

**CITY OF LEBANON,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018**

CITY OF LEBANON, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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DECEMBER 31, 2018

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Lebanon as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Lebanon, as of December 31, 2018, the respective changes in financial position, the respective budgetary comparison for the general fund, and where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2-D to the financial statements, in fiscal year 2018 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

**City of Lebanon
Independent Auditor's Report**

Other Matters

Management's Discussion and Analysis – Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Required Supplementary Information – Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements:

- Schedule of the City's Proportionate Share of Net Pension Liability,
- Schedule of City Contributions – Pensions,
- Schedule of the City's Proportionate Share of the Net Other Postemployment Benefits Liability,
- Schedule of City Contributions – Other Postemployment Benefits,
- Schedule of Changes in the City's Total Other Postemployment Benefits Liability and Related Ratios, and
- Notes to the Required Supplementary Information

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2020 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, 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.

January 10, 2020



PLODZIK & SANDERSON
Professional Association

BASIC FINANCIAL STATEMENTS

EXHIBIT A
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 28,815,854	\$ 12,156,364	\$ 40,972,218
Investments	1,677,323	8,572,115	10,249,438
Taxes receivables (net)	1,287,236	-	1,287,236
Account receivables (net)	460,986	861,409	1,322,395
Intergovernmental receivable	2,770,157	4,450,821	7,220,978
Internal balances	827,791	(827,791)	-
Prepaid items	291,763	437,738	729,501
Tax deeded property, subject to resale	46,322	-	46,322
Capital assets:			
Land and construction in progress	15,891,919	17,588,444	33,480,363
Other capital assets, net of depreciation	71,232,565	80,403,540	151,636,105
Total assets	<u>123,301,916</u>	<u>123,642,640</u>	<u>246,944,556</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to pensions	2,831,401	262,281	3,093,682
Amounts related to other postemployment benefits	260,591	24,140	284,731
Total deferred outflows of resources	<u>3,091,992</u>	<u>286,421</u>	<u>3,378,413</u>
LIABILITIES			
Accounts payable	1,196,755	377,305	1,574,060
Accrued salaries and benefits	42,045	-	42,045
Retainage payable	390,946	579,095	970,041
Contracts payable	546,190	908,080	1,454,270
Accrued interest payable	445,966	393,561	839,527
Intergovernmental payable	17,552,890	5,159,960	22,712,850
Escrow and performance deposits	72,701	9,400	82,101
Long-term liabilities:			
Due within one year	3,004,517	1,861,213	4,865,730
Due in more than one year	51,442,343	47,666,210	99,108,553
Total liabilities	<u>74,694,353</u>	<u>56,954,824</u>	<u>131,649,177</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	18,648	-	18,648
Unavailable revenue - Grants received in advance	246,857	-	246,857
Debt forgiveness	1,421,280	2,449,338	3,870,618
Deferred revenue	-	9,320	9,320
Amounts related to pensions	1,714,188	158,789	1,872,977
Amounts related to other postemployment benefits	76,053	12,798	88,851
Total deferred inflows of resources	<u>3,477,026</u>	<u>2,630,245</u>	<u>6,107,271</u>
NET POSITION			
Net investment in capital assets	59,804,338	59,973,053	119,777,391
Restricted	1,552,879	4,045,123	5,598,002
Unrestricted	<u>(13,134,688)</u>	<u>325,816</u>	<u>(12,808,872)</u>
Total net position	<u>\$ 48,222,529</u>	<u>\$ 64,343,992</u>	<u>\$ 112,566,521</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT B
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 6,513,934	\$ 147,201	\$ 77,989	\$ -	\$ (6,288,744)	\$ -	\$ (6,288,744)
Public safety	12,947,960	1,649,654	446,682	-	(10,851,624)	-	(10,851,624)
Highways and streets	5,914,489	6,209	482,376	-	(5,425,904)	-	(5,425,904)
Welfare	461,481	-	25,701	-	(435,780)	-	(435,780)
Culture and recreation	2,953,865	331,862	117,200	-	(2,504,803)	-	(2,504,803)
Conservation	28,414	-	6,111	-	(22,303)	-	(22,303)
Interest on long-term debt	991,132	-	-	-	(991,132)	-	(991,132)
Capital outlay	-	-	168,663	480,846	649,509	-	649,509
Total governmental activities	<u>29,811,275</u>	<u>2,134,926</u>	<u>1,324,722</u>	<u>480,846</u>	<u>(25,870,781)</u>	<u>-</u>	<u>(25,870,781)</u>
Business-type activities:							
Sewage collection and disposal	4,333,046	5,681,442	283,912	-	-	1,632,308	1,632,308
Solid waste disposal	2,692,636	3,392,968	-	-	-	700,332	700,332
Water treatment and distribution	2,224,205	3,180,786	71,127	-	-	1,027,708	1,027,708
Municipal airport	1,837,250	552,240	234,295	-	-	(1,050,715)	(1,050,715)
Total business-type activities	<u>11,087,137</u>	<u>12,807,436</u>	<u>589,334</u>	<u>-</u>	<u>-</u>	<u>2,309,633</u>	<u>2,309,633</u>
Total	<u>\$ 40,898,412</u>	<u>\$ 14,942,362</u>	<u>\$ 1,914,056</u>	<u>\$ 480,846</u>	<u>(25,870,781)</u>	<u>2,309,633</u>	<u>(23,561,148)</u>
General revenues:							
Taxes:							
Property					20,495,506	-	20,495,506
Other					1,928,877	-	1,928,877
Motor vehicle permit fees					2,677,997	-	2,677,997
Licenses and other fees					596,134	-	596,134
Grants and contributions not restricted to specific programs					704,751	-	704,751
Unrestricted investment earnings					182,942	207,308	390,250
Miscellaneous					597,077	597,935	1,195,012
Total general revenues					<u>27,183,284</u>	<u>805,243</u>	<u>27,988,527</u>
Contributions to permanent funds					9,000	-	9,000
Gain (Loss) on sale of property					-	183,933	183,933
Transfers					697,423	(697,423)	-
Total general revenues, contributions, and transfers					<u>27,889,707</u>	<u>291,753</u>	<u>28,181,460</u>
Change in net position					2,018,926	2,601,386	4,620,312
Net position, beginning, as restated (see Note 22)					46,203,603	61,742,606	107,946,209
Net position, ending					<u>\$ 48,222,529</u>	<u>\$ 64,343,992</u>	<u>\$ 112,566,521</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT C-1
CITY OF LEBANON, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2018

