<u>(4,185,353)</u>	7,149,722
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.		
		(50,664)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (3,591,676)	
Transfers out	<u>3,591,676</u>	-
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds.		
Decrease in deferred aid revenue	\$ (54,297)	
Special item (see Note 12)	<u>647,031</u>	592,734
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 assets.		
Proceeds of bonds issued	\$ (9,666,562)	
Proceeds of capital leases	(141,963)	
Premium on bonds issued	(247,500)	
Repayment of bond principal	3,669,820	
Repayment of capital lease principal	71,563	
Amortization of bond premium	<u>74,884</u>	(6,239,758)
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.		
Increase in accrued interest expense	\$ (59,714)	
Decrease in compensated absences payable	104,934	
Increase in postemployment benefits payable	(235,380)	
Increase in accrued landfill closure and postclosure care costs	<u>(1,194,759)</u>	(1,384,919)
Changes in net assets of governmental activities (Exhibit B)		<u>\$ 2,694,706</u>

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

EXHIBIT D-1
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 17,512,658	\$ 17,647,858	\$ 135,200
Licenses and permits	2,502,700	2,588,794	86,094
Intergovernmental	960,532	1,037,058	76,526
Charges for services	1,043,340	1,075,537	32,197
Miscellaneous	149,980	245,515	95,535
Total revenues	<u>22,169,210</u>	<u>22,594,762</u>	<u>425,552</u>
Expenditures:			
Current:			
General government	4,449,000	4,275,830	173,170
Public safety	9,342,440	9,050,094	292,346
Highways and streets	3,378,280	3,204,881	173,399
Health	546,060	450,036	96,024
Culture and recreation	2,032,210	2,006,307	25,903
Conservation	8,380	2,141	6,239
Debt service:			
Principal	2,519,770	2,519,753	17
Interest	1,422,390	1,422,317	73
Total expenditures	<u>23,698,530</u>	<u>22,931,359</u>	<u>767,171</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,529,320)</u>	<u>(336,597)</u>	<u>1,192,723</u>
Other financing sources (uses):			
Transfers in	1,318,470	1,517,134	198,664
Transfers out	(759,600)	(765,741)	(6,141)
Total other financing sources and uses	<u>558,870</u>	<u>751,393</u>	<u>192,523</u>
Net change in fund balances	<u>\$ (970,450)</u>	414,796	<u>\$ 1,385,246</u>
Increase in nonspendable fund balance		(89,466)	
Increase in restricted fund balance		(4,292)	
Unassigned fund balance, beginning		3,905,256	
Unassigned fund balance, ending		<u>\$ 4,226,294</u>	

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

EXHIBIT D-2
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Sewage Collection and Disposal Fund
For the Fiscal Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Intergovernmental	\$ 30,590	\$ 30,581	\$ (9)
Charges for services	3,543,590	3,965,066	421,476
Miscellaneous	36,030	48,851	12,821
Total revenues	<u>3,610,210</u>	<u>4,044,498</u>	<u>434,288</u>
Expenditures:			
Current:			
Sanitation	2,220,120	2,111,565	108,555
Debt service:			
Principal	484,330	484,304	26
Interest	328,240	328,182	58
Total expenditures	<u>3,032,690</u>	<u>2,924,051</u>	<u>108,639</u>
Excess of revenues over expenditures	577,520	1,120,447	542,927
Other financing uses:			
Transfers out	<u>(577,520)</u>	<u>(577,520)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	542,927	<u>\$ 542,927</u>
Increase in nonspendable fund balance		(7,259)	
Decrease in assigned fund balance		7,133	
Committed fund balance, beginning		927,063	
Committed fund balance, ending		<u>\$ 1,469,864</u>	

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

EXHIBIT D-3
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Solid Waste Disposal Fund
For the Fiscal Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services	\$ 2,882,680	\$ 3,166,803	\$ 284,123
Miscellaneous	1,000	691	(309)
Total revenues	<u>2,883,680</u>	<u>3,167,494</u>	<u>283,814</u>
Expenditures:			
Current:			
Sanitation	1,427,330	1,364,931	62,399
Debt service:			
Principal	90,000	90,000	-
Interest	18,000	18,000	-
Total expenditures	<u>1,535,330</u>	<u>1,472,931</u>	<u>62,399</u>
Excess of revenues over expenditures	<u>1,348,350</u>	<u>1,694,563</u>	<u>346,213</u>
Other financing sources (uses):			
Transfers in	-	411,818	411,818
Transfers out	(1,348,350)	(1,232,868)	115,482
Total other financing sources and uses	<u>(1,348,350)</u>	<u>(821,050)</u>	<u>527,300</u>
Net change in fund balances	<u>\$ -</u>	873,513	<u>\$ 873,513</u>
Increase in nonspendable fund balance		(4,180)	
Decrease in assigned fund balance		5,033	
Committed fund balance, beginning		1,189,660	
Committed fund balance, ending		<u>\$ 2,064,026</u>	

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

EXHIBIT E
CITY OF LEBANON, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Assets
December 31, 2011

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 855,297
Investments	<u>1,683,368</u>
Total assets	<u>2,538,665</u>
LIABILITIES	
Due to other governmental units	2,492,359
Due to others	<u>46,306</u>
Total liabilities	<u>2,538,665</u>
NET ASSETS	<u><u>\$ -</u></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, 2011

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Lebanon, New Hampshire (the City), are presented 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 Basis of Presentation

Government-wide Financial Statements – The government-wide financial statements display information about the City as a whole. These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. The effect of interfund activity has been eliminated from these statements.

The Statement of Net Assets presents the financial position of the governmental activities of the City at year-end. This statement includes all of the City's assets, liabilities, and net assets. Net assets are reported as one of three categories: invested in capital assets, net of related debt; restricted; or unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different functions of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function, and therefore, are clearly identifiable to a particular function. Program revenues include (1) charges to customers or applicants for goods received, services rendered or privileges provided, and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund has a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized as major funds or nonmajor funds within the governmental statements, with an emphasis placed on the major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type;
- (b) Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental fund combined; and
- (c) In addition, any other governmental fund that the City believes is particularly important to the financial statement users may be reported as a major fund.

CITY OF LEBANON, NEW HAMPSHIRE
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Governmental Activities – Governmental funds are identified as general, special revenue, capital projects, and permanent funds, based upon the following guidelines:

General Fund – is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than capital projects.

Capital Projects Funds – are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Funds – are used to account for resources legally held in trust. All resources of the fund, including earnings on invested resources, may be used to support the City.

Fiduciary Fund Types – These funds account for assets held by the City as a trustee or agent for individuals, private organizations, and other units of governments. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate Statement of Fiduciary Net Assets. These funds are as follows:

Agency Funds – are used to account for resources held by the City in a purely custodial capacity, for individuals, private organizations, and/or governmental units.

Major Funds – 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.

Sewage Collection and Disposal Fund – 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.

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

Nonmajor Funds – The City also reports nine nonmajor governmental funds.

Fiduciary Funds – The City reports the following fiduciary funds:

Agency Funds:

Lebanon School District Expendable Trust Fund – accounts for legally established funds to be used by the school district for future costs.

Impact Fees – account for funds collected by the City for impact fees to be used by the school district for future costs.

