CITY OF LEBANON,
NEW HAMPSHIRE

ANNUAL FINANCIAL REPORT

AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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, 2012, and the respective changes in financial position and the respective budgetary comparison for the general fund, major sewage collection and disposal fund and major solid waste disposal fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 12) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 48) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain

limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated July 29, 2013 on our consideration of the City of Lebanon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lebanon's internal control over financial reporting and compliance.

Gregory A. Colley, CPA

July 29, 2013

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, 2012. 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 $102,414,065, a net increase of $2,146,317, or 2.1%, in comparison to the prior year.

- Governmental funds reported combined ending fund balances of $29,484,400, a net decrease of <$201,699> or <0.7%> in comparison to the prior year.

- Unassigned fund balance for the general fund was $4,920,043, a net increase of $693,749, or 16.4%, in comparison to the prior year's unassigned fund balance.

- Total general obligation bonds payable was $51,799,544, a net increase of $106,528, or 0.2%, in comparison to the prior year. Total annual requirements to amortize general obligation bonds payable (principal and interest) was $69,373,556, a net decrease of <$868,810> or <1.2%>, in comparison to the prior year.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The government-wide financial statements can be found on pages 13 - 14 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 15 - 18 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 22 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 23 - 47 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 schedule of funding progress for other postemployment benefits (OPEB) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45 (page 48). 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 50 - 54 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 $102,414,065, a net increase of $2,146,317, or 2.1%, in comparison to the prior year.

The largest segment of net position, $84,230,972, or 82.3%, 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 position, $1,487,931, or 1.5%, represents resources that are subject to external restrictions on how they may be used. The remaining portion of total net position, $16,695,162, or 16.3%, represents the part of net position of the City that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements (unrestricted).

An analysis of how the net position has changed follows. This report shows that governmental activities resulted in a net position increase of $2,133,423 compared to the prior year.

Governmental Activities. Program revenues of $13,065,692 covered 38.5% of program expenses. The remaining 61.5% was financed by general revenues including property and other taxes, licenses & permits, grants and contributions not restricted to specific programs and other general revenues.

Change in Net Position, December 31, 2012, Governmental Activities

	2010	2011	2012
Revenues:			
Program Revenues –			
Charges for Services	$10,716,880	$11,798,115	$11,565,133
Operating Grants and Contributions	$1,565,748	$1,288,642	$1,318,955
Capital Grants and Contributions	$1,153,006	$170,888	$181,604
General Revenues –			
Property and Other Taxes	$17,417,698	$17,668,729	$18,234,684
Licenses & Permits	$2,333,959	$2,588,794	$2,246,525
Grants and Contributions Not Restricted to Specific Programs	$647,310	$591,271	$611,165
Other General Revenues	$707,068	$1,958,545	$1,943,976
Total Revenues	$34,541,669	$36,064,984	$36,102,042
Special Item*	$0	$647,031	$0
Total Revenues and Special Item	$34,541,669	$36,712,015	$36,102,042
Expenses:			
General Government	$4,804,591	$5,183,556	$6,752,512
Public Safety (Police, Fire and Code Enforcement)	$9,746,238	$9,936,474	$9,894,849
Highway and Streets	$4,017,569	$5,020,032	$3,027,380
Sanitation (Solid Waste Disposal and Sewage Collection and Disposal)	$4,019,459	$5,528,316	$5,142,894
Water Distribution and Treatment	$1,850,336	$1,725,337	$1,721,004
Health (Human Services)	$447,311	$1,584,028	$1,417,499
Municipal Airport	$1,616,717	$485,332	$414,807
Culture and Recreation (Library and Parks and Recreation)	$1,968,178	$2,170,338	$2,057,054
Conservation	$87,311	$14,264	$39,067
Interest on Long-term Debt	$1,985,111	$2,078,897	$2,110,156
Capital Outlay	$2,493,968	$290,735	$1,391,397
Total Expenses	$33,036,789	$34,017,309	$33,968,619
Change in Net Position	$1,504,880	$2,694,706	$2,133,423
Net Position Beginning 1/1 (Restated 2011/2012)	$96,355,670	$97,573,042	$100,280,642
Net Position Ending 12/31	$97,860,550	$100,267,748	$102,414,065

*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 was eligible for 50% forgiveness of the principal in the amount of $647,031. The outstanding balance and required debt payments shown in the 2011 financial statements did not reflect this discount as the principal was not forgiven until the first payment was made in May of 2012. The $647,031 is reported in the 2011 government-wide financial statements as an intergovernmental receivable on the State of Net Assets and a special item on the Statement of Activities.

The primary funding source for governmental activities are taxes of $18,234,684 (consisting of property taxes of $16,635,225 and other taxes of $1,599,459 – the latter includes several payment-in-lieu of property taxes amounting to $1,276,467), which account for 50.5% of all revenues, followed by charges for services at 32.0% 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 $10,085,819, comprising 87.2% of the total charges for services.

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, 2012, governmental funds reported combined ending fund balances of $29,484,400, a decrease of <$201,699> from the prior year.

In fiscal year 2012, 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, 2012, general fund unassigned fund balance was $4,920,043; total fund balance was $6,365,914. 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:

Unassigned Fund Balance	Expenditures and Other Financing Uses	% of Total General Fund Expenditures and Other Finance Uses
$4,920,043	$25,006,403	19.7%

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 $137,100,583 (net of accumulated depreciation), an increase of $4,184,799 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:

- Engineering/Construction for Combined Sewer Overflow Separation and Utility Replacement Improvements.
- Streets Rehabilitation and Reconstruction.
- Sewage Collection System Evaluation.
- Hanover Street Sewer Replacement.
- Water Main Improvements.
- Tropical Storm Irene Damage Repairs.
- Water Treatment Facility Infrastructure Improvements.
- Ambulance Replacement.
- Engineering and Construction for Landfill Phase 2C Construction.
- Lebanon Municipal Airport Improvements.
- Engineering/Design for Phase II Wastewater Treatment Facility Improvements.

Capital Assets (Net of Depreciation)

	2011	2012
Land	$7,901,900	$8,026,440
Land Improvements	$13,010,713	$12,030,776
Buildings and Building Improvements	$27,832,805	$27,035,137
Machinery and Equipment	$5,881,407	$5,250,941
Infrastructure	$57,367,505	$73,695,753
Intangible Assets	$82,197	$82,197
Construction In Progress	$20,839,257	$10,979,339
Total	$132,915,784	$137,100,583

- The capital improvements fund is the 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 2012 was $13,475,000. Highlights of the 2012 capital budget include:

Type of Project	Amount
Bridges	$630,000
Streets and Utilities	$6,830,000
Vehicles and Equipment	$270,000
Landfill Equipment and Infrastructure	$3,800,000
Airport Equipment and Infrastructure	$1,895,000
Other	$50,000
Total	$13,475,000

Long-Term Liabilities. At the end of the fiscal year, total general obligation bonds payable was $51,799,544, a net increase of $106,528 compared to the prior year.
Total annual requirements to amortize general obligation bonds payable (principal and interest) was $69,346,556, a net decrease of <$895,810>, or <1.3%>, compared to the prior year. All outstanding debt is general obligation debt backed by the full faith and credit of the City.

	Balance 1/1	Additions	Reductions	Balance 12/31
General Obligation Bonds Payable	$51,693,016	$4,734,900	($4,628,372)	$51,799,544
Unamortized Bond Premium	$1,300,683	$255,100	($150,148)	$1,405,635
Capital Leases Payable	$70,400	$0	($27,346)	$43,054
Compensated Absences Payable	$1,576,153	$82,511	$0	$1,658,664
Accrued Landfill Closure and Postclosure Care Costs	$6,820,068	$756,342	$0	$7,576,410
Total	$61,460,320	$5,828,853	($4,805,866)	$62,483,307
General Obligation Bonds Supported by:				
General Fund	$31,613,538	$428,374	($2,549,844)	$29,492,068
Solid Waste Disposal Fund	$290,000	$3,576,300	($90,000)	$3,776,300
Water Distribution and Treatment Fund	$9,299,929	$219,000	($1,302,082)	$8,216,847
Sewage Collection and Disposal Fund	$9,459,286	$511,226	($619,867)	$9,350,645
Municipal Airport Fund	$1,030,263	$0	($66,579)	$963,684
Total General Obligation Bonds	$51,693,016	$4,734,900	($4,628,372)	$51,799,544

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

Date Authorized	Purpose	Total	Tax Rate Supported	Water Rate Supported	Sewer Rate Supported
12/19/01	Wastewater Treatment Facility Improvements	$1,102,184	$0	$0	$1,102,184
12/18/02	Wastewater Treatment Facility Improvements	$1,715,000	$0	$0	$1,715,000
12/17/03	Wastewater Treatment Facility Improvements	$687,000	$0	$0	$687,000
12/9/04	Wastewater Treatment Facility Improvements	$720,000	$0	$0	$720,000
12/15/05	Wastewater Treatment Facility Improvements	$1,350,000	$0	$0	$1,350,000
11/7/07	Wastewater Treatment Facility Improvements	$5,300,000	$0	$0	$5,300,000
5/6/09	Combined Sewer Overflow Separation and Utility	$8,220,000	$3,288,000	$2,466,000	$2,466,000
12/21/11	Combined Sewer Overflow Separation and Utility Replacement	$3,750,000	$1,500,000	$1,125,000	$1,125,000
12/21/11	Mechanic Street Bridge	$126,000	$126,000	$0	$0
12/21/11	Water Treatment Facility Improvements	$1,050,000	$0	$0	$1,050,000
	Total	$24,020,184	$4,914,000	$3,591,000	$15,515,184

F. NEXT YEAR'S BUDGETS AND RATES

- *The 2012 total net assessed valuation* (on which the tax rate for municipal, county and local education tax is computed) increased $21,727,227 from 2011, or 1.2%, from $1,836,783,431 to $1,858,510,658, the result of bricks and mortar incremental growth. (A citywide assessment update took place in 2010. According to State law: annually, the assessors – Lebanon Board of Assessors – shall adjust assessments to reflect changes so that all assessments are reasonably proportional within the City – 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.)