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 26,069,010	\$ 824,687	\$ 1,178,732	\$ 28,072,429
Investments	-	-	1,358,702	1,358,702
Receivables, net of allowance for uncollectible:				
Taxes	1,537,236	-	-	1,537,236
Accounts	428,962	-	11,342	440,304
Intergovernmental receivable	-	2,600,600	-	2,600,600
Interfund receivable	878,930	-	4,903	883,833
Voluntary tax liens	33,150	-	-	33,150
Voluntary tax liens reserved until collected	(33,150)	-	-	(33,150)
Prepaid items	347,510	-	-	347,510
Tax deeded property, subject to resale	46,322	-	-	46,322
Restricted assets:				
Cash and cash equivalents	743,425	-	-	743,425
Investments	318,621	-	-	318,621
Accounts receivable	20,682	-	-	20,682
Total assets	\$ 30,390,698	\$ 3,425,287	\$ 2,553,679	\$ 36,369,664
LIABILITIES				
Accounts payable	\$ 1,195,915	\$ -	\$ 840	\$ 1,196,755
Accrued salaries and benefits	42,045	-	-	42,045
Retainage payable	-	390,946	-	390,946
Contracts payable	-	546,190	-	546,190
Intergovernmental payable	14,204,415	3,348,475	-	17,552,890
Interfund payable	-	-	56,042	56,042
Escrow and performance deposits	72,701	-	-	72,701
Total liabilities	15,515,076	4,285,611	56,882	19,857,569
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	421,396	-	-	421,396
Unavailable revenue - Grants received in advance	246,857	-	-	246,857
Total deferred inflows of resources	668,253	-	-	668,253
FUND BALANCES (DEFICIT)				
Nonspendable	393,832	-	1,363,052	1,756,884
Restricted	25,000	-	189,827	214,827
Committed	382,520	-	943,146	1,325,666
Assigned	1,883,137	-	772	1,883,909
Unassigned (deficit)	11,522,880	(860,324)	-	10,662,556
Total fund balances (deficit)	14,207,369	(860,324)	2,496,797	15,843,842
Total liabilities, deferred inflows of resources, and fund balances	\$ 30,390,698	\$ 3,425,287	\$ 2,553,679	\$ 36,369,664