1-C Measurement Focus

Government-wide and Fiduciary Fund Financial Statements – The government-wide and fiduciary fund financial statements, except for agency funds which have no measurement focus, are reported using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a 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 – 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 susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues (except property taxes mentioned below) to be available if they are collected within 60 days of the end of the current period. Property

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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taxes, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenues – Exchange Transactions – 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 the modified accrual basis revenue is recorded when the exchange takes place in the fiscal year in which the resources are measurable and become available.

Revenues – Nonexchange Transactions – Nonexchange transactions in which the City receives value without directly giving equal value in return include property taxes, certain fees, grants, and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed 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 specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available before it can be recognized (Interpretation No. 1, as modified, 60-day rule), with the exception of property taxes which are committed and recognized as revenue in order to offset the liability due the school district to be paid in monthly installments over the next six months. This practice is consistent with the previous years.

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."

New Hampshire statutes require that the City Treasurer have custody of all money belonging to the City and pay out the same only upon orders of the City Council. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to New Hampshire RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside 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 of 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 receivable balances are classified as restricted assets on the Balance Sheet because their use is legally restricted for specific purposes in accordance with State statutes.

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.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 are stated at fair value based on quoted market prices.

1-G Receivables

Receivables in the government-wide and governmental fund financial statements represent amounts due to the City at December 31, recorded as revenue, which will be collected in the future and consist primarily of taxes, accounts, and intergovernmental receivables.

Tax revenue is recorded when a warrant for collection is committed to the tax collector. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the two year redemption period, the property is tax deeded to the City.

Accounts receivable include various service charges which are recorded as revenue for the period when service was provided. These receivables are reported net of any allowances for uncollectible accounts.

1-H 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 Assets.

1-I 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 expensed as the items are used.

1-J Capital Assets

General capital assets are those assets of a capital nature which the City owns. All capital assets are capitalized at cost (or estimated at historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$10,000 and more than one year of estimated useful life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset’s life are expensed.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
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.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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1-K Allowances for Uncollectible Accounts

Allowances for uncollectible accounts have been recorded for the following purposes:

Taxes – an allowance has been established by management where collectability is in doubt.

Ambulance – an allowance has been established for all receivables based on percentage of outstanding balance and length of time balances have been uncollected. Current balances are reserved at 50%, balances between 30 and 90 days are reserved at 90%, and all balances over 90 days are reserved at 100%. Allowance is recorded for these balances as collectability of the balances is in doubt.

Voluntary Tax Liens – an allowance has been established for 100% of the voluntary tax lien balance.

1-L Deferred/Unearned Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables, or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. On the government-wide Statements of Net Assets, deferred revenue is classified as unearned revenue.

1-M Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is possible that the City will compensate the employees for the benefits through paid time off or some other means.

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.

All compensated absence liabilities include salary-related payments, where applicable. The total compensated absence liability is reported on the government-wide fund financial statements. Governmental funds report the compensated absence liability at the fund reporting level only “when due.”

1-N Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums.

In the governmental fund financial statements, bond premiums are recognized during the current period. The face amount of debt issued and any premiums received are reported as other financing sources.

1-O 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-P Equity/Fund Balance Classifications

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

- a) ***Invested in capital assets, net of related debt*** – Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, notes, 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 invested capital assets, net of related debt.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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- b) *Restricted net assets* – Consists of net assets 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 assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental Fund Balances Classification – The City of Lebanon has implemented GASB Statement No. 54; *Fund Balance Reporting and Governmental Fund Type Definitions*, for this fiscal year ending December 31, 2011. GASB Statement No. 54 establishes fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items and the principal portion of permanent funds as being nonspendable. These items were previously reported as reserved for special purposes, and reserved for endowments.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified its library, water investment fees, passenger facility charges, and the income portion of permanent funds as being restricted because their use is restricted by Federal/State statutes for expenditures. These items were previously reported as reserved for special purposes or unreserved-undesignated or unreserved-designated for special purposes.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (City Council). These amounts cannot be used for any other purpose unless the legislative body removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. Expendable trust funds, heritage funds, sewage collection and disposal funds, solid waste disposal funds, water treatment and distribution funds, and LOST account funds are included in this classification. These items were previously reported as reserved for special purposes or unreserved-designated for special purposes.

Assigned – This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The City also has assigned funds consisting of encumbrances in the general fund at year-end. This amount was previously reported as reserved for encumbrances and unreserved special revenue fund balance.

Unassigned – This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. This amount was previously reported as unreserved-undesignated.

The details of the fund balances are included in the notes to the basic financial statements (Note 17). As discussed in Note 1-C, restricted funds are used first as appropriate, followed by committed resources, and then assigned resources, as appropriate opportunities arise. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

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” (i.e. the current portion of interfund loans). Interfund receivables and payables between funds are eliminated in the Statement of Net Assets.

CITY OF LEBANON, NEW HAMPSHIRE
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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 the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-R Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates and the differences could be material.

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. The City adopts a budget for the current year for the general, sewage collection and disposal, solid waste disposal and capital improvements funds, as well as several nonmajor funds. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. 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 2011, \$970,450 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

	General Fund	Sewage Collection and Disposal Fund	Solid Waste Disposal Fund
Revenues and other financing sources:			
Per Exhibit D-1, D-2, and D-3 (budgetary basis)	\$ 24,111,896	\$ 4,044,498	\$ 3,579,312
Adjustment:			
Basis difference:			
Inception of capital leases	141,963	-	-
GASB Statement No. 54:			
To record expendable trust fund revenue recognized during the year	713	329	54,561
To record grant fund revenue recognized during the year	184,085	-	-
To record CDBG fund revenue recognized during the year	455,887	-	-
To record other special revenue fund revenue recognized during the year	687,719	-	-
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	122,566	-	-
Per Exhibit C-3 (GAAP basis)	\$ 25,704,829	\$ 4,044,827	\$ 3,633,873

(Continued)

CITY OF LEBANON, NEW HAMPSHIRE
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Budgetary Reconciliation to GAAP Basis continued:

	General Fund	Sewage Collection and Disposal Fund	Solid Waste Disposal Fund
Expenditures and other financing uses:			
Per Exhibit D-1, D-2, and D-3 (budgetary basis)	\$ 23,697,100	\$ 3,501,571	\$ 2,705,799
Adjustment:			
Basis differences:			
Encumbrances, beginning	431,686	-	-
Encumbrances, ending	(404,643)	-	-
Inception of capital leases	141,963	-	-
GASB Statement No. 54:			
To eliminate transfers among funds	(147,000)	(100,000)	163,473
To record grants fund expenditures during the year	184,085	-	-
To eliminate transfers between general and emergency management funds	(8,000)	-	-
To record emergency management fund expenditures during the year	6,582	-	-
To record heritage fund expenditures during the year	568	-	-
To record CDBG fund expenditures during the year	455,887	-	-
To record other special revenue fund expenditures during the year	456,618	551	-
On-behalf retirement contributions made by the State of New Hampshire recognized as an expenditure on the GAAP basis, but not on the budgetary basis	122,566	-	-
Per Exhibit C-3 (GAAP basis)	<u>\$ 24,937,412</u>	<u>\$ 3,402,122</u>	<u>\$ 2,869,272</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2011, \$14,796,914 of the City's bank balances of \$41,062,212 was exposed to custodial credit risk as uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Assets (Exhibit A)	\$ 39,298,733
Cash per Statement of Fiduciary Net Assets (Exhibit E)	855,297
Total cash and cash equivalents	<u>\$ 40,154,030</u>

NOTE 4 – INVESTMENTS

The City maintains a portfolio of short-term maturity investments, including money market investments, which are reported at amortized cost. The City also 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. As of December 31, 2011, the City had the following investments:

Exchange-traded funds	\$ 1,102,500
US Government obligations	6,461,535
Corporate bonds	18,814
Mutual funds	804,724
	<u>\$ 8,387,573</u>

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that change could materially affect the amounts reported in the Statement of Net Assets.