- *The property 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 the following 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.

- *Property Taxes and Estimated 2013 Municipal Tax Rate:* The 2013 City Budget calls for an estimated 2013 Municipal Tax Rate (excluding school and county components) of $9.44 per $1,000 of assessed value. That is $0.19, or 2.0%, higher than the comparable 2012 rate. A property assessed for tax purposes for $250,000 will have an estimated 2013 municipal tax bill of about $2,360, an increase of $47 over the 2012 municipal tax bill. The estimated 2013 Municipal Tax Rate was calculated assuming an increase in assessed bricks-and-mortar growth of 1.5%. Increases in total net assessed valuation influence the tax rate downward; the opposite occurs for decreases.

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

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

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

  Remittance of School District and County Tax Assessments – *Property* taxes billed and collected by the city include taxes levied for the Lebanon School District and Grafton County, which are remitted to those governmental units as required by law. The former is paid over the course of the year in accordance with NH RSA 198:5 based on a cash requirements schedule provided by the district; the latter is paid in December in accordance with NH RSA 29:11. Both the Lebanon School District and Grafton County receive their respective assessment no matter what may transpire respecting abatement activity and outcomes – ultimate responsibility for the collection of taxes rests with the City.

- *Property Tax Collection:* The following table shows tax collection status for 2008 - 2013. The 2013 Net Property Tax Levy is the first half of the year estimated billing. The 2010 Amount Uncollected at Year End is an anomaly resulting from a delay in sending out tax bills because of a citywide assessment update.

Tax Year	Net Property Tax Levy	Amount Uncollected at Year End	$ Uncollected 7/5/13	% Uncollected 7/5/13
2013	$22,447,487	-	$1,736,978	7.7%
2012	$44,683,504	$1,860,639	$448,310	1.0%
2011	$44,484,543	$1,462,322	$384,055	0.9%
2010	$42,543,613	$7,472,963	$331,512	0.8%
2009	$42,078,854	$1,532,926	$165,978	0.4%
2008	$41,731,108	$1,525,116	$145,473	0.4%

Landfill Fees: The fee for disposing solid waste at the landfill has been $68.68 a ton since 2007. No change was proposed for 2013. The estimated annual cost for an individual, based on an average of 2.92 lbs of trash generated per day per person (4.43 pounds gross less 1.51 pounds recycled and composted or 0.5329 tons per year per person) is $36.60; for a household based on the Statewide 2.48 persons per household the estimated cost is $90.77.

In addition to processing City waste, municipal solid waste (MSW) is accepted from 12 Vermont and 11 New Hampshire communities. 38,409.39 tons of MSW were processed in 2012 – 33.2% Vermont; 66.8% New Hampshire – 799.15 tons less than 2011 (39,208.78). Through June 30, 2013, 17,898.53 tons of MSW have been processed, 694.93 tons less than the same period in 2012. Processed MSW tonnage for 2006, 2007, 2008, 2009, and 2010 was 49,716.39, 48,029.05, 46,567.99, 43,232.74, and 40,289.29, respectively. It appears 2013 tonnage may be lower than 2012.

- *Water and Sewer Service Fees:* The 2013 Water Treatment and Distribution Fund and Sewage Collection and Disposal Fund budgets include 5% and 9% water and sewer service rate increases applicable to usage occurring during the period of January through September.

The New Hampshire Department of Environmental Services estimates annual domestic water consumption of 67,389 gallons (9,009.23 cubic feet – 7.48 gallons per cubic foot) which translates into 184.63 gallons (24.68 cf) per day and 74.45 gallons (9.95 cf) per person based on a Statewide 2.48 persons per household (consisting of all the people who occupy a housing unit) – or 27,174.25 gallons (3,632.92 cf) per year. Individual circumstances can affect actual usage as can the type and condition of appliances, fixtures, and plumbing.

2013 Water Service Rate Impact: The estimated annual metered water usage cost for an individual is $146.66 ($40.37 X 3,633 cf/1,000 cf); for a household $363.72 ($146.66 X 2.48). Estimated annual household water service costs, as a percentage of Statewide median household income ($64,664), is .56%. 2013 Sewer Service Rate Impact: The estimated annual sewer usage cost (based on metered water consumption) for an individual is $261.47 ($71.97 X 3,633 cf/1,000 cf); for a household $648.45 ($261.47 X 2.48). Estimated annual household water service costs, as a percentage of Statewide median household income ($64,664), is 1.00%.

- *Labor Force Composition:* The 2013 City Budget has 181.31 full-time equivalent (FTE) positions (172.83 full-time; 8.48 regular part-time positions excluding seasonal and occasional employees and call firefighters). 122.48 positions, or 67.6%, are represented by one of four unions. Positions may be occupied or vacant and funded or unfunded. Positions are required to have an approved budget before they can be filled. There presently are 13.73 vacant positions (13.00 full- and .73 regular part-time). 7.73 positions are expected to remain vacant in 2013 as a result of budgetary action in 2012 and 2013.

- *The 2013 City Budget* is comprised of $18,143,560 for personnel services (wages and statutory and non-statutory employee benefits); $12,937,050 for contractual services ($7,750,000 for capital improvements); $3,150,110 for materials and supplies; $1,803,000 for property ($1,730,000 for capital improvements); $6,697,690 for debt service; and $3,484,740 for interfund transfers.

Department operations and maintenance expenditures of $26,553,720 make up 57.5% of the budget. This excludes capital improvements, debt service, and interfund transfers. As a component of department operations and maintenance expenditures, personnel services are 68.3%; contractual services 19.5%; materials and supplies 11.9%; and property 0.3%.

Non-department expenditures of $19,662,430 make up 42.5% of the budget. This consists of capital improvements, debt service, and interfund transfers. As a component of non-department expenditures, capital improvements are 48.2%, debt service 34.1%; and interfund transfers 17.7%. Adopted 2013 City expenditures and other financing uses budget follows:

	2012	2013			
Appropriations by Fund	**Final Budget**	**Original**	**$ Chng**	**% Chng**	**% of**
General	$24,953,970	$25,172,650	$218,680	0.9%	54.5%
Solid Waste Disposal	$2,815,740	$3,286,830	$471,090	16.7%	7.1%
Water Treatment and Distribution	$2,859,180	$3,117,940	$258,760	9.1%	6.7%
Sewage Collection and Disposal	$4,132,940	$4,189,810	$56,870	1.4%	9.1%
Municipal Airport	$981,880	$950,920	($30,960)	-3.2%	2.1%
Emergency Management	$18,000	$18,000	$0	0.0%	0.0%
Capital Improvements	$13,475,000	$9,480,000	($3,995,000)	-29.6%	20.5%
Total	$49,236,710	$46,216,150	($3,020,560)	-6.1%	

- *Combined Sewer Overflow and Utility Replacement Improvements – the Largest Capital Project in the History of the City:* The U.S. Environmental Protection Agency (EPA) notified the City in November 2007 that it planned to file a lawsuit in the U.S. District Court for the State of New Hampshire regarding alleged violations of the Clean Water Act based on a sewer and storm water system in certain older sections of the City that discharged untreated sewer and storm water into two rivers and a brook. As of 2000, the City's system consisted of approximately 38 miles of sewer and interceptors, with approximately 40% of the sewer system comprised of combined sewers conveying both sanitary sewer and storm water flows.

  In 2000, the EPA issued an Administrative Order that required the City to eliminate six of seven combined sewer overflows by December 31, 2008 and the seventh by December 31, 2012. The City made substantial progress on this but faced a series of logistical challenges that hampered its efforts and delayed the schedule. Because of the delay and the inability of the City to fulfill the requirements of the Administrative Order, the EPA and City negotiated the terms of a consent decree with a revised schedule to settle the lawsuit that was filed at the same time at the federal district court on May 27, 2009. The revised schedule will complete the elimination of combined sewer overflows no later than 2020.