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT C-2
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
December 31, 2018

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balances of governmental funds (Exhibit C-1)		\$ 15,843,842
Capital assets used in governmental activities are not current financial resources, therefore, are not reported in the governmental funds.		
Cost	\$ 124,585,947	
Less accumulated depreciation	<u>(37,461,463)</u>	
		87,124,484
Prepaid debt is not recognized as an expenditure in the governmental funds in the current period, but reduces the outstanding debt in the Statement of Net Position.		(55,747)
Pension and other postemployment benefit (OPEB) related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year, and therefore, are not reported in the governmental funds as follows:		
Deferred outflows of resources related to pensions	\$ 2,831,401	
Deferred inflows of resources related to pensions	(1,714,188)	
Deferred outflows of resources related to OPEB	260,591	
Deferred inflows of resources related to OPEB	<u>(76,053)</u>	
		1,301,751
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (56,042)	
Payables	<u>56,042</u>	
		-
Long-term revenue (taxes) is not available to pay current-period expenditures, and therefore, is deferred in the governmental funds.		402,748
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(250,000)
Long-term assets (State aid receivable) are not available to pay for current-period expenditures and therefore, are not reported in the governmental funds.		169,557
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(445,966)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the governmental funds.		
Bonds	\$ 25,969,201	
Unamortized bond premium	2,475,702	
Capital leases	296,523	
Compensated absences	1,613,894	
Net pension liability	21,961,365	
Other postemployment benefits	<u>3,551,455</u>	
		<u>(55,868,140)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ 48,222,529</u></u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT C-3
CITY OF LEBANON, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2018

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 22,444,099	\$ -	\$ 18,594	\$ 22,462,693
Licenses and permits	3,274,131	-	-	3,274,131
Intergovernmental	2,006,863	100,297	-	2,107,160
Charges for services	1,547,893	-	587,033	2,134,926
Miscellaneous	984,590	68,366	53,015	1,105,971
Total revenues	<u>30,257,576</u>	<u>168,663</u>	<u>658,642</u>	<u>31,084,881</u>
EXPENDITURES				
Current:				
General government	6,370,363	-	8,315	6,378,678
Public safety	11,922,988	-	377,633	12,300,621
Highways and streets	3,612,394	-	-	3,612,394
Welfare	453,158	-	-	453,158
Culture and recreation	2,355,662	-	222,189	2,577,851
Conservation	9,020	-	200	9,220
Debt service:				
Principal	2,680,813	-	-	2,680,813
Interest	1,038,170	-	-	1,038,170
Capital outlay	486,943	6,115,667	-	6,602,610
Total expenditures	<u>28,929,511</u>	<u>6,115,667</u>	<u>608,337</u>	<u>35,653,515</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,328,065</u>	<u>(5,947,004)</u>	<u>50,305</u>	<u>(4,568,634)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,662,102	1,083,725	30,058	2,775,885
Transfers out	(2,053,200)	-	(25,262)	(2,078,462)
Bonds/notes proceeds	-	3,862,203	-	3,862,203
Capital leases	374,212	-	-	374,212
Total other financing sources (uses)	<u>(16,886)</u>	<u>4,945,928</u>	<u>4,796</u>	<u>4,933,838</u>
Net change in fund balances	1,311,179	(1,001,076)	55,101	365,204
Fund balances, beginning	12,896,190	140,752	2,441,696	15,478,638
Fund balances (deficit), ending	<u>\$ 14,207,369</u>	<u>\$ (860,324)</u>	<u>\$ 2,496,797</u>	<u>\$ 15,843,842</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT C-4
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2018