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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. As of December 31, 2011 the City’s investments had the following maturities:

Type of investment:	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Thereafter
US Government obligations	\$ -	\$ 1,587,475	\$ 4,870,454	\$ 2,993	\$ 613
Exchange-traded funds	1,102,500	-	-	-	-
Corporate bonds	-	-	18,814	-	-
Mutual funds	804,724	-	-	-	-
	<u>\$ 1,907,224</u>	<u>\$ 1,587,475</u>	<u>\$ 4,889,268</u>	<u>\$ 2,993</u>	<u>\$ 613</u>

Credit Risk – The City’s investment pool had the following credit risk structure at December 31, 2011:

Investment Type	Credit Rating ⁽¹⁾	Fair Value	Percent of Grand Total
Corporate bonds:			
SLM Corporation	BBB-	\$ 18,814	0.29%
Federal agency:			
Federal Home Loan Mortgage Corp.	AA+	1,376,850	21.25%
Federal Home Loan Bank	AA+	1,771,205	27.33%
Federal Farm Credit Bank	AA+	2,000,773	30.87%
Federal National Mortgage Corp.	AA+	1,262,416	19.48%
United States Treasury		50,291	0.78%
Total federal agency		<u>6,461,535</u>	<u>99.71%</u>
		<u>\$ 6,480,349</u>	<u>100.00%</u>

⁽¹⁾ Per Standard & Poors

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one issuer. More than 5% of the City’s investments are in Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corp., Federal National Mortgage Corp., iShares Barclays Aggregate Bond Fund, and iShares S&P 500 Index Funds. These investments are 24%, 21%, 16%, 15%, 13% and 8%, respectively, of the City’s total investments.

Investment reconciliation:

Investment per Statement of Net Assets (Exhibit A)	\$ 6,704,205
Investment per Statement of Fiduciary Net Assets (Exhibit E)	<u>1,683,368</u>
Total investments	<u>\$ 8,387,573</u>

CITY OF LEBANON, NEW HAMPSHIRE
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NOTE 5 – RESTRICTED ASSETS

Certain City cash, investments, and receivables are restricted for the following purposes:

Cash and cash equivalents:	
General fund:	
Heritage funds	\$ 5,944
Other special revenue funds	549,286
Expendable trust funds	192,510
Emergency management funds	23,828
Sewage collection and disposal fund:	
Expendable trust funds	287,647
Solid waste disposal fund:	
Expendable trust funds	3,492,151
Nonmajor funds:	
Expendable trust funds	432,181
Water investment fee funds	722,242
Passenger facility charges funds	36,752
Total cash and cash equivalents	5,742,541
Investments:	
General fund:	
Expendable trust funds	25,064
Solid waste disposal funds:	
Expendable trust funds	5,123,151
Nonmajor funds:	
Expendable trust funds	549,799
Total investments	5,698,014
Accounts receivables:	
General fund:	
CDBG funds	274
Other special revenue funds	25
Nonmajor funds:	
Passenger facility charges funds	5,689
Total accounts receivable	5,988
Intergovernmental receivables:	
General fund:	
Grant funds	56,924
Total restricted assets	\$ 11,503,467

NOTE 6 – TAXES RECEIVABLE

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2011, upon which the 2011 property tax levy was based is:

For the New Hampshire education tax	\$ 1,746,934,831
For all other taxes	\$ 1,836,783,431

The City subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied on May 17, 2011 and October 26, 2011, with payments due on June 16, 2011 and November 11, 2011. Interest accrues at a rate of 12% on bills outstanding after the due dates. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the City's tax rate for the fiscal year.

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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 abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowance 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 as required by law. The ultimate responsibility for the collection of taxes rests with the City.

The tax rates and amounts assessed for the year ended December 31, 2011 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$9.15	\$ 16,812,078
School portion:		
State of New Hampshire	\$2.34	4,087,868
Local	\$11.29	20,738,983
County portion	\$1.54	2,821,398
Total		\$ 44,460,327

During the current fiscal year, the tax collector executed a lien on May 5 for all uncollected 2010 property taxes.

Taxes receivable at December 31, 2011, are as follows:

Property:	
Levy of 2011	\$ 1,462,322
Unredeemed (under tax lien):	
Levy of 2010	678,001
Levy of 2009	542,965
Levies of 2008 and prior	499,881
Less: allowance for estimated uncollectible taxes	(562,687)
Net taxes receivable	\$ 2,620,482

NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2011 consisted of accounts (billings for police details, 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, 2011 for the City's individual major funds and nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	General Fund	Sewage Collection and Disposal Fund	Solid Waste Disposal Fund	Capital Improvements Fund	Nonmajor Funds	Total
Receivables:						
Accounts	\$ 483,656	\$ 156,982	\$ 218,577	\$ -	\$ 142,149	\$ 1,001,364
Intergovernmental	48,708	30,581	37,939	999,685	70,627	1,187,540
Liens	48,844	-	-	-	-	48,844
Gross receivables	581,208	187,563	256,516	999,685	212,776	2,237,748
Less: allowance for uncollectible	(395,051)	-	-	-	-	(395,051)
Net total receivables	\$ 186,157	\$ 187,563	\$ 256,516	\$ 999,685	\$ 212,776	\$ 1,842,697

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NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 7,901,900	\$ -	\$ -	\$ 7,901,900
Construction in progress	11,474,612	10,069,172	(704,527)	20,839,257
Intangible assets	82,197	-	-	82,197
Total capital assets not being depreciated	<u>19,458,709</u>	<u>10,069,172</u>	<u>(704,527)</u>	<u>28,823,354</u>
Being depreciated:				
Land improvements	39,163,611	201,938	-	39,365,549
Buildings and building improvements	44,723,396	105,411	-	44,828,807
Machinery and equipment	12,733,067	952,569	(135,300)	13,550,336
Infrastructure	84,906,133	677,657	(12,550)	85,571,240
Total capital assets being depreciated	<u>181,526,207</u>	<u>1,937,575</u>	<u>(147,850)</u>	<u>183,315,932</u>
Total all capital assets	<u>200,984,916</u>	<u>12,006,747</u>	<u>(852,377)</u>	<u>212,139,286</u>
Less accumulated depreciation:				
Land improvements	(25,238,632)	(1,116,204)	-	(26,354,836)
Buildings and building improvements	(16,293,358)	(702,644)	-	(16,996,002)
Machinery and equipment	(6,997,528)	(788,892)	117,491	(7,668,929)
Infrastructure	(26,638,672)	(1,577,613)	12,550	(28,203,735)
Total accumulated depreciation	<u>(75,168,190)</u>	<u>(4,185,353)</u>	<u>130,041</u>	<u>(79,223,502)</u>
Net book value, capital assets being depreciated	<u>106,358,017</u>	<u>(2,247,778)</u>	<u>(17,809)</u>	<u>104,092,430</u>
Net book value, all governmental activities capital assets	<u>\$ 125,816,726</u>	<u>\$ 7,821,394</u>	<u>\$ (722,336)</u>	<u>\$ 132,915,784</u>