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

  From 2000 through 2013, the City has appropriated $43.288 million for combined sewer overflow separation and utility replacement (although not technically part of the combined sewer overflow separation and utility replacement project, $2.130 million was appropriated for what the New Hampshire Department of Environmental Services identified as related sewer work in 2013); an additional $12.060 million was identified in the City's 2013 - 2018 Capital Improvements Program (the 2014 - 2019 CIP is not yet completed) to be appropriated between 2013 – 2018 bringing the total appropriation for the work when completed to $55.348 million, subject to annual revision depending on construction market activity and how that activity translates into costs and timelines, construction conditions and engineering revisions.

  Debt is the primary source of financing supported by an apportionment to General Fund, Water Treatment and Distribution Fund and Sewage Collection and Disposal Fund on a 40%, 30%, and 30% basis, respectively. The former is primarily supported through property taxation; the latter two are supported by user fees.

Combined sewer overflow separation and utility replacement related debt issuance comprise about 37.3% of the City's total debt service outstanding at December 31, 2013 and about 36.4% and 40.2% of principal and interest outstanding, respectively.

- General Fund supported combined sewer overflow separation debt issuance is about 28.9%, 28.0%, and 31.6% of total fund related debt service and principal and interest, respectively.

- Water Treatment and Distribution Fund supported sewer overflow separation and utility replacement debt issuance is about 67.8%, 66.6%, and 71.4% of total fund related debt service and principal and interest, respectively.

- Sewage Collection and Disposal Fund supported sewer overflow separation and utility replacement debt issuance is about 49.5%, 50.0%, and 48.2% of total fund related debt service and principal and interest, respectively.

G. REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

EXHIBIT A
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Net Position
December 31, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 28,859,468
Investments	17,024,709
Receivables, net of allowances for uncollectible	3,473,230
Intergovernmental	1,187,683
Prepaid items	122,040
Capital assets, not being depreciated:	
Land	8,026,440
Construction in progress	10,979,339
Intangibles	82,197
Capital assets, net of accumulated depreciation:	
Land improvements	12,030,776
Buildings and building improvements	27,035,137
Machinery and equipment	5,250,941
Infrastructure	73,695,753
Total assets	187,767,713
LIABILITIES	
Accounts payable	235,018
Retainage payable	465,013
Contract payable	673,734
Accrued interest payable	891,778
Intergovernmental payable	19,159,298
Escrow and performance deposits	264,869
Deferred revenue	6,176
Noncurrent liabilities:	
Due within one year:	
Bonds	4,224,819
Unamortized bond premium	87,639
Capital leases	18,206
Compensated absences	64,636
Accrued landfill closure and postclosure care costs	18,400
Due in more than one year:	
Bonds	47,574,725
Unamortized bond premium	1,317,996
Capital leases	24,848
Compensated absences	1,594,028
Other postemployment benefits	1,174,455
Accrued landfill closure and postclosure care costs	7,558,010
Total liabilities	85,353,648
NET POSITION	
Net investment in capital assets	84,230,972
Restricted for:	
Perpetual care	936,834
Capital project	551,097
Unrestricted	16,695,162
Total net position	$ 102,414,065

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, 2012

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position
Governmental activities:					
General government	$ 6,752,512	$ 134,864	$ 526,584	$ -	$ (6,091,064)
Public safety	9,894,849	1,051,903	174,172	-	(8,668,774)
Highways and streets	3,027,380	4,858	280,093	-	(2,742,429)
Sanitation	5,142,894	6,981,297	29,928	-	1,868,331
Water distribution and treatment	1,721,004	2,654,166	33,283	-	966,445
Municipal airport	1,417,499	450,356	14,181		(952,962)
Health	414,807	-	-	-	(414,807)
Culture and recreation	2,057,054	287,689	19,868	-	(1,749,497)
Conservation	39,067	-	-	-	(39,067)
Interest on long-term debt	2,110,156	-	-	-	(2,110,156)
Capital outlay	1,391,397	-	240,846	181,604	(968,947)
Total governmental activities	$ 33,968,619	$ 11,565,133	$ 1,318,955	$ 181,604	(20,902,927)

General revenues:	
Taxes:	
Property	16,635,225
Other	1,599,459
Motor vehicle permit fees	1,922,713
Licenses and other fees	323,812
Grants and contributions not restricted to specific programs	611,165
Miscellaneous	1,943,976
Total general revenues	23,036,350
Change in net position	2,133,423
Net position, beginning, as restated (see Note 17)	100,280,642
Net position, ending	$ 102,414,065

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, 2012

	General	Sewage Collection and Disposal	Solid Waste Disposal	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 11,912,649	$ 2,135,530	$ 3,624,275	$ 8,425,177	$ 2,761,837	$ 28,859,468
Investments	2,105,100	50,007	7,843,626	4,992,191	2,033,785	17,024,709
Receivables, net of allowance for uncollectible:						
Taxes	2,850,584	-	-	-	-	2,850,584
Accounts	56,562	57,853	382,000	3,100	123,131	622,646
Intergovernmental	54,162	29,928	-	599,446	125,525	809,061
Interfund receivable	472,865	-	-	-	36,302	509,167
Voluntary tax liens	50,588	-	-	-	-	50,588
Voluntary tax liens reserved until collected	(50,588)	-	-	-	-	(50,588)
Prepaid items	92,973	7,388	4,345	-	17,334	122,040
Total assets	$ 17,544,895	$ 2,280,706	$ 11,854,246	$ 14,019,914	$ 5,097,914	$ 50,797,675
LIABILITIES						
Accounts payable	$ 170,547	$ 11,761	$ 19,805	$ -	$ 32,905	$ 235,018
Contract payable	-	-	-	673,734	-	673,734
Intergovernmental payable	10,721,681	3,352	-	8,434,265	-	19,159,298
Interfund payable	24,510	-	-	-	484,657	509,167
Retainage payable	-	-	-	465,013	-	465,013
Escrow and performance deposits	257,283	-	-	-	7,586	264,869
Deferred revenue	4,960	-	-	-	1,216	6,176
Total liabilities	11,178,981	15,113	19,805	9,573,012	526,364	21,313,275
FUND BALANCES (DEFICITS)						
Nonspendable	92,973	7,388	4,345	-	954,168	1,058,874
Restricted	15,909	-	-	551,097	1,115,303	1,682,309
Committed	202,483	2,255,924	11,819,740	-	2,773,761	17,051,908
Assigned	1,134,506	2,281	10,356	3,895,805	408,521	5,451,469
Unassigned	4,920,043	-	-	-	(680,203)	4,239,840
Total fund balances	6,365,914	2,265,593	11,834,441	4,446,902	4,571,550	29,484,400
Total liabilities and fund balances	$ 17,544,895	$ 2,280,706	$ 11,854,246	$ 14,019,914	$ 5,097,914	$ 50,797,675

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

EXHIBIT C-2
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Position
December 31, 2012

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balances of governmental funds (Exhibit C-1)		$ 29,484,400
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost	$ 220,239,563	
Less accumulated depreciation	(83,138,980)	
		137,100,583
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	$ (509,167)	
Payables	509,167	
		-
Long-term assets are not available to pay for current-period expenditures, and therefore, are not reported in governmental funds		
Intergovernmental receivable		378,622
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(891,778)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	$ 51,799,544	
Unamortized bond premium	1,405,635	
Capital leases	43,054	
Compensated absences	1,658,664	
Other postemployment benefits	1,174,455	
Accrued landfill closure and postclosure care costs	7,576,410	
		(63,657,762)
Net position of governmental activities (Exhibit A)		$ 102,414,065

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, 2012

	General	Sewage Collection and Disposal	Solid Waste Disposal	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	$ 18,219,858	$ -	$ -	$ -	$ 14,826	$ 18,234,684
Licenses and permits	2,246,525	-	-	-	-	2,246,525
Intergovernmental	1,667,381	29,928	-	240,846	227,534	2,165,689
Charges for services	1,130,389	3,987,465	2,993,832	-	3,453,447	11,565,133
Miscellaneous	550,178	87,830	227,370	234,882	843,716	1,943,976
Total revenues	23,814,331	4,105,223	3,221,202	475,728	4,539,523	36,156,007
EXPENDITURES						
Current:						
General government	4,763,017	-	-	-	5,836	4,768,853
Public safety	9,544,808	-	-	-	290,867	9,835,675
Highways and streets	3,023,492	-	-	-	-	3,023,492
Water distribution and treatment	-	-	-	-	1,261,203	1,261,203
Municipal airport	-	-	-	-	742,708	742,708
Sanitation		2,078,325	1,302,583	-	-	3,380,908
Health	414,807	-	-	-	-	414,807
Culture and recreation	2,020,489	-	-	-	45,155	2,065,644
Conservation	6,834	-	-	-	153,227	160,061
Debt service:				-		
Principal	2,549,844	619,866	90,000	-	721,630	3,981,340
Interest	1,417,436	399,488	13,638	-	443,995	2,274,557
Capital outlay	565,429	-	-	8,671,592	201,437	9,438,458
Total expenditures	24,306,156	3,097,679	1,406,221	8,671,592	3,866,058	41,347,706
Excess (deficiency) of revenues over (under) expenditures	(491,825)	1,007,544	1,814,981	(8,195,864)	673,465	(5,191,699)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,526,437	-	-	470,000	465,224	2,461,661
Transfers out	(700,247)	(533,329)	(694,319)	-	(533,766)	(2,461,661)
Bond proceeds	-	-	-	4,734,900	-	4,734,900
Premium on bonds issued	-	-	-	255,100	-	255,100
Total other financing sources (uses)	826,190	(533,329)	(694,319)	5,460,000	(68,542)	4,990,000
Net change in fund balances	334,365	474,215	1,120,662	(2,735,864)	604,923	(201,699)
Fund balances, beginning, as restated (see Note 17)	6,031,549	1,791,378	10,713,779	7,182,766	3,966,627	29,686,099
Fund balances, ending	$ 6,365,914	$ 2,265,593	$ 11,834,441	$ 4,446,902	$ 4,571,550	$ 29,484,400