Net change in fund balances of governmental funds (Exhibit C-3)	\$	365,204
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Capitalized capital outlay	\$	5,949,906
Disposal of capital assets		(8,705)
Depreciation expense		<u>(2,583,777)</u>
		3,357,424
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$	2,078,462
Transfers out		<u>2,078,462</u>
		-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred tax revenue	\$	(38,343)
Decrease in deferred aid revenue		<u>(4,890)</u>
		(43,233)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Proceeds of debt	\$	(3,633,683)
Inception of capital leases		(374,212)
Bond premium on new issuance		(228,520)
Recognition of principal forgiveness		(72,829)
Repayment of bond principal		2,753,642
Repayment of capital leases		174,910
Amortization of bond premium		86,474
Amortization of debt forgiveness		<u>91,130</u>
		(1,203,088)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Increase in accrued interest expense	\$	(39,436)
Decrease in compensated absences		32,850
Net change in net pension liability and deferred outflows and inflows of resources related to pensions		92,524
Net change in net other postemployment benefits liability and deferred outflows and inflows of resources related to other postemployment benefits		<u>(543,319)</u>
		(457,381)
Changes in net position of governmental activities (Exhibit B)	\$	<u><u>2,018,926</u></u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT D
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2018

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 22,039,354	\$ 22,039,354	\$ 22,405,756	\$ 366,402
Licenses and permits	2,660,430	2,660,430	3,274,131	613,701
Intergovernmental	1,458,296	1,458,296	1,427,681	(30,615)
Charges for services	1,346,150	1,346,150	1,547,893	201,743
Miscellaneous	411,300	411,300	600,228	188,928
Total revenues	<u>27,915,530</u>	<u>27,915,530</u>	<u>29,255,689</u>	<u>1,340,159</u>
EXPENDITURES				
Current:				
General government	6,607,430	6,556,110	6,808,822	(252,712)
Public safety	11,921,860	11,948,900	11,484,883	464,017
Highways and streets	3,697,280	3,708,150	3,495,238	212,912
Welfare	516,640	516,640	453,158	63,482
Culture and recreation	2,361,050	2,374,460	2,350,950	23,510
Conservation	10,070	10,070	9,020	1,050
Debt service:				
Principal	2,648,060	2,648,060	2,680,813	(32,753)
Interest	1,024,360	1,024,360	1,038,170	(13,810)
Total expenditures	<u>28,786,750</u>	<u>28,786,750</u>	<u>28,321,054</u>	<u>465,696</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(871,220)</u>	<u>(871,220)</u>	<u>934,635</u>	<u>1,805,855</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,628,110	1,628,110	1,662,102	33,992
Transfers out	<u>(1,951,620)</u>	<u>(1,951,620)</u>	<u>(1,976,277)</u>	<u>(24,657)</u>
Total other financing sources (uses)	<u>(323,510)</u>	<u>(323,510)</u>	<u>(314,175)</u>	<u>9,335</u>
Net change in fund balances	<u>\$ (1,194,730)</u>	<u>\$ (1,194,730)</u>	620,460	<u>\$ 1,815,190</u>
Increase in nonspendable fund balance			(4,650)	
Decrease in assigned fund balance (non-encumbrance)			420,000	
Unassigned fund balance, beginning			<u>10,640,252</u>	
Unassigned fund balance, ending			<u>\$ 11,676,062</u>	

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT E-1
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Funds
Statement of Net Position
December 31, 2018