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

General government	\$ 159,565
Public safety	315,450
Sanitation	898,898
Water distribution and treatment	444,719
Municipal airport	815,773
Municipal services	1,550,948
Total depreciation expense	<u>\$ 4,185,353</u>

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at December 31, 2011, are as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 512,546
Sewage collection and disposal	Solid waste disposal	8,108
Nonmajor	Nonmajor	12,562
		<u>\$ 533,216</u>

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Interfund transfers during the year ended December 31, 2011 are as follows:

	Transfers In:				Total
	General Fund	Capital Improvements Fund	Solid Waste Disposal Fund	Nonmajor Funds	
Transfers out:					
General fund	\$ -	\$ 128,750	\$ -	\$ 481,991	\$ 610,741
Sewage collection and disposal	277,520	200,000	-	-	477,520
Solid waste disposal	696,341	700,000	-	-	1,396,341
Capital improvements	-	-	411,818	-	411,818
Nonmajor funds	543,273	140,000	-	11,983	695,256
Total	<u>\$ 1,517,134</u>	<u>\$ 1,168,750</u>	<u>\$ 411,818</u>	<u>\$ 493,974</u>	<u>\$ 3,591,676</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10 – INTERGOVERNMENTAL PAYABLES

Amounts due of \$18,890,119 to other governments at December 31, 2011, consist of the following:

Balance of 2011-2012 district assessment due to the Lebanon School District	\$ 11,162,068
Fees due to the State of New Hampshire	1,688
State of New Hampshire - drawdown requests	7,726,363
Total	<u>\$ 18,890,119</u>

NOTE 11 – CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2011. 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:

Project:	Accounts Payable	Contracts Payable	Retainage Payable	Remaining Commitment
Capital improvements	\$ -	\$ 868,077	\$ 585,971	\$ 8,160,109
Airport improvements	\$ 401	\$ -	\$ -	\$ 306,760

NOTE 12 – LONG-TERM LIABILITIES

Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2011:

	General Obligation Bonds Payable	Unamortized Bond Premiums	Capital Leases Payable	Compensated Absences Payable	Accrued Landfill Closure and Postclosure Care Costs Payable	Total
Balance, beginning	\$ 45,696,274	\$ 1,128,067	\$ -	\$ 1,681,087	\$ 5,625,309	\$ 54,130,737
Additions	9,666,562	247,500	141,963	-	1,194,759	11,250,784
Reductions	(3,669,820)	(74,884)	(71,563)	(104,934)	-	(3,921,201)
Balance, ending	<u>\$ 51,693,016</u>	<u>\$ 1,300,683</u>	<u>\$ 70,400</u>	<u>\$ 1,576,153</u>	<u>\$ 6,820,068</u>	<u>\$ 61,460,320</u>

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Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2011	Current Portion
General obligation bonds payable:						
	\$ 2,162,305	1992	2012	5.30-6.20	\$ 105,000	\$ 105,000
	\$ 3,459,219	1995	2015	5.250-5.625	540,000	135,000
	\$ 886,223	1996	2016	5.125-5.750	75,000	15,000
	\$ 1,060,009	1997	2012	4.70-5.15	20,000	20,000
	\$ 1,283,670	1998	2013	3.90-5.00	20,000	10,000
	\$ 4,822,082	1999	2015	4.00-4.60	320,000	80,000
	\$ 5,273,904	2000	2020	5.125-5.50	2,155,000	235,000
	\$ 3,297,982	2001	2021	4.125-5.00	1,510,000	175,000
	\$ 3,099,870	2002	2022	3.00-5.00	1,445,000	180,000
	\$ 2,887,830	2003	2023	4.00-6.00	900,000	75,000
	\$ 4,788,000	2004	2024	3.00-5.00	2,835,000	280,000
	\$ 5,837,475	2005	2025	4.00-4.50	4,036,500	295,000
	\$ 6,511,829	2006	2026	4.50-5.00	4,910,000	330,000
	\$ 8,947,000	2007	2027	4.00-4.75	7,115,000	460,000
	\$ 1,574,416	2008	2028	2.352	1,339,954	78,821
	\$ 4,427,015	2008	2028	4.00-4.125	3,625,000	265,000
	\$ 5,207,000	2009	2029	3.02-5.02	4,330,000	440,000
	\$ 7,101,000	2010	2030	3.823	6,745,000	360,000
	\$ 8,372,500	2011	2031	3.55	8,372,500	442,500
	\$ 1,294,062	2011	2031	3.55	1,294,062	32,532
					51,693,016	4,013,853
Unamortized bond premium ⁽¹⁾					1,300,683	74,884
					52,993,699	4,088,737
Capital leases payable:						
Ford vehicles	\$ 49,031	2008	2012	4.90	10,263	10,263
Ford Fusion	\$ 22,224	2009	2013	6.55	9,144	4,427
Ford Fusion	\$ 21,330	2010	2014	6.90	12,760	3,973
Ford F150	\$ 23,953	2011	2015	6.70	18,522	4,191
Ford Fusion	\$ 25,425	2011	2015	6.20	19,711	4,492
					70,400	27,346
Compensated absences payable:						
Vested sick leave					840,277	-
Accrued vacation leave					735,876	-
					1,576,153	-
Accrued landfill closure and postclosure care costs payable					6,820,068	18,400
Total					\$ 61,460,320	\$ 4,134,483

⁽¹⁾The premiums are being amortized on a straight-line basis over the life of the bonds.

Debt Forgiveness – The City borrowed \$1,294,062 to finance a water main improvement project in 2011 under the Drinking Water State Revolving Fund Program. Under the program the City is eligible for 50% forgiveness of the principal in the amount of \$647,031. The outstanding balance and required debt payments shown in these financial statements do not reflect this discount as the principal is not forgiven until the first payment is made (May 1, 2012). The \$647,031 of debt forgiveness is reported in the government-wide financial statements as an intergovernmental receivable on the Statement of Net Assets and as a special item on the Statement of Activities.

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The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2011, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2012	\$ 4,013,673	\$ 2,274,557	\$ 6,288,230
2013	3,887,272	2,064,011	5,951,283
2014	3,841,018	1,901,866	5,742,884
2015	3,552,287	1,734,740	5,287,027
2016	3,334,578	1,592,722	4,927,300
2017-2021	15,615,570	5,793,911	21,409,481
2022-2026	12,154,031	2,647,983	14,802,014
2027-2031	5,294,587	539,560	5,834,147
Totals	<u>\$ 51,693,016</u>	<u>\$ 18,549,350</u>	<u>\$ 70,242,366</u>

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.

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 \$6,820,068 as of December 31, 2011, which is based on 100% usage of the old unlined landfills and 82% usage of the secure landfill Phases I and II (A, B and C). 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, 2011. 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.