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, 2012

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances of governmental funds (Exhibit C-3)		$ (201,699)
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	$ 8,100,277	
Depreciation expense	(3,915,478)	
		4,184,799
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	$ (2,461,661)	
Transfers out	2,461,661	
		-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Decrease in deferred aid revenue		(53,965)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Proceeds of bonds issued	$ (4,734,900)	
Premium on bonds issued	(255,100)	
Repayment of bond principal	3,981,341	
Repayment of capital lease principal	27,346	
Amortization of bond premium	150,148	
		(831,165)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	$ 14,252	
Increase in compensated absences payable	(82,511)	
Increase in postemployment benefits payable	(139,946)	
Increase in accrued landfill closure and postclosure care costs	(756,342)	
		(964,547)
Changes in net position of governmental activities (Exhibit B)		$ 2,133,423

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, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	$ 18,237,355	$ 18,219,858	$ (17,497)
Licenses and permits	2,240,330	2,246,525	6,195
Intergovernmental	936,175	936,539	364
Charges for services	987,160	1,046,758	59,598
Miscellaneous	187,920	387,137	199,217
Total revenues	22,588,940	22,836,817	247,877
EXPENDITURES			
Current:			
General government	4,507,480	4,321,644	185,836
Public safety	9,739,280	9,311,543	427,737
Highways and streets	3,445,790	3,100,777	345,013
Health	524,570	424,807	99,763
Culture and recreation	1,976,420	1,929,606	46,814
Conservation	8,380	6,834	1,546
Debt service:			
Principal	2,577,330	2,549,844	27,486
Interest	1,532,530	1,417,436	115,094
Total expenditures	24,311,780	23,062,491	1,249,289
Excess (deficiency) of revenues over (under) expenditures	(1,722,840)	(225,674)	1,497,166
OTHER FINANCING SOURCES (USES)			
Transfers in	1,546,630	1,526,437	(20,193)
Transfers out	(642,190)	(668,247)	(26,057)
Total other financing sources (uses)	904,440	858,190	(46,250)
Net change in fund balances*	$ (818,400)	632,516	$ 1,450,916
Increase in nonspendable fund balance		(3,506)	
Decrease in assigned fund balance (unrelated to encumbrances)		51,845	
Unassigned fund balance, beginning, as restated (see Note 17)		4,239,188	
Unassigned fund balance, ending		$ 4,920,043	

*The net change in fund balance was included in the budget as an appropriation (spenddown) of fund balance.

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, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental	$ 29,930	$ 29,928	$ (2)
Charges for services	4,040,320	3,987,465	(52,855)
Miscellaneous	62,690	87,671	24,981
Total revenues	4,132,940	4,105,064	(27,876)
EXPENDITURES			
Current:			
Sanitation	2,480,180	2,078,087	402,093
Debt service:			
Principal	619,890	619,866	24
Interest	399,550	399,488	62
Total expenditures	3,499,620	3,097,441	402,179
Excess of revenues over expenditures	633,320	1,007,623	374,303
OTHER FINANCING USES:			
Transfers out	(633,320)	(633,329)	(9)
Net change in fund balances	$ -	374,294	$ 374,294
Increase in nonspendable fund balance		(129)	
Decrease in assigned fund balance		24,327	
Committed fund balance, beginning		1,469,864	
Committed fund balance, ending		$ 1,868,356	

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, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for services	$ 2,686,540	$ 2,993,832	$ 307,292
Miscellaneous	129,200	175,070	45,870
Total revenues	2,815,740	3,168,902	353,162
EXPENDITURES			
Current:			
Sanitation	1,330,920	1,286,605	44,315
Debt service:			
Principal	90,000	90,000	-
Interest	13,640	13,638	2
Total expenditures	1,434,560	1,390,243	44,317
Excess of revenues over expenditures	1,381,180	1,778,659	397,479
Other financing uses:			
Transfers out	(1,381,180)	(1,238,509)	142,671
Net change in fund balances	$ -	540,150	$ 540,150
Increase in nonspendable fund balance		(165)	
Increase in assigned fund balance		(535)	
Committed fund balance, beginning		2,064,026	
Committed fund balance, ending		$ 2,603,476	

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 Net Position
December 31, 2012

	Agency Fund
ASSETS	
Cash and cash equivalents	$ 315,266
Investments	2,771,368
Total assets	3,086,634
LIABILITIES	
Due to other governmental units	2,971,161
Due to others	115,473
Total liabilities	3,086,634
NET POSITION	
Held in trust for special purposes	$ -

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, 2012

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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 Position 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 position. Net position is reported as one of three categories: net investment in capital assets; 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 funds 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.

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 Position. 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 – 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 Town 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 – accounts 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 and 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 under Revenues-Nonexchange Transactions) to be available if they are collected within 60 days of the end of the current period. Property 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. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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 is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383.22. Funds may be deposited in banks outside 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 Investments

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

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

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

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

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

1-F Receivables

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

1-G Interfund Balances

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

1-H 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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

1-I Capital Assets

Capital assets, which include property, plant and equipment (infrastructure is not included), are reported in the applicable governmental column in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than $10,000 and an estimated minimum useful life in excess of one year. As the City constructs or acquires additional capital assets each year, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

	Years
Capital Asset Classes	
Land improvements	20-30
Building and building improvements	20-30
Machinery and equipment	3-25
Infrastructure	50

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

1-J Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as *restricted net position* and *unrestricted net position* in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider *restricted net position* to have been depleted before *unrestricted net position* is applied.

1-K Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

1-L Revenues and Expenditures/Expenses

General Revenues - General revenues represent the following; tax revenue recorded when a warrant for collection is committed to the tax collector, motor vehicle fees, licenses, fees, unrestricted grants, investment income and other miscellaneous items recorded when collected/received.

Program Revenues - Amounts recorded as program revenues include; charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or segment, and grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

Property Taxes - Property tax billings occur semiannually and are based on the assessed inventory values as of April 1 of each year. Billings for the year were due on June 22, 2012 and November 23, 2012. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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

The City net assessed valuation as of April 1, 2012 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	$ 1,771,839,658
For all other taxes	$ 1,858,510,658

The tax rates and amounts assessed for the year ended December 31, 2012 were as follows:

	Per $1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	$9.25	$ 17,188,612
School portion:		
State of New Hampshire	$2.49	4,404,043
Local	$10.83	20,134,142
County portion	$1.62	3,014,765
Total		$ 44,741,562

1-M 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 Statement of Net Position, deferred revenue is classified as unearned revenue.

1-N Compensated Absences

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

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

1-O Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial 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 and discounts.

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-P Claims and Judgments

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

1-Q Interfund Activities

Interfund activities are reported as follows:

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

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

1-R Equity/Fund Balance Policy/Classifications

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

a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, 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 net investment in capital assets. Because the City has not reported all of its capital assets, this amount is a negative balance.

b) *Restricted net position* – 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 position* – All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Policy/Classifications - In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific programs. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The classifications used in the City's governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts 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.

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, grants, capital improvements, 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.

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. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. Expendable trusts, heritage funds, sewage collection and disposal, solid waste disposal, water treatment and distribution, police outside details, LOST account, and public safety revolving funds are included in this classification.

Assigned – This classification includes amounts that are constrained by the City intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds, except for those that are restricted and the general fund. The City has assigned funds consisting of encumbrances, EMS funds, other special revenue funds, and farmer's market funds at year-end.

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.