	Business-type Activities				Total
	Enterprise Funds				
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	
ASSETS					
Cash and cash equivalents	\$ 3,184,203	\$ 5,719,322	\$ 2,944,211	\$ 308,628	\$ 12,156,364
Investments	20,069	8,034,625	517,421	-	8,572,115
Receivables:					
Accounts	305,105	419,184	86,968	50,152	861,409
Intergovernmental	2,203,260	48,103	2,027,931	171,527	4,450,821
Internal balances	-	-	25	-	25
Prepaid items	393,255	5,233	26,608	12,642	437,738
Capital assets:					
Land and construction in progress	10,892,537	121,104	4,044,752	2,530,051	17,588,444
Other capital assets, net of depreciation	44,277,475	10,534,673	18,952,176	6,639,216	80,403,540
Total assets	<u>61,275,904</u>	<u>24,882,244</u>	<u>28,600,092</u>	<u>9,712,216</u>	<u>124,470,456</u>
DEFERRED OUTFLOWS OF RESOURCES					
Amounts related to pensions	83,391	71,803	62,930	44,157	262,281
Amounts related to other postemployment benefits	7,675	6,608	5,793	4,064	24,140
Total deferred outflows of resources	<u>91,066</u>	<u>78,411</u>	<u>68,723</u>	<u>48,221</u>	<u>286,421</u>
LIABILITIES					
Current liabilities:					
Accounts payable	225,014	32,620	73,978	45,693	377,305
Retainage payable	307,351	-	271,744	-	579,095
Contract payable	447,101	20,313	440,666	-	908,080
Accrued interest payable	168,886	49,053	161,937	13,685	393,561
Intergovernmental	2,648,603	-	2,511,357	-	5,159,960
Internal balances	25	-	-	827,791	827,816
Escrow and performance deposits	-	-	-	9,400	9,400
Long term liabilities:					
Due within one year	795,548	329,585	651,103	84,977	1,861,213
Due in more than one year	26,798,517	11,054,896	8,857,041	955,756	47,666,210
Total liabilities	<u>31,391,045</u>	<u>11,486,467</u>	<u>12,967,826</u>	<u>1,937,302</u>	<u>57,782,640</u>
DEFERRED INFLOWS OF RESOURCES					
Debt forgiveness	1,383,380	-	1,065,958	-	2,449,338
Deferred revenue	-	-	-	9,320	9,320
Amounts related to pensions	50,487	43,470	38,098	26,734	158,789
Amounts related to other postemployment benefits	4,331	3,690	2,576	2,201	12,798
Total deferred inflows of resources	<u>1,438,198</u>	<u>47,160</u>	<u>1,106,632</u>	<u>38,255</u>	<u>2,630,245</u>
NET POSITION					
Net investment in capital assets	28,468,689	8,735,372	14,172,087	8,596,905	59,973,053
Restricted	-	3,289,829	501,944	253,350	4,045,123
Unrestricted	69,038	1,401,827	(79,674)	(1,065,375)	325,816
Total net position	<u>\$ 28,537,727</u>	<u>\$ 13,427,028</u>	<u>\$ 14,594,357</u>	<u>\$ 7,784,880</u>	<u>\$ 64,343,992</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT E-2
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended December 31, 2018

	Business-type Activities				Total
	Enterprise Funds				
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	
Operating revenues:					
User charges	\$ 5,681,442	\$ 3,392,968	\$ 3,180,786	\$ 552,240	\$ 12,807,436
Intergovernmental revenues	283,912	-	71,127	234,295	589,334
Miscellaneous	52,813	123,647	60,915	360,560	597,935
Total operating revenues	<u>6,018,167</u>	<u>3,516,615</u>	<u>3,312,828</u>	<u>1,147,095</u>	<u>13,994,705</u>
Operating expenses:					
Salaries and wages	886,120	755,177	650,617	545,914	2,837,828
Operation and maintenance	1,328,004	996,904	479,432	419,727	3,224,067
Contractual services	64,249	170,609	73,580	205,861	514,299
Materials and supplies	153,363	20,041	164,478	20,023	357,905
Depreciation and amortization	1,139,692	679,141	538,930	616,202	2,973,965
Total operating expenses	<u>3,571,428</u>	<u>2,621,872</u>	<u>1,907,037</u>	<u>1,807,727</u>	<u>9,908,064</u>
Operating gain	<u>2,446,739</u>	<u>894,743</u>	<u>1,405,791</u>	<u>(660,632)</u>	<u>4,086,641</u>
Nonoperating revenue (expense):					
Interest income	30,776	145,180	33,262	(1,910)	207,308
Gain on sale of property	2,500	181,001	-	432	183,933
Interest expense	(761,618)	(70,764)	(317,168)	(29,523)	(1,179,073)
Total nonoperating revenues	<u>(728,342)</u>	<u>255,417</u>	<u>(283,906)</u>	<u>(31,001)</u>	<u>(787,832)</u>
Other financing sources (uses):					
Transfers in	300,350	543,025	329,080	408,720	1,581,175
Transfers out	(492,900)	(1,359,468)	(292,780)	(133,450)	(2,278,598)
Total other financing sources (uses)	<u>(192,550)</u>	<u>(816,443)</u>	<u>36,300</u>	<u>275,270</u>	<u>(697,423)</u>
Change in net position	1,525,847	333,717	1,158,185	(416,363)	2,601,386
Net position, beginning, as restated (see Note 22)	27,011,880	13,093,311	13,436,172	8,201,243	61,742,606
Net position, ending	<u>\$ 28,537,727</u>	<u>\$ 13,427,028</u>	<u>\$ 14,594,357</u>	<u>\$ 7,784,880</u>	<u>\$ 64,343,992</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT E-3
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2018