Bonds/Notes Authorized and Unissued – Bonds and notes authorized and unissued as of December 31, 2011 were as follows:

Per City Meeting Vote of	Purpose	Unissued Amount
2001	Wastewater treatment facility	\$ 1,102,184
2002	Wastewater treatment facility	1,715,000
2003	Wastewater treatment facility	687,000
2004	Wastewater treatment facility	720,000
2005	Wastewater treatment facility	1,350,000
2007	Wastewater treatment facility	5,300,000
2009	Water meter and CSO replacement	8,230,958
		<u>\$ 19,105,142</u>

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NOTE 13 – CAPITAL LEASES

The City has entered into certain capital lease agreements under which the related equipment will become the property of the City when all the terms of the lease agreements are met. The annual requirements to amortize capital leases payable as of December 31, 2011, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2012	\$ 27,346	\$ 4,445	\$ 31,791
2013	18,206	2,819	21,025
2014	14,377	1,622	15,999
2015	10,471	675	11,146
Totals	<u>\$ 70,400</u>	<u>\$ 9,561</u>	<u>\$ 79,961</u>

Amortization of lease equipment under capital assets is included with depreciation expense.

NOTE 14 – ENCUMBRANCES

Total governmental fund encumbrances outstanding of \$9,021,466 at December 31, 2011 included in the total assigned fund balance of \$10,166,576, are as follows:

General fund:	
General government:	
Executive	\$ 37,636
Election and registration	5,284
Financial administration	109,340
Personnel administration	6,000
Planning and zoning	162,784
Public safety:	
Police	51,927
Fire	8,202
Highways and streets	5,540
Health	4,600
Library	13,330
Total general fund	<u>404,643</u>
Funds blended into general fund:	
Other	<u>40,011</u>
Sewage collection and disposal fund:	
Sanitation	<u>26,608</u>
Solid waste disposal fund:	
Sanitation	<u>9,821</u>
Capital improvements:	
Capital outlay	<u>8,160,109</u>
Nonmajor funds:	
Water distribution and treatment	16,185
Municipal airport	2,000
Public safety	55,329
Capital outlay	306,760
Total nonmajor funds	<u>380,274</u>
Total encumbrances	<u>\$ 9,021,466</u>

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NOTE 15 – STATE AID TO WATER POLLUTION PROJECTS

Water Pollution Projects – The City is due to receive from the State of New Hampshire the following amounts in the form of state aid to water pollution projects:

<u>Bonds Issued</u>	<u>Amount</u>
1993 Series C	\$ 274
1997 Series A	2,462
	<u>\$ 2,736</u>

Under New Hampshire RSA Chapter 486, the City receives from the State of New Hampshire a percentage of the annual amortization charges on the original costs resulting from the acquisition and construction of sewage disposal facilities. At December 31, 2011, the City is due to receive the following annual amounts to offset debt payments:

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2012	<u>\$ 2,736</u>

Water Filtration Projects – The City is also due to receive from the State of New Hampshire \$429,851, 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, 2011, the City is due to receive the following annual amounts to offset debt payments of the water department fund:

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 51,229
2013	49,768
2014	48,290
2015	46,795
2016	19,480
2017-2021	97,403
2022-2026	97,405
2027-2031	19,481
	<u>\$ 429,851</u>

NOTE 16 – GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government-wide Statement of Net Assets at December 31, 2011 include the following:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 132,915,784
Less:	
General obligation bonds payable	(51,693,016)
Capital leases payable	(70,400)
Unamortized bond premium payable	<u>(1,300,683)</u>
Total invested in capital assets, net of related debt	<u>79,851,685</u>
Restricted for perpetual care	926,544
Unrestricted	<u>19,489,519</u>
Total net assets	<u>\$ 100,267,748</u>

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 17 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2011 include the following:

Nonspendable:			
Major funds:			
General:			
Prepaid items	\$	89,466	
Sewage collection and disposal:			
Prepaid items		7,259	
Solid waste disposal:			
Prepaid items		4,180	
		<u>100,905</u>	
Nonmajor funds:			
Prepaid items		17,629	
Permanent fund principal		926,544	
		<u>944,173</u>	
Total nonspendable fund balance			\$ 1,045,078
Restricted:			
Major fund:			
General:			
Grants funds	\$	<u>15,909</u>	
Nonmajor funds:			
Water investment fees		722,242	
Passenger facility charges		34,681	
Public library		101,103	
Permanent fund income		98,224	
		<u>956,250</u>	
Total restricted fund balance			972,159
Committed:			
Major funds:			
General:			
Expendable trusts	\$	244,497	
Heritage funds		5,928	
Sewage collection and disposal fund:			
Expendable trusts		287,647	
Sewer collection and disposal operations		1,469,864	
Solid waste disposal fund:			
Expendable trusts		8,635,752	
Solid waste disposal operations		2,064,026	
		<u>12,707,714</u>	
Nonmajor funds:			
Expendable trust		981,979	
Water treatment and distribution operations		272,443	
LOST account		939,663	
		<u>2,194,085</u>	
Total committed fund balance			14,901,799

(Continued)

CITY OF LEBANON, NEW HAMPSHIRE
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Governmental fund balances continued:

Assigned:		
Major funds:		
General:		
Encumbrances	\$ 404,643	
Abatements	468,727	
Other special revenue funds	499,352	
Other special revenue fund encumbrances	40,011	
Emergency management funds	23,828	
Sewage collection and disposal:		
Encumbrances	26,608	
Solid waste disposal:		
Encumbrances	9,821	
Capital improvements:		
Encumbrances	8,160,109	
	9,633,099	
Nonmajor funds:		
Encumbrances	380,274	
Police outside detail	152,577	
Farmers market	626	
	533,477	
Total assigned fund balance		10,166,576
Unassigned:		
Major funds:		
General	\$ 4,226,294	
Capital improvements	(977,343)	
	3,248,951	
Nonmajor funds		
	(661,358)	
Total unassigned fund balance		2,587,593
Total governmental fund balances		\$ 29,673,205

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NOTE 18 – PRIOR PERIOD ADJUSTMENTS

Fund equity at January 1, 2011 was restated to record funds previously recorded as special revenue funds that under GASB Statement No. 54 are now considered part of the fund providing primary support:

	Government- wide Statements	General Fund	Sewage Collection and Disposal	Water Treatment and Distribution	Solid Waste Disposal	Municipal Airport	Capital Improvements
Adjustments:							
Expendable trust funds	\$ -	\$ 96,784	\$ 187,869	\$ 1,112,472	\$ 8,744,664	\$ -	\$ -
Grants fund	-	15,909	-	-	-	-	-
Emergency management fund	-	22,410	-	-	-	-	-
Heritage fund	-	6,496	-	-	-	-	-
Other special revenue funds	-	308,262	-	-	-	-	-
Water investment fees	-	-	-	663,702	-	-	-
Passenger facility charges	-	-	-	-	-	(66)	-
To restate beginning fund balance for a reduction in a receivable	(287,508)	-	-	-	-	-	(287,508)
Net assets/fund balance, as previously reported	<u>97,860,550</u>	<u>4,801,377</u>	<u>960,804</u>	<u>(256,919)</u>	<u>1,204,514</u>	<u>(461,908)</u>	<u>7,804,887</u>
Net assets/fund balance as restated	<u><u>\$ 97,573,042</u></u>	<u><u>\$ 5,251,238</u></u>	<u><u>\$ 1,148,673</u></u>	<u><u>\$ 1,519,255</u></u>	<u><u>\$ 9,949,178</u></u>	<u><u>\$ (461,974)</u></u>	<u><u>\$ 7,517,379</u></u>