1-S Impact of Recently Issued Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASB No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Statement of Net Assets is renamed the Statement of Net Position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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. At its annual meeting, the City adopts a budget for the current year for the general, sewage collection and disposal, solid waste disposal and capital improvement 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 2012, $818,400 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

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

The following reconciles the general, sewage collection and disposal and solid waste disposal funds budgetary basis to the GAAP basis:

	General	Sewage Collection and Disposal	Solid Waste Disposal
Revenues and other financing sources:			
Per Exhibit D-1, D-2, and D-3 (budgetary basis)	$ 24,363,254	$ 4,105,064	$ 3,168,902
Adjustment:			
Basis difference:			
GASB Statement No. 54:			
Miscellaneous revenue of the expendable trust funds	2,478	159	52,300
Charges for services and misc. revenue of the other special revenue funds	244,194	-	-
Intergovernemntal revenue of the CDBG fund	491,073	-	-
Intergovernemntal revenue of the grants fund	239,769	-	-
Per Exhibit C-3 (GAAP basis)	$ 25,340,768	$ 4,105,223	$ 3,221,202
Expenditures and other financing uses:			
Per Exhibit D-1, D-2, and D-3 (budgetary basis)	$ 23,730,738	$ 3,730,770	$ 2,628,752
Adjustment:			
Basis differences:			
Encumbrances, beginning	404,643	-	-
Encumbrances, ending	(316,610)	-	-
GASB Statement No. 54:			
Expendable trust fund expenditures	378	238	15,978
Grants fund expenditures	239,769	-	-
EMS fund expenditures	8,805	-	-
Heritage fund expenditures	41	-	-
Other special revenue fund expenditures	415,566	-	-
CDBG fund expenditures	491,073	-	-
Transfer from expendable trust funds to capital improvement funds	270,000	200,000	-
Eliminated transfers between blended funds	(238,000)	(300,000)	(544,190)
Per Exhibit C-3 (GAAP basis)	$ 25,006,403	$ 3,631,008	$ 2,100,540

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, 2012, $1,609,686 of the City's bank balances of $29,948,491 was exposed to custodial credit risk as uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	$ 28,859,468
Cash per Statement of Fiduciary Net Position (Exhibit E)	315,266
Total cash and cash equivalents	$ 29,174,734

Repurchase Agreement – Included in the City's cash equivalents at December 31, 2012, is a short-term investment in a repurchase agreement issued by a local banking institution. Under this agreement, the City will be repaid principal plus interest on a specified date which is subsequent to year-end. The agreement is guaranteed/collateralized with securities held by the banking institution which equal the amount of the agreement. To the extent that the banking institution may default on its commitment to this obligation, the City is at risk of economic loss. Management considers this exposure to be minimal. At December 31, 2012, the City held an investment in the following repurchase agreement:

			Collateral Pledged	
Amount	Interest Rate %	Maturity Date	Underlying Securities	Market Value
$ 3,228,395	3.000	October 20, 2040	GNMA	$ 3,437,261
$ 5,000,000	2.000	March 21, 2019	FNMA	$ 5,022,182
$ 4,500,000	1.625	March 28, 2018	FHLMC	$ 4,552,731
$ 5,000,000	1.000	February 28, 2018	FNMA	$ 4,987,085
$ 5,000,000	0.600	November 21, 2016	FFCB	$ 4,991,198
$ 4,734,356	1.827	November 1, 2042	FNMA	$ 4,922,251

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

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

NOTE 4 – INVESTMENTS

Note 1-G, describes statutory requirements covering the investment of the City funds. 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, 2012, the City had the following investments:

New Hampshire Public Deposit Investment Pool	$ 6,996,958
Exchange-traded funds	1,813,902
US Government obligations	10,690,024
Nongovernment obligations	20,217
Mutual funds	274,976
	$ 19,796,077

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 Position.

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, 2012 the City's investments had the following maturities:

		Investment Maturities (in Years)			
Type of investment:	Fair Value	Less than 1	1-5	6-10	Thereafter
New Hampshire Public Deposit Investment Pool	$ 6,996,958	$ 6,996,958	$ -	$ -	$ -
Exchange-traded funds	1,813,902	1,813,902	-	-	-
US Government obligations	10,690,024	2,757,398	7,930,139	1,897	590
Nongovernment obligations	20,217	20,217	-	-	-
Mutual funds	274,976	274,976	-	-	-
	$ 19,796,077	$ 11,863,451	$ 7,930,139	$ 1,897	$ 590

Credit Risk – The City's investment pool had the following credit risk structure at December 31, 2012:

Investment Type	Credit Rating[1]	Fair Value	Percent of Grand Total
Corporate bonds:			
SLM Corporation	Ba1	$ 20,217	0.19%
Federal agency:			
Federal Home Loan Mortgage Corp.	Aaa	3,583,500	33.46%
Federal Home Loan Bank	Aaa	1,478,246	13.80%
Federal Farm Credit Bank	Aaa	3,254,001	30.38%
Federal National Mort. Corp	Aaa	2,349,237	21.93%
United States Treasury		25,040	0.23%
Total federal agency		10,690,024	99.81%
		$ 10,710,241	100.00%

[1] Per Moody's

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 New Hampshire Public Deposit Investment Pool, Federal Home Loan Mortgage Corp., Federal Farm Credit Bank, Federal National Mortgage Corp., Federal Home Loan Bank, and iShares Core Total US Bond. These investments are 35%, 18%, 16%, 12%, 7% and 6%, respectively, of the City's total investments.

Investment reconciliation:

Investment per Statement of Net Position (Exhibit A)	$ 17,024,709
Investment per Statement of Fiduciary Net Position (Exhibit E)	2,771,368
Total investments	$ 19,796,077

NOTE 5 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2012. The amount has been reduced by an allowance for an estimated uncollectible amount of $391,861. Taxes receivable by year are as follows:

Property:	
Levy of 2012	$ 1,860,639
Unredeemed (under tax lien):	
Levy of 2011	573,526
Levy of 2010	477,122
Levies of 2009 and prior	463,880
Yield	137
Less: allowance for estimated uncollectible taxes	(524,720)
Net taxes receivable	$ 2,850,584

NOTE 6 – OTHER RECEIVABLES

Receivables at December 31, 2012, 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, 2012 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	$ 535,920	$ 57,853	$ 382,000	$ 3,100	$ 123,131	$ 1,102,004
Intergovernmental	54,162	29,928	-	599,446	125,525	809,061
Voluntary tax liens	50,588	-	-	-	-	50,588
Gross receivables	640,670	87,781	382,000	602,546	248,656	1,961,653
Less: allowance for uncollectible	(529,946)	-	-	-	-	(529,946)
Net total receivables	$ 110,724	$ 87,781	$ 382,000	$ 602,546	$ 248,656	$ 1,431,707

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	$ 7,901,900	$ 140,188	$ (15,648)	$ 8,026,440
Construction in progress	20,839,257	6,463,836	(16,323,754)	10,979,339
Intangibles	82,197	-	-	82,197
Total capital assets not being depreciated	28,823,354	6,604,024	(16,339,402)	19,087,976
Being depreciated:				
Land improvements	39,365,549	-	-	39,365,549
Buildings and building improvements	44,828,807	-	(103,600)	44,725,207
Machinery and equipment	13,550,336	201,957	(169,681)	13,582,612
Infrastructure	85,571,240	17,906,979	-	103,478,219
Total capital assets being depreciated	183,315,932	18,108,936	(273,281)	201,151,587
Total all capital assets	212,139,286	24,712,960	(16,612,683)	220,239,563
Less accumulated depreciation:				
Land improvements	(26,354,836)	(979,937)	-	(27,334,773)
Buildings and building improvements	(16,996,002)	(697,791)	3,723	(17,690,070)
Machinery and equipment	(7,668,929)	(746,672)	83,930	(8,331,671)
Infrastructure	(28,203,735)	(1,578,731)	-	(29,782,466)
Total accumulated depreciation	(79,223,502)	(4,003,131)	87,653	(83,138,980)
Net book value, capital assets being depreciated	104,092,430	14,105,805	(185,628)	118,012,607
Net book value, all governmental activities capital assets	$ 132,915,784	$ 20,709,829	$ (16,525,030)	$ 137,100,583

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	$ 1,621,976
Public safety	264,124
Water distribution and treatment	445,093
Municipal airport	667,045
Sanitation	985,699
Conservation	19,194
Total depreciation expense	$ 4,003,131

NOTE 8 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	$ 472,865
Nonmajor governmental	General	24,510
Nonmajor governmental	Nonmajor governmental	11,792
		$ 509,167

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

Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2012 is as follows;

	Transfers In:			
	General Fund	Capital Improvements Fund	Nonmajor Governmental Fund	Total
Transfers out:				
General fund	$ -	$ 270,000	$ 430,247	$ 700,247
Sewage collection and disposal	310,900	200,000	22,429	533,329
Solid waste disposal	694,319	-	-	694,319
Nonmajor governmental funds	521,218	-	12,548	533,766
Total	$ 1,526,437	$ 470,000	$ 465,224	$ 2,461,661

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

NOTE 9 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of $19,159,298 at December 31, 2012 consist of the following:

General fund:	
Balance of 2012-2013 district assessment due to the Lebanon School District	$ 10,717,233
Fees due to the State of New Hampshire	4,448
Total intergovernmental payables due from the general fund	10,721,681
Sewage collection and disposal fund:	
Sewer connection fees due to the Town of Hanover	3,352
Capital improvement fund:	
State of New Hampshire - drawdown requests	8,434,265
Total intergovernmental payables due	$ 19,159,298