	Business-type Activities				Total
	Enterprise Funds				
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	
Cash flows from operating activities:					
Receipts from customers and users	\$ 5,984,936	\$ 3,412,727	\$ 3,359,723	\$ 2,012,501	\$ 14,769,887
Payments to employees	(864,570)	(771,782)	(733,917)	(497,080)	(2,867,349)
Payments to suppliers	(1,369,924)	(1,283,080)	(676,537)	(1,162,959)	(4,492,500)
Net cash provided by operating activities	<u>3,750,442</u>	<u>1,357,865</u>	<u>1,949,269</u>	<u>352,462</u>	<u>7,410,038</u>
Cash flows from capital and related financing activities:					
State revolving loan proceeds	610,594	-	610,594	-	1,221,188
Bond and bond premium proceeds	870,000	-	870,000	-	1,740,000
Principal paid on bonds	(1,727,903)	(300,000)	(607,012)	(66,579)	(2,701,494)
Acquisition and construction of fixed assets	(3,023,570)	(570,287)	(2,382,361)	(228,184)	(6,204,402)
Interest paid	(774,747)	(68,065)	(357,094)	(30,378)	(1,230,284)
Net cash used for capital and related financing activities	<u>(4,045,626)</u>	<u>(938,352)</u>	<u>(1,865,873)</u>	<u>(325,141)</u>	<u>(7,174,992)</u>
Cash flows from non-capital financing activities:					
Operating transfers in	300,350	543,025	329,080	408,720	1,581,175
Operating transfers out	(492,900)	(1,359,468)	(292,780)	(395,191)	(2,540,339)
Net cash provided by (used for) non-capital financing activities	<u>(192,550)</u>	<u>(816,443)</u>	<u>36,300</u>	<u>13,529</u>	<u>(959,164)</u>
Cash flows from investing activities:					
Sale of investments	-	978,287	25,181	-	1,003,468
Purchase of investments	(10,007)	-	-	-	(10,007)
Interest received	30,776	145,180	33,262	7,043	216,261
Net cash provided by investing activities	<u>20,769</u>	<u>1,123,467</u>	<u>58,443</u>	<u>7,043</u>	<u>1,209,722</u>
Net increase/decrease in cash	(466,965)	726,537	178,139	47,893	485,604
Cash, beginning	3,651,168	4,992,785	2,766,072	260,735	11,670,760
Cash, ending	<u>\$ 3,184,203</u>	<u>\$ 5,719,322</u>	<u>\$ 2,944,211</u>	<u>\$ 308,628</u>	<u>\$ 12,156,364</u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating gain (loss)	\$ 2,446,739	\$ 894,743	\$ 1,405,791	\$ (660,632)	\$ 4,086,641
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:					
Depreciation expense	1,139,692	679,141	538,930	616,202	2,973,965
Loss on disposition of capital assets	(1,985)	(89,442)	-	-	(91,427)
(Increase)/Decrease in other receivables	(75,859)	(117,250)	43,227	18,575	(131,307)
Decrease in intergovernmental receivables	42,628	13,362	3,668	846,931	906,589
(Increase)/Decrease in prepaid items	13,982	(373)	(398)	(791)	12,420
Decrease in deferred outflows related to pensions	17,463	23,351	29,775	7,315	77,904
Increase in deferred outflows related to OPEB	(4,609)	(3,716)	(2,974)	(2,499)	(13,798)
Increase/(Decrease) in accounts payable	163,695	(5,711)	41,351	(516,557)	(317,222)
Decrease in escrow deposits	-	-	-	(100)	(100)
Increase/(Decrease) in compensated absences	(28,096)	(8,105)	(18,356)	10,662	(43,895)
Increase/(Decrease) in net pension liability	(11,838)	(64,499)	(117,324)	6,348	(187,313)
Increase in OPEB	19,065	13,028	8,116	10,961	51,170
Increase in deferred inflows related to pensions	25,365	19,769	15,007	13,913	74,054
Increase in deferred inflows related to OPEB	4,200	3,567	2,456	2,134	12,357
Total adjustments	<u>1,303,703</u>	<u>463,122</u>	<u>543,478</u>	<u>1,013,094</u>	<u>3,323,397</u>
Net cash provided by operating activities	<u>\$ 3,750,442</u>	<u>\$ 1,357,865</u>	<u>\$ 1,949,269</u>	<u>\$ 352,462</u>	<u>\$ 7,410,038</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