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NOTE 19 – DEFICIT FUND BALANCES

The following funds had unassigned, deficit fund balances at December 31, 2011 caused by the operations in the current and prior years, and will be made up as follows:

	Amount	Made up by:
Major fund:		
Capital improvements	\$ 977,343	Caused by recording of encumbrances; revenues will be recorded when expenditures are incurred
Nonmajor funds:		
Municipal airport	\$ 414,065	Future operations and/or taxes
Public safety revolving	\$ 323	Future operations
Airport capital project	\$ 246,970	Caused by recording of encumbrances; revenues will be recorded when expenditures are incurred

NOTE 20 – OTHER MATTER – KILTON PUBLIC LIBRARY

From 2002 through 2010, a total of \$5.2 million had been appropriated by the City Council for design, engineering, and construction of the Kilton Public Library in West Lebanon. Construction began in 2009 and was completed in 2010.

The \$5.2 million construction is funded as follows: \$2.6 million from the Library Fund; \$1.5 million from the City; and \$1.1 million from short-term borrowing, with the understanding that the related debt service was to be paid by the Library Fund. Debt service payments were originally planned to commence in 2010, but were deferred to 2011. Remaining debt service payments are as follows:

Year	Amount
2012	\$ 240,972
2013	234,479
2014	227,986
2015	221,493
Totals	\$ 924,930

In the event sufficient capital fund raising pledges do not materialize to cover the debt service commitment, which is general obligation debt secured by the full faith and credit of the City, the burden would ultimately fall on the property tax rate.

NOTE 21 – 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. Through June 30, 2011, all employees except police officers and firefighters were required to contribute 5% of earnable compensation. Police officers and firefighters were required to contribute 9.3% of gross earnings. Effective July 1, 2011, the contribution rates changed to 7% for employees other than police officers and firefighters, 11.55% for police officers, and 11.80% for firefighters. The City's contribution rates for 2011 were as follows:

	Police	Firefighters	Other Employees
January 1 through June 30	14.63%	18.52%	9.16%
July 1 through July 31	25.59%	30.90%	11.09%
August 1 through December 31	19.95%	22.89%	8.80%

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The contribution requirements for the City of Lebanon for the fiscal years 2009, 2010, and 2011 were \$1,177,780, \$1,311,574, and \$1,493,664, respectively, which were paid in full in each year.

For the first six months of 2011, the State of New Hampshire funded 25% of the total employer normal contribution rate for police officers and firefighters employed by the City. As of July 1, House Bill 2 (Chapter 0224, *Laws of 2011*) amended RSA 100-A:16 by eliminating the State's cost sharing, thereby requiring employers to fund 100% of the total employer contributions. The total amount contributed by the State for 2011, \$122,566, is reported as an "on-behalf payment" as an expenditure and revenue on the governmental fund operating statement, and as an expense and revenue on the government-wide Statement of Activities.

NOTE 22 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in 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, was implemented by the City during fiscal year 2011, and 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 2011:

Annual required contribution/OPEB cost	\$ 385,011
Contributions made (pay-as-you-go)	<u>(149,631)</u>
Increase in net OPEB obligation	235,380
Net OPEB obligation, beginning	<u>799,129</u>
Net OPEB obligation, ending	<u><u>\$ 1,034,509</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2011	\$ 385,011	\$ (149,631)	38.90%	\$ 1,034,509

As of January 1, 2010 the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$3,606,104, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,606,104. The covered payroll (annual payroll of active employees covered by the plan) was \$9,903,108 during fiscal year 2011, and the ratio of the UAAL to the covered payroll was 36.4%.

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

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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, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 10% initially, reduced by decrements to an ultimate rate of 5.0% after three years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2011 was 26 years.

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:*** A Group 1 member can retire once their age plus service equals 70.
Group 2 members may retire once they hit age 45 and have 25 years of service.
- c. Benefits/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 July 1, 2010

	<u>Plan</u>	<u>Single</u>	<u>Couple</u>	<u>Family</u>
Pre 65	Blue Choice Plan	\$ 8,595.60	\$ 17,191.32	\$ 23,208.24
	Comp 100 Plan	\$ 9,233.88	\$ 18,467.64	\$ 24,931.44
	Comp 300 Plan	\$ 8,625.60	\$ 17,251.20	\$ 23,289.00
	JY Plan	\$ 9,772.32	\$ 19,544.64	\$ 26,385.24
Post 65	Medicomp MC3	\$ 5,484.48		
	Medicomp MCNRX	\$ 2,742.24		

NOTE 23 – 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 2011, 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.

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

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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, 2011, to be recorded as an insurance expenditure totaled \$226,449. There were no unpaid contributions for the year ended December 31, 2011. The City also paid \$234,470 for workers' compensation during 2011. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

NOTE 24 – 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. There are no limits 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, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on July 1 and ends on June 30 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 25 – CONTINGENT LIABILITIES

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 has received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

NOTE 26 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of Statement No. 54 are mandatory for the City for fiscal year ended December 31, 2011 and accordingly have been implemented. GASB Statements No. 60 through No. 64 were issued during 2010 and 2011, and are not effective for financial statements until the subsequent years.

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 August 24, 2012, the date the December 31, 2011 financial statements were issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (a)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
January 1, 2010	\$ -	\$ 3,606,104	\$ 3,606,104	0.00%	\$ 9,903,108	36.4%

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, 2011.

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, 2011

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 16,036,428	\$ 16,121,323	\$ 84,895
Timber	7,000	8,381	1,381
Excavation	6,000	4,975	(1,025)
Payment in lieu of taxes	1,253,230	1,245,755	(7,475)
Interest and penalties on taxes	210,000	267,424	57,424
Total from taxes	<u>17,512,658</u>	<u>17,647,858</u>	<u>135,200</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	1,850,000	1,840,563	(9,437)
Building permits	550,000	644,640	94,640
Other	102,700	103,591	891
Total from licenses, permits, and fees	<u>2,502,700</u>	<u>2,588,794</u>	<u>86,094</u>
Intergovernmental:			
State:			
Meals and rooms distribution	587,422	587,422	-
Highway block grant	332,870	323,978	(8,892)
Other	3,650	3,644	(6)
Federal:			
FEMA	-	85,428	85,428
Other	36,590	36,586	(4)
Total from intergovernmental	<u>960,532</u>	<u>1,037,058</u>	<u>76,526</u>
Charges for services:			
Income from departments	<u>1,043,340</u>	<u>1,075,537</u>	<u>32,197</u>
Miscellaneous:			
Sale of municipal property	4,500	1,376	(3,124)
Interest on investments	3,000	2,448	(552)
Rent of property	16,400	16,665	265
Fines and forfeits	20,000	28,574	8,574
Other	106,080	196,452	90,372
Total from miscellaneous	<u>149,980</u>	<u>245,515</u>	<u>95,535</u>
Other financing sources:			
Transfers in	<u>1,318,470</u>	<u>1,517,134</u>	<u>198,664</u>
Total revenues and other financing sources	<u>23,487,680</u>	<u>\$ 24,111,896</u>	<u>\$ 624,216</u>
Unassigned fund balance used to reduce tax rate	970,450		
Total revenues, other financing sources, and use of fund balance	<u>\$ 24,458,130</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, 2011