NOTE 10 – CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2012. 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:

	Accounts Payable	Contracts Payable	Retainage Payable	Remaining Commitment
Project:				
Capital improvements	$ -	$ 673,734	$ 465,013	$ 3,895,805
Airport improvements	$ 26,865	$ -	$ -	$ 340,202

NOTE 11 – LONG-TERM LIABILITIES

Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2012:

	General Obligation Bonds Payable	Unamortized Bond Premiums	Capital Leases Payable	Compensated Absences Payable	Accrued Landfill Closure and Postclosure Care Costs Payable	Total
Balance, beginning	$ 51,693,016	$ 1,300,683	$ 70,400	$ 1,576,153	$ 6,820,068	$ 61,460,320
Additions	4,734,900	255,100	-	82,511	756,342	5,828,853
Reductions	(4,628,372)	(150,148)	(27,346)	-	-	(4,805,866)
Balance, ending	$ 51,799,544	$ 1,405,635	$ 43,054	$ 1,658,664	$ 7,576,410	$ 62,483,307

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2012	Current Portion
General obligation bonds payable:						
	$ 3,459,219	1995	2015	5.250-5.625	$ 405,000	$ 135,000
	$ 886,223	1996	2016	5.125-5.750	60,000	15,000
	$ 1,283,670	1998	2013	3.90-5.00	10,000	10,000
	$ 4,822,082	1999	2015	4.00-4.60	240,000	80,000
	$ 5,273,904	2000	2020	5.125-5.50	1,920,000	240,000
	$ 3,297,982	2001	2021	4.125-5.00	1,335,000	175,000
	$ 3,099,870	2002	2022	3.00-5.00	1,265,000	165,000
	$ 2,887,830	2003	2023	4.00-6.00	825,000	75,000
	$ 4,788,000	2004	2024	3.00-5.00	2,555,000	280,000
	$ 5,837,475	2005	2025	4.00-4.50	3,741,500	295,000
	$ 6,511,829	2006	2026	4.50-5.00	4,580,000	330,000
	$ 8,947,000	2007	2027	4.00-4.75	6,655,000	445,000
	$ 1,574,416	2008	2028	2.352	1,261,133	78,821
	$ 4,427,015	2008	2028	4.00-4.125	3,360,000	265,000
	$ 5,207,000	2009	2029	3.02-5.02	3,890,000	440,000
	$ 7,101,000	2010	2030	3.823	6,385,000	360,000
	$ 8,372,500	2011	2031	3.55	7,930,000	440,000
	$ 1,294,062	2011	2031	3.55	647,011	26,098
	$ 4,734,900	2012	2032	2.57-3.18	4,734,900	369,900
					51,799,544	4,224,819
Unamortized bond premium					1,405,635	87,639
					53,205,179	4,312,458

(Continued)

Long-term Liabilities Continued:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2012	Current Portion
Capital leases payable:						
Ford Fusion	$ 22,224	2009	2013	6.55	4,717	4,717
Ford Fusion	$ 21,330	2010	2014	6.90	8,787	4,247
Ford F150	$ 23,953	2011	2015	6.70	14,331	4,471
Ford Fusion	$ 25,425	2011	2015	6.20	15,219	4,771
					43,054	18,206
Compensated absences payable:						
Accrued sick and vacation leave					1,658,664	64,636
Accrued landfill closure and postclosure care costs payable					7,576,410	18,400
Total					$ 62,483,307	$ 4,413,700

The premium is being amortized on a straight-line basis over the life of the bonds.

The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2012, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2013	$ 4,224,819	$ 2,244,890	$ 6,469,709
2014	4,173,666	$ 2,059,783	6,233,449
2015	3,884,935	1,878,057	5,762,992
2016	3,667,226	1,725,089	5,392,315
2017	3,628,040	1,564,592	5,192,632
2018-2022	16,618,237	5,531,132	22,149,369
2023-2027	11,867,370	2,226,385	14,093,755
2028-2032	3,735,251	344,084	4,079,335
Totals	$ 51,799,544	$ 17,574,012	$ 69,373,556

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 $7,576,410 as of December 31, 2012, 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, 2012. 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, 2012 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	8,220,000
2012	Water meter and CSO replacement	4,926,000
		$ 24,020,184

NOTE 12 – 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, 2012, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2013	$ 18,206	$ 2,819	$ 21,025
2014	14,377	1,622	15,999
2015	10,471	675	11,146
Totals	$ 43,054	$ 5,116	$ 48,170

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

NOTE 13 – ENCUMBRANCES

Total governmental fund encumbrances outstanding of $4,654,486 at December 31, 2012 included in the total assigned fund balance of $5,664,697, are as follows:

General fund:	
General government:	
Executive	$ 5,516
Election and registration	1,388
Financial administration	53,340
Personnel administration	12,839
Planning and zoning	136,641
Public safety:	
Police	6,336
Fire	3,125
Highways and streets	82,825
Health	14,600
Total general fund	316,610
Funds blended into general fund:	
Other	21,373

(Continued)

Encumbrances Continued:

Sewage collection and disposal fund:	
Sanitation	2,281
Solid waste disposal fund:	
Sanitation	10,356
Capital improvement fund:	
Capital outlay	3,895,805
Nonmajor funds:	
Municipal airport	59,859
Capital outlay	348,202
Total nonmajor funds	408,061
Total encumbrances	$ 4,654,486

NOTE 14 – STATE AID TO WATER FILTRATION PROJECTS

The City is also due to receive from the State of New Hampshire $378,622, 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, 2012, the City is due to receive the following annual amounts to offset debt payments of the water department fund:

Fiscal Year Ending December 31,	Principal
2013	$ 49,768
2014	48,290
2015	46,795
2016	19,480
2017	19,480
2018-2022	97,404
2023-2027	97,405
Totals	$ 378,622

NOTE 15 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2012 include the following:

Net investment in capital assets:	
Capital assets, net of accumulated depreciation	$ 137,100,583
Add:	
State aid receivable	378,622
Less:	
General obligation bonds payable	(51,799,544)
Capital leases payable	(43,054)
Unamortized bond premium payable	(1,405,635)
Total net investment in capital assets	84,230,972
Restricted for special purposes:	
Perpetual care	936,834
Capital projects	551,097
Total restricted for special purposes	1,487,931
Unrestricted	16,695,162
Total net position	$ 102,414,065

NOTE 16 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2012 include the following:

Nonspendable:		
Major funds:		
General:		
Prepaid items	$ 92,973	
Sewage collection and disposal:		
Prepaid items	7,388	
Solid waste disposal:		
Prepaid items	4,345	
	104,706	
Nonmajor funds:		
Prepaid items	17,334	
Permanent fund principal	936,834	
	954,168	
Total nonspendable fund balance		$ 1,058,874
Restricted:		
Major funds:		
General:		
Grants funds	$ 15,909	
Capital improvements	551,097	
	567,006	
Nonmajor funds:		
Water investment fees	755,297	
Passenger facility charges	72,301	
Public library	134,130	
Permanent fund income	153,575	
	1,115,303	
Total restricted fund balance		1,682,309
Committed:		
Major funds:		
General:		
Expendable trust funds	$ 196,596	
Heritage funds	5,887	
Sewage collection and disposal:		
Expendable trust funds	387,568	
Sewage collection and disposal operations	1,868,356	
Solid waste disposal:		
Expendable trust funds	9,216,264	
Solid waste disposal operations	2,603,476	
	14,278,147	
Nonmajor funds:		
Expendable trust funds	1,086,491	
Water treatment and distribution operations	638,270	
Police outside details	220,692	
LOST account	804,161	
Public safety revolving	24,147	
	2,773,761	
Total committed fund balance		17,051,908

(Continued)

Governmental fund balances continued:

Assigned:		
Major funds:		
General:		
Encumbrances	$ 316,610	
Abatement contingency	416,882	
Emergency management funds	33,023	
Other special revenue funds	346,618	
Other special revenue fund encumbrances	21,373	
Sewage collection and disposal:		
Encumbrances	2,281	
Solid waste disposal:		
Encumbrances	10,356	
Capital improvements:		
Encumbrances	3,895,805	
	5,042,948	
Nonmajor funds:		
Encumbrances	408,061	
Farmers market	460	
	408,521	
Total assigned fund balance		5,451,469
Unassigned (deficit):		
Major fund:		
General	$ 4,920,043	
Nonmajor funds	(680,203)	
Total unassigned fund balance		4,239,840
Total governmental fund balances		$ 29,484,400

NOTE 17 – PRIOR PERIOD ADJUSTMENT

Fund equity at January 1, 2012 was restated to give retroactive effect to the following prior period adjustments:

	General Fund	Government-wide Financial Statements
Adjustment	$ 12,894	$ 12,894
Fund balance, as previously reported	6,018,655	100,267,748
Fund balance, as restated	$ 6,031,549	$ 100,280,642

The above prior period adjustment was to the unassigned fund balance category. Prior period reported unassigned fund balance of $4,226,294 was restated to $4,239,188.