EXHIBIT F
CITY OF LEBANON, NEW HAMPSHIRE
Fiduciary Fund
Statement of Net Position
December 31, 2018

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 419,490
Investments	<u>4,611,608</u>
Total assets	<u>\$ 5,031,098</u>
LIABILITIES	
Intergovernmental payable	<u>\$ 5,031,098</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

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CITY OF LEBANON, NEW HAMPSHIRE
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CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lebanon, New Hampshire (the City), have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which changed the way other postemployment benefit (OPEB) liabilities and related expenses are recorded. See Note I-Q for further information on this pronouncement.

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. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The City has no component units to include in its reporting entity.

1-B Basis of Accounting, and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements – The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

Governmental Fund Financial Statements – Include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying statement is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the governmental activities in the government-wide financial statements. The City has presented all major funds that met those qualifications.

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

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund – is the City’s primary operating fund. The general fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources include property taxes, State grants and motor vehicle permit fees. The primary expenditures are for general government, public safety, highways and streets, welfare, culture and recreation, and debt service. Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* guidance, the expendable trust, grants, emergency management, Heritage, restricted, and Community Development Block Grant funds are consolidated in the general fund.

Capital Improvements Fund –accounts for activity pertaining to multiple construction and renovation projects that are not reported in other funds.

Additionally, the City reports the following fund types:

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

Permanent Fund – are held in the custody of the Trustees of Trust Funds and are used to account for resources held in trust for use by the City. These can include legal trusts for which the interest on the corpus provides funds for the City’s cemetery operations.

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

Proprietary Fund Financial Statements – Include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are reported using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major proprietary funds:

Sewage Collection and Disposal Fund – accounts for the operation of the wastewater treatment plant and the maintenance and replacement of the wastewater collection system and pump stations.

Solid Waste Disposal Fund – accounts for the operation and maintenance of the landfill, recycling facilities and hazardous waste processing.

Water Treatment and Distribution Fund – accounts for the operation of the water treatment facilities, maintenance and replacement of distribution system, water tanks and pump stations.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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Municipal Airport Fund – accounts for the operation and maintenance of the Lebanon Municipal Airport.

Fiduciary Fund Financial Statement – Consists of a Statement of Net Position. The City’s fiduciary fund consists of the following:

Agency Fund – is custodial in nature and does not involve the measurement of operating results. An agency fund is used to account for assets held on behalf of outside parties, including other governments.

1-C 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 and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund’s portion of this pool is reflected on the combined financial statements under the caption “cash and cash equivalents.”

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

1-D Restricted Assets

Restricted assets occur when statutory limitation is placed on the use of the assets as they are earmarked for a specific purpose and are unavailable for general use.

1-E Statement of Cash Flows

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

1-F Investments

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

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

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

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

Fair Value Measurements of Investments – In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, except for investments measured using net asset value (NAV) as a practical expedient to estimate fair value, the City categorizes the fair value measurements of its investments within the fair value hierarchy established by US GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

Level 1 – Inputs reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the City has the ability to access at the measurement date. Directly held marketable equity securities would be examples of Level 1 investments.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Level 2 – Inputs are other than quoted prices that are observable for the assets or liabilities, either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2.