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ 44,666	\$ 393,840	\$ 397,064	\$ 37,636	\$ 3,806
Election and registration	1,850	463,730	438,003	5,284	22,293
Financial administration	26,500	1,798,160	1,691,712	109,340	23,608
Legal	4,923	198,000	235,570	-	(32,647)
Personnel administration	30,000	396,250	329,953	6,000	90,297
Planning and zoning	76,048	648,040	490,765	162,784	70,539
Insurance, not otherwise allocated	-	160,050	169,384	-	(9,334)
Advertising and regional associations	-	156,610	156,602	-	8
Other	4,600	234,320	234,320	-	4,600
Total general government	<u>188,587</u>	<u>4,449,000</u>	<u>4,143,373</u>	<u>321,044</u>	<u>173,170</u>
Public safety:					
Police	44,509	5,344,370	5,174,053	51,927	162,899
Fire	64,785	3,561,780	3,491,386	8,202	126,977
Code enforcement	-	436,290	433,820	-	2,470
Total public safety	<u>109,294</u>	<u>9,342,440</u>	<u>9,099,259</u>	<u>60,129</u>	<u>292,346</u>
Highways and streets:					
Administration	-	569,300	569,643	-	(343)
Highways and streets	132,605	2,808,980	2,762,303	5,540	173,742
Total highways and streets	<u>132,605</u>	<u>3,378,280</u>	<u>3,331,946</u>	<u>5,540</u>	<u>173,399</u>
Health:					
Administration	-	263,540	162,916	-	100,624
Health agencies	-	282,520	282,520	4,600	(4,600)
Total health	<u>-</u>	<u>546,060</u>	<u>445,436</u>	<u>4,600</u>	<u>96,024</u>
Culture and recreation:					
Parks and recreation	-	893,270	866,249	-	27,021
Library	-	1,130,440	1,117,110	13,330	-
Patriotic purposes	-	8,500	9,618	-	(1,118)
Total culture and recreation	<u>-</u>	<u>2,032,210</u>	<u>1,992,977</u>	<u>13,330</u>	<u>25,903</u>
Conservation	1,200	8,380	3,341	-	6,239
Debt service:					
Principal of long-term debt	-	2,519,770	2,519,753	-	17
Interest on long-term debt	-	1,422,390	1,422,317	-	73
Total debt service	<u>-</u>	<u>3,942,160</u>	<u>3,942,070</u>	<u>-</u>	<u>90</u>
Other financing uses:					
Transfers out	-	759,600	765,741	-	(6,141)
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 431,686</u>	<u>\$ 24,458,130</u>	<u>\$ 23,724,143</u>	<u>\$ 404,643</u>	<u>\$ 761,030</u>

SCHEDULE 3
CITY OF LEBANON, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2011

Unassigned fund balance, beginning		\$ 3,905,256
Changes:		
Unassigned fund balance used to reduce 2011 tax rate		(970,450)
2011 Budget summary:		
Revenue surplus (Schedule 1)	\$ 624,216	
Unexpended balance of appropriations (Schedule 2)	<u>761,030</u>	
2011 Budget surplus		1,385,246
Increase in nonspendable fund balance		(89,466)
Increase in assigned fund balance		<u>(4,292)</u>
Unassigned fund balance, ending		<u><u>\$ 4,226,294</u></u>

SCHEDULE 4
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2011

Special Revenue Funds

	Water Treatment and Distribution	Municipal Airport	Public Library	Police Outside Detail	LOST Account	Public Safety Revolving	Farmers Market	Capital Project Fund Airport	Permanent Fund	Total
ASSETS										
Cash and cash equivalents	\$ 272,266	\$ 50	\$ 106,031	\$ 121,426	\$ 939,707	\$ 9,402	\$ 626	\$ 28,494	\$ 69,091	\$ 1,547,093
Investments	-	-	-	-	-	-	-	-	1,006,191	1,006,191
Accounts receivable	47,407	19,461	-	75,281	-	-	-	-	-	142,149
Intergovernmental receivable	-	45,217	-	1,474	-	-	-	23,936	-	70,627
Interfund receivable	-	-	4,801	-	-	-	-	7,761	-	12,562
Prepaid items	8,414	9,215	-	-	-	-	-	-	-	17,629
Restricted - Cash and cash equivalents	1,154,423	36,752	-	-	-	-	-	-	-	1,191,175
Restricted - Investments	549,799	-	-	-	-	-	-	-	-	549,799
Restricted - Accounts receivable	-	5,689	-	-	-	-	-	-	-	5,689
Total assets	\$ 2,032,309	\$ 116,384	\$ 110,832	\$ 198,181	\$ 939,707	\$ 9,402	\$ 626	\$ 60,191	\$ 1,075,282	\$ 4,542,914
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 31,046	\$ 12,473	\$ -	\$ -	\$ 44	\$ -	\$ -	\$ 401	\$ -	\$ 43,964
Interfund payable	-	464,865	9,729	-	-	-	-	-	50,514	525,108
Escrow and performance deposits	-	6,250	-	-	-	-	-	-	-	6,250
Deferred revenue	-	965	-	-	-	-	-	-	-	965
Total liabilities	31,046	484,553	9,729	-	44	-	-	401	50,514	576,287
Fund balances:										
Nonspendable	8,414	9,215	-	-	-	-	-	-	926,544	944,173
Restricted	722,242	34,681	101,103	-	-	-	-	-	98,224	956,250
Committed	1,254,422	-	-	-	-939,663	-	-	-	-	2,194,085
Assigned	16,185	2,000	-	198,181	-	9,725	626	306,760	-	533,477
Unassigned	-	(414,065)	-	-	-	(323)	-	(246,970)	-	(661,358)
Total fund balances	2,001,263	(368,169)	101,103	198,181	939,663	9,402	626	59,790	1,024,768	3,966,627
Total liabilities and fund balances	\$ 2,032,309	\$ 116,384	\$ 110,832	\$ 198,181	\$ 939,707	\$ 9,402	\$ 626	\$ 60,191	\$ 1,075,282	\$ 4,542,914