NOTE 18 – DEFICIT FUND BALANCES

The following funds had unassigned, deficit fund balances at December 31, 2012 caused by the operations in the current and prior years, and will be made up as follows:

	Amount	Made up by:
Nonmajor funds:		
Municipal airport	$ 385,188	Future operations and/or future tax revenue
Airport capital project	$ 295,015	Caused by recording of encumbrances; revenue will be recorded when expenditures are incurred

NOTE 19 – OTHER MATTER – KILTON PUBLIC LIBRARY

From 2002 through 2010, a total of $5.2 million had been appropriate 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 in short-term borrowing, with the understanding that the related debt service was to be paid by the Library Fund.

After payment of the 2013 debt service installment, and applying the net proceeds from the sale of the West Lebanon Library, the balance owed to the City was $325,364.

On February 20, 2013, the City Council, by an affirmative vote of 7-2, resolved that the "...Lebanon City Council hereby forgives the outstanding debt obligation by the Lebanon Library Board of Trustees in the amount of $325,364, and requires no further reimbursement to the City."

In addition to the $3.7 million commitment (not including interest of $76,146 on the short-term borrowings), the Library Fund (Library Trustees) in 2002 paid $525,000 for the purchase of land to be the site of the Kilton Public Library and further expended about $350,000 on consulting and architectural fees. Altogether, the Library Fund's (Library Trustees) commitment was the considerable sum of $4.651 million. The affirmative vote of the Lebanon City Council took into consideration the substantial resources provided by the Library Fund (Library Trustees) toward construction of the Kilton Public Library, the significant tax impact forgone by these private fund raising efforts, and the meritorious fund raising plan of the Library Trustees devoted toward executing critical strategies to meet the several outcomes as articulated in the City of Lebanon Outcomes & Work Plan for 2013.

NOTE 20 – EMPLOYEE RETIREMENT PLAN

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

The System is financed by contributions from both the employees and the City. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. For fiscal year 2012, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. The City's contribution rates for 2012 for pension and medical subsidy were as follows; police officers 19.95%; firefighter, 22.89%; all other employees, 8.80%.

The contribution requirements for the City of Lebanon for the fiscal years 2010, 2011, and 2012 were $1,311,574, $1,493,664, and $1,562,097, respectively, which were paid in full in each year.

NOTE 21 – 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 2012, 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 2012:

Annual required contribution/OPEB cost	$ 241,786
Contributions made (pay-as-you-go)	(101,840)
Increase in net OPEB obligation	139,946
Net OPEB obligation, beginning	1,034,509
Net OPEB obligation, ending	$ 1,174,455

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2012	$ 241,786	$ (101,840)	42.10%	$ 1,174,455

As of January 1, 2012, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was $2,446,659 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $2,446,659. The covered payroll (annual payroll of active employees covered by the plan) was $9,745,151 during fiscal year 2012, and the ratio of the UAAL to the covered payroll was 25.1%.

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

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

In the January 1, 2012 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, 2012 was 23.52 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 brieft description of the retiree medical insurance plan:

a. Plan Types:

Medical

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

b. Eligibility:

Group 1

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

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

Group 2

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

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

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

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

c. Benefit/Cost Sharing The retiree is responsible for the full price of the medical premium.

d. Spouse Benefit Yes

e. Surviving Spouse Benefit Yes

f. Annual Medical Premiums 1/1/2013:

	Plan	Single	Couple	Family
Pre 65	Blue Choice Plan	$ 9,100.92	$ 18,201.84	$ 24,572.40
	Comp 100 Plan	$ 10,937.04	$ 21,874.20	$ 29,530.20
	Comp 300 Plan	$ 9,971.88	$ 19,943.88	$ 26,924.16
	JY Plan	$ 11,535.00	$ 23,070.12	$ 31,144.56
Post 65	Medicomp MC#	$ 5,885.28		
	Medicomp MCNRX	$ 2,236.44		

NOTE 22 – 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 2012, 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 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, 2012, to be recorded as an insurance expenditure totaled $227,191. There were no unpaid contributions for the year ended December 31, 2012. The City also paid $234,470 for workers' compensation during 2012.

NOTE 23 – 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 24 – CONTINGENCIES

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

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

NOTE 25 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 61, ***The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34***, issued November 2010, will be effective for the City beginning with its fiscal year ending December 31, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 65, ***Items Previously Reported as Assets and Liabilities,*** issued March 2012, will be effective for the City beginning with its fiscal year ending December 2013. This Statement is intended to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 66, ***Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62***, issued March 2012, will be effective for the City beginning with its fiscal year ending December 31, 2013.

GASB Statement No. 67, ***Financial Reporting for Pension Plans***, issued in June 2012, will be effective for the City beginning with its fiscal year ending December 31, 2014. The guidance contained in this statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

GASB Statement No. 68, ***Accounting and Financial Reporting for Pensions***, issued in June 2012, will be effective for the City beginning with its fiscal year ending December 31, 2014. The guidance contained in this statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

NOTE 26 – 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 July 29, 2013, the date the December 31, 2012 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, 2012

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, 2012	$ -	$ 2,446,659	$ 2,446,659	0.00%	$ 9,745,151	25.11%

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

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 Town's other postemployment benefits for the fiscal year ended December 31, 2012.

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, 2012

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	$ 16,705,815	$ 16,635,225	$ (70,590)
Timber	5,000	9,037	4,037
Excavation	6,000	7,934	1,934
Payment in lieu of taxes	1,275,540	1,276,467	927
Interest and penalties on taxes	245,000	291,195	46,195
Total from taxes	18,237,355	18,219,858	(17,497)
Licenses, permits, and fees:			
Motor vehicle permit fees	1,900,000	1,922,713	22,713
Building permits	235,000	218,073	(16,927)
Other	105,330	105,739	409
Total from licenses, permits, and fees	2,240,330	2,246,525	6,195
Intergovernmental:			
State:			
Meals and rooms distribution	608,708	608,611	(97)
Highway block grant	280,093	280,093	-
Water pollution grants	1,534	1,534	-
Other	45,840	46,301	461
Total from intergovernmental	936,175	936,539	364
Charges for services:			
Income from departments	987,160	1,046,758	59,598
Miscellaneous:			
Sale of municipal property	290	124,855	124,565
Interest on investments	35,000	8,011	(26,989)
Rent of property	16,500	16,665	165
Fines and forfeits	26,500	36,933	10,433
Other	109,630	200,673	91,043
Total from miscellaneous	187,920	387,137	199,217
Other financing sources:			
Transfers in	1,546,630	1,526,437	(20,193)
Total revenues and other financing sources	24,135,570	$ 24,363,254	$ 227,684
Unassigned fund balance used to reduce tax rate	818,400		
Total revenues, other financing sources, and use of fund balance	$ 24,953,970		

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, 2012

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	$ 37,636	$ 430,730	$ 434,274	$ 5,516	$ 28,576
Election and registration	5,284	495,020	467,376	1,388	31,540
Financial administration	109,340	2,092,270	2,061,990	53,340	86,280
Legal	-	198,000	279,812	-	(81,812)
Personnel administration	6,000	289,450	239,370	12,839	43,241
Planning and zoning	162,784	564,650	531,231	136,641	59,562
Insurance, not otherwise allocated	-	196,040	177,687	-	18,353
Advertising and regional associations	-	20,360	20,264	-	96
Other	-	220,960	220,960	-	-
Total general government	321,044	4,507,480	4,432,964	209,724	185,836
Public safety:					
Police	51,927	5,610,240	5,394,586	6,336	261,245
Fire	8,202	3,676,180	3,516,682	3,125	164,575
Code enforecement	-	452,860	450,943	-	1,917
Total public safety	60,129	9,739,280	9,362,211	9,461	427,737
Highways and streets:					
Administration	-	625,350	577,251	-	48,099
Highways and streets	5,540	2,820,440	2,446,241	82,825	296,914
Total highways and streets	5,540	3,445,790	3,023,492	82,825	345,013
Health:					
Administration	-	278,840	169,077	-	109,763
Health agencies	4,600	245,730	245,730	14,600	(10,000)
Total health	4,600	524,570	414,807	14,600	99,763
Culture and recreation:					
Parks and recreation	-	860,000	837,698	-	22,302
Library	13,330	1,107,920	1,096,740	-	24,510
Patriotic purposes	-	8,500	8,498	-	2
Total culture and recreation	13,330	1,976,420	1,942,936	-	46,814
Conservation	-	8,380	6,834	-	1,546
Debt service:					
Principal of long-term debt	-	2,577,330	2,549,844	-	27,486
Interest on long-term debt	-	1,439,540	1,417,436	-	22,104
Other debt service	-	92,990	-	-	92,990
Total debt service	-	4,109,860	3,967,280	-	142,580
Other financing uses:					
Transfers out	-	642,190	668,247	-	(26,057)
Total appropriations, expenditures, other financing uses, and encumbrances	$ 404,643	$ 24,953,970	$ 23,818,771	$ 316,610	$ 1,223,232

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, 2012

Unassigned fund balance, beginning as restated (see Note 17)		$ 4,239,188
Changes:		
Unassigned fund balance used to reduce 2012 tax rate		(818,400)
2012 Budget summary:		
Revenue surplus (Schedule 1)	$ 227,684	
Unexpended balance of appropriations (Schedule 2)	1,223,232	
2012 Budget surplus		1,450,916
Increase in nonspendable fund balance		(3,506)
Decrease in assigned fund balance (unrelated to encumbrances)		51,845
Unassigned fund balance, ending		$ 4,920,043

SCHEDULE 4
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2012

	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	$ 1,491,314	$ 72,917	$ 105,787	$ 208,510	$ 804,161	$ 22,127	$ 460	$ -	$ 56,561	$ 2,761,837
Investments	952,133	-	-	-	-	-	-	-	1,081,652	2,033,785
Accounts receivable	39,177	69,752	-	12,182	-	2,020	-	-	-	123,131
Intergovernmental receivable	-	-	-	-	-	-	-	125,525	-	125,525
Interfund receivable	-	-	28,343	-	-	-	-	7,959	-	36,302
Prepaid items	8,562	8,772	-	-	-	-	-	-	-	17,334
Total assets	$ 2,491,186	$ 151,441	$ 134,130	$ 220,692	$ 804,161	$ 24,147	$ 460	$ 133,484	$ 1,138,213	$ 5,097,914
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	$ 2,566	$ 3,474	$ -	$ -	$ -	$ -	$ -	$ 26,865	$ -	$ 32,905
Interfund payable	-	383,421	-	-	-	-	-	53,432	47,804	484,657
Escrow and performance deposits	-	7,586	-	-	-	-	-	-	-	7,586
Deferred revenue	-	1,216	-	-	-	-	-	-	-	1,216
Total liabilities	2,566	395,697	-	-	-	-	-	80,297	47,804	526,364
Fund balances:										
Nonspendable	8,562	8,772	-	-	-	-	-	-	936,834	954,168
Restricted	755,297	72,301	134,130	-	-	-	-	-	153,575	1,115,303
Committed	1,724,761	-	-	220,692	804,161	24,147	-	-	-	2,773,761
Assigned	-	59,859	-	-	-	-	460	348,202	-	408,521
Unassigned (deficit)		(385,188)						(295,015)		(680,203)
Total fund balances (deficit)	2,488,620	(244,256)	134,130	220,692	804,161	24,147	460	53,187	1,090,409	4,571,550
Total liabilities and fund balances	$ 2,491,186	$ 151,441	$ 134,130	$ 220,692	$ 804,161	$ 24,147	$ 460	$ 133,484	$ 1,138,213	$ 5,097,914

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, 2012

	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
Revenues:										
Taxes	$ -	$ -	$ -	$ -	$ 14,826	$ -	$ -	$ -	$ -	$ 14,826
Intergovernmental	31,749	9,667	-	-	-	-	-	186,118	-	227,534
Charges for services	2,654,166	450,356	20,802	286,165	-	41,958	-	-	-	3,453,447
Miscellaneous	106,147	375,868	258,860	-	1,353	-	10,983	-	90,505	843,716
Total revenues	2,792,062	835,891	279,662	286,165	16,179	41,958	10,983	186,118	90,505	4,539,523
Expenditures:										
Current:										
General government	-	-	-	-	-	-	-	-	5,836	5,836
Public safety	-	-	-	263,654	-	27,213	-	-	-	290,867
Water distribution and treatment	1,261,203	-	-	-	-	-	-	-	-	1,261,203
Municipal airport	-	742,708	-	-	-	-	-	-	-	742,708
Culture and recreation	-	-	34,006	-	-	-	11,149	-	-	45,155
Conservation	-	-	-	-	153,227	-	-	-	-	153,227
Debt service:										
Principal	655,051	66,579	-	-	-	-	-	-	-	721,630
Interest	394,740	49,255	-	-	-	-	-	-	-	443,995
Capital outlay	-	-	-	-	-	-	-	201,437	-	201,437
Total expenditures	2,310,994	858,542	34,006	263,654	153,227	27,213	11,149	201,437	5,836	3,866,058
Excess (deficiency) of revenues over (under) expenditures	481,068	(22,651)	245,656	22,511	(137,048)	14,745	(166)	(15,319)	84,669	673,465
Other financing sources (uses):										
Transfers in	228,139	198,480	28,343	-	1,546	-	-	8,716	-	465,224
Transfers out	(221,850)	(51,916)	(240,972)	-	-	-	-	-	(19,028)	(533,766)
Total other financing sources and us	6,289	146,564	(212,629)	-	1,546	-	-	8,716	(19,028)	(68,542)
Net change in fund balances	487,357	123,913	33,027	22,511	(135,502)	14,745	(166)	(6,603)	65,641	604,923
Fund balances (deficit), beginning	2,001,263	(368,169)	101,103	198,181	939,663	9,402	626	59,790	1,024,768	3,966,627
Fund balances (deficit), ending	$ 2,488,620	$ (244,256)	$ 134,130	$ 220,692	$ 804,161	$ 24,147	$ 460	$ 53,187	$ 1,090,409	$ 4,571,550

SINGLE AUDIT ACT SCHEDULES
AND INDEPENDENT AUDITOR'S REPORTS

PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Lebanon's basic financial statements, and have issued our report thereon dated July 29, 2013

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Gregory A. Colby, CPA

July 29, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR 1-33

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

Report on Compliance for Each Major Federal Program

We have audited the City of Lebanon's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Lebanon's major federal programs for the year ended December 31, 2012. The City of Lebanon's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Lebanon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

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

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

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

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

Gregory A. Colby, CPA

July 29, 2013

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal control over major programs:

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

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

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

Identified of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant/State's Program
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? X yes ____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through the State of New Hampshire Community Development Finance Authority			
Community Development Block Grant/State's Program *(Note 3)*	14.228	11-094-CDHS	$ 491,347
Passed Through the New Hampshire Housing Finance Authority			
Community Challenge Planning Grants and the Department of Transportation's TIGER II Planning Grants	14.704	N/A	7,136
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	10,002
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through the State of New Hampshire Department of Transportation			
Airport Improvement Program:			
Obstruction Pole and Light Rehabilitation	20.106	AIP-36	2,021
Environmental Assessment Phase I	20.106	AIP-41	13,555
Environmental Assessment Phase II	20.106	AIP-42	45,046
2010 Airport Layout Plan Exh A Reconciliation	20.106	AIP-44	2,940
Environmental Assessment SWPP & SPCC	20.106	AIP-45	55,279
Hazard / Obstruction Removal	20.106	AIP-47	56,715
Renovate / Expansion Snow Removal Building	20.106	AIP-48	9,537
PROGRAM TOTAL			185,093
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			
Passed Through the State of New Hampshire Department of Transportation			
Highway Planning and Construction	20.205	15556	8,859
Passed Through the State of New Hampshire Department of Resources and Economic Development			
Recreation Trails Program	20.219	2011-048	18,578
CLUSTER TOTAL			27,437
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: *(Note 4)*			
Combined Sewer Separation - Contract No. 4	66.458	CS-3330922-05A	246,436
Combined Sewer Separation - Contract No. 7	66.458	CS-3330922-05B	48,247
Energy Evaluation and Wastewater Treatment Facility Improvements	66.458	CS-330092-06	168,021
PROGRAM TOTAL			462,704

(continued)

SCHEDULE II (continued)
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
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	63,521
Lebanon Energy Program	81.128	158	9,960
PROGRAM TOTAL			73,481
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through the National Association of County and City Health Officials			
Medical Reserve Corps Small Grant Program	93.008	MRC 12 1776	410
Passed Through the State of Vermont, Department of Health, Division of Office of Public Health Preparedness			
National Bioterrorism Preparedness Program	93.889	U3REP090240-03-00	2,338
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	84,939
Emergency Management Performance Grants	97.042	N/A	4,086
Homeland Security Grant Program	97.067	N/A	110,246
DIRECT FUNDING			
U.S. DEPARTMENT OF JUSTICE			
Bullet Proof Vest Partnership Program	16.607	N/A	1,200
Total Expenditures of Federal Awards			$ 1,460,419

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, 2012

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, 2012. 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:

CFDA Number	*Program Name*	*Amount Provided to Subrecipients*
14.228	Community Development Block Grant/State's Program	$472,500

Note 4. Loans Outstanding

The City of Lebanon had the following loan balances outstanding at December 31, 2012. The loans made during the year are included in the federal expenditures presented in the schedule.

CFDA Number	*Program Name*	*Outstanding Balances at December 31, 2012*
66.458	Capitalization Grants for Clean Water State Revolving Funds	$7,344,494