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, 2011

	Special Revenue Funds							Capital Project Fund Airport	Permanent Fund	Total
	Water Treatment and Distribution	Municipal Airport	Public Library	Police Outside Detail	LOST Account	Public Safety Revolving	Farmers Market			
Revenues:										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 20,871	\$ -	\$ -	\$ -	\$ -	\$ 20,871
Intergovernmental	33,210	6,723	-	-	-	-	-	172,701	-	212,634
Charges for services	2,636,049	452,607	-	407,819	-	37,687	-	-	-	3,534,162
Miscellaneous	91,605	332,997	446,414	-	40,350	-	5,790	-	53,351	970,507
Total revenues	<u>2,760,864</u>	<u>792,327</u>	<u>446,414</u>	<u>407,819</u>	<u>61,221</u>	<u>37,687</u>	<u>5,790</u>	<u>172,701</u>	<u>53,351</u>	<u>4,738,174</u>
Expenditures:										
Current:										
General government	-	-	-	-	-	-	-	-	6,202	6,202
Public safety	-	-	-	353,813	-	46,599	-	-	-	400,412
Water distribution and treatment	1,312,572	-	-	-	-	-	-	-	-	1,312,572
Municipal airport	-	799,733	-	-	-	-	-	-	-	799,733
Culture and recreation	-	-	118,039	-	-	-	6,158	-	-	124,197
Conservation	-	-	-	-	10,923	-	-	-	-	10,923
Debt service:										
Principal	509,185	66,579	-	-	-	-	-	-	-	575,764
Interest	273,649	51,918	-	-	-	-	-	-	-	325,567
Capital outlay	-	-	-	-	-	6,233	-	187,808	-	194,041
Total expenditures	<u>2,095,406</u>	<u>918,230</u>	<u>118,039</u>	<u>353,813</u>	<u>10,923</u>	<u>52,832</u>	<u>6,158</u>	<u>187,808</u>	<u>6,202</u>	<u>3,749,411</u>
Excess (deficiency) of revenues over (under) expenditures	<u>665,458</u>	<u>(125,903)</u>	<u>328,375</u>	<u>54,006</u>	<u>50,298</u>	<u>(15,145)</u>	<u>(368)</u>	<u>(15,107)</u>	<u>47,149</u>	<u>988,763</u>
Other financing sources (uses):										
Transfers in	205,710	270,140	4,801	-	6,141	-	-	7,182	-	493,974
Transfers out	(389,160)	(50,432)	(232,073)	-	-	-	-	-	(23,591)	(695,256)
Total other financing sources and uses	<u>(183,450)</u>	<u>219,708</u>	<u>(227,272)</u>	<u>-</u>	<u>6,141</u>	<u>-</u>	<u>-</u>	<u>7,182</u>	<u>(23,591)</u>	<u>(201,282)</u>
Net change in fund balances	482,008	93,805	101,103	54,006	56,439	(15,145)	(368)	(7,925)	23,558	787,481
Fund balances, beginning	1,519,255	(461,974)	-	144,175	883,224	24,547	994	67,715	1,001,210	3,179,146
Fund balances, ending	<u>\$ 2,001,263</u>	<u>\$ (368,169)</u>	<u>\$ 101,103</u>	<u>\$ 198,181</u>	<u>\$ 939,663</u>	<u>\$ 9,402</u>	<u>\$ 626</u>	<u>\$ 59,790</u>	<u>\$ 1,024,768</u>	<u>\$ 3,966,627</u>

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



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, as of and for the year ended December 31, 2011, which collectively comprise the City of Lebanon's basic financial statements and have issued our report thereon dated August 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Shirley A. Colby, CPA

August 24, 2012

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

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

Compliance

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 the City of Lebanon's major federal program for the year ended December 31, 2011. The City of Lebanon's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Lebanon's management. Our responsibility is to express an opinion on the City of Lebanon's compliance based on our audit.

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

In our opinion, the City of Lebanon complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control over Compliance

Management of the City of Lebanon is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lebanon's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB 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.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Lebanon

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Shirley A. Colby, CPA

August 24, 2012

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. *Financial Statements*

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. There were no material weaknesses identified relating to the internal control over financial reporting.
3. There were no significant deficiencies identified that were not considered material weaknesses relating to the internal control over financial reporting.
4. There were no instances of noncompliance material to the financial statements identified.

B. *Federal Awards*

1. There were no material weaknesses identified relating to the internal control over major programs.
2. There were no significant deficiencies identified that were not considered material weaknesses relating to the internal control over major programs.
3. The auditor's report on compliance for major programs expresses an unqualified opinion.
4. There are no audit findings required to be reported in accordance with section 510(a) of OMB Circular A-133.
5. The program tested as a major program is CFDA No. 66.458: Capitalization Grants for Clean Water State Revolving Funds.
6. The threshold for distinguishing between Types A and B programs was \$300,000.
7. The City of Lebanon was determined to be a low-risk auditee.

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, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying 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:			
DRTC II (note 3)	14.228	09-094-CDED	\$ 455,614
Twin Pines Housing	14.228	11-094-CDHS	274
<i>PROGRAM TOTAL</i>			<u>455,888</u>
U.S. DEPARTMENT OF JUSTICE			
Passed Through the State of New Hampshire Department of Justice			
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	09JAR010A	<u>20,004</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through the State of New Hampshire Department of Transportation			
Airport Improvement Program:			
Obstruction Pole and Light Rehab Phase I	20.106	AIP-36	3,709
Airfield Lighting Upgrade	20.106	AIP-37	1,482
Environmental Assessment Phase I	20.106	AIP-41	101,988
Navigational Aids Asst Phase II	20.106	AIP-42	23,583
Airport Wildlife Hazard Assessment	20.106	AIP-43	12,617
2010 Airport Layout Plan Exh A Recon	20.106	AIP-44	4,014
2011 Airport Env Assess SWPP & SPCC	20.106	AIP-45	23,495
Airport Crack Sealer	20.106	3-330010-46-2011	44,057
<i>PROGRAM TOTAL</i>			<u>214,945</u>
Passed Through the State of New Hampshire Department of Resources and Economic Development			
Recreation Trails Program	20.219	2010-051	<u>9,825</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed Through the State of New Hampshire Department of Environmental Services			
ARRA - Capitalization Grants for Clean Water State Revolving Funds:			
Combined Sewer Separation - Contract No. 4 (note 4)	66.458	CS-3330922-05A	1,031,032
Combined Sewer Separation - Contract No. 7 (note 4)	66.458	CS-3330922-05B	1,839,474
<i>PROGRAM TOTAL</i>			<u>2,870,506</u>
ARRA - Capitalization Grants for Drinking Water Revolving Funds (note 4)	66.468	1321010 ARRA	<u>146,483</u>
U.S. DEPARTMENT OF ENERGY			
Passed Through the State of New Hampshire Office of Energy and Planning			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG):			
Smart Commute Project	81.128	157	91,686
Lebanon Energy Program	81.128	158	10,040
<i>PROGRAM TOTAL</i>			<u>101,726</u>

(Continued)

SCHEDULE II (Continued)
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Federal Expenditures
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-4026-DR-NH	147,716
Homeland Security Grant Program	97.067	FFY2009 HSGP	2,874
DIRECT FUNDING			
U.S. DEPARTMENT OF JUSTICE			
Bullet Proof Vest Partnership Program	16.607	N/A	1,855
Total Expenditures of Federal Awards			\$ 3,971,822

The accompanying notes are an integral part of this schedule.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED
DECEMBER 31, 2011

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, 2011. 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. Subrecipients

Of the federal expenditures presented in the schedule, the City of Lebanon provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.228	Community Development Block Grant/State's Program	\$ 437,613.05

Note 4. Loans Outstanding

The City of Lebanon had the following loan balances outstanding at December 31, 2011. The loans made during the year are included in the federal expenditures presented in the schedule.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balances at December 31, 2011</u>
66.458	Capitalization Grants for Clean Water State Revolving funds	\$ 6,837,910.22
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 1,294,062.00