Level 3 – Inputs are significant unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, it is the level in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. Investments are reported at fair value. If an investment is held directly by the City and an active market with quoted prices exists, such as for domestic equity securities, the market price of an identical security is used to report fair value and is classified in Level 1. Corporate fixed income securities and certain governmental securities utilize pricing that may involve estimation using similar securities or trade dates and are classified in Level 2. Fair values for shares in registered mutual funds and exchange-traded funds are based on published share prices and classified in Level 1.

In determining fair value, the City utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

1-G 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, billing for charges, and other user fees.

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, and expenses/expenditures as the items are used. Under the full accrual basis of accounting used for the government-wide and proprietary fund financial statements, prepayments of debt are recognized as a reduction in the long-term liability.

1-I Capital Assets

Capital assets include property, plant, and equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets (i.e., easements), which are reported in the applicable governmental or business-type activities columns in the government-wide financial statements as well as the proprietary fund financial statements. The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the City as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the government-wide Statement of Net Position. Capital assets of the proprietary fund are capitalized in the fund and the cost basis for proprietary fund capital assets is the same as that used for general capital assets.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are carried at historical cost or estimated historical cost. When the cost of the capital assets cannot be determined from available records, estimated historical cost is used. Donated capital assets received on or prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

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

Capital Asset Classes:	<u>Years</u>
Land improvements	20 - 30
Buildings and building improvements	20 - 30
Machinery and equipment	5 - 25
Infrastructure	50

1-J 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.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

1-K Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year in accordance with RSA 76:15-a, *Semi-Annual Collection of Taxes in certain Towns and Cities*. Warrants for the year were issued on May 18, 2018 and October 24, 2018, and were due on July 1, 2018 and December 1, 2018, respectively. 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, 2018 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 1,825,672,021
For all other taxes	\$ 1,908,962,821

The tax rates and amounts assessed for the year ended December 31, 2018 were as follows:

	<u>Per \$1,000 of Assessed Valuation</u>	<u>Property Taxes Assessed</u>
Municipal portion	\$10.97	\$ 20,941,893
School portion:		
State of New Hampshire	\$2.35	4,281,866
Local	\$14.39	27,472,964
County portion	\$2.01	3,841,918
Total	<u>\$29.72</u>	<u>\$ 56,538,641</u>

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1-L Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers as of December 31, 2018.

1-M Deferred Outflows/Inflows of Resources

Deferred outflows of resources, a separate financial statement element, represents a consumption of net position that applies to a future period(s) and thus will not be recognized as an outflow of resources (expense) until then.

Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

1-N Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

1-O Compensated Absences

Vacation - The City's policy allows certain employees to earn varying amounts of vacation based on the employee's length of employment. Upon separation from service, employees are paid in full for any accrued leave earned as set forth by personnel policy or collective bargaining agreement. The liability for such leave is reported as incurred in the government-wide and proprietary fund 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 the benefits will result in termination payments. The liability is based on the City's experience of making termination payments.

1-P Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and GASB Statement No. 82 *Pension Issues – an amendment of GASB Statement No. 67, No. 68 and No.73* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

The schedules prepared by New Hampshire Retirement System, and audited by the plan's independent auditors, require management to make a number of estimates and assumptions related to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results could differ, and the differences may be material.

1-Q Postemployment Benefits Other Than Pensions

The City maintains two separate other postemployment benefit plans (OPEB), as follows:

New Hampshire Retirement System Plan – For the purposes of measuring the total other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Hampshire Retirement System OPEB Plan (the plan) and additions to/deductions

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from the plan's fiduciary net position has been determined on the same basis as they are reported by the New Hampshire Retirement System. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Single Employer Plan – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information has been determined based on the City's actuarial report. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms.

1-R Net Position/Fund Balances

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

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.

Restricted net position – Results when constraints placed on net position use are either externally imposed by a third party (statutory, bond covenant, or granting agency) or are imposed by law through constitutional provisions or enabling legislation. The City typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a further project.

Unrestricted net position – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

Fund Balance Classifications – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make sure the nature and extent of the constraints placed on a government's fund balances are more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – Amounts that cannot be spent because they are either (a) not in spendable form (such as prepaid items or tax deeded property subject to resale); or (b) are legally or contractually required to be maintained intact.

Restricted – 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.

Committed – Amounts that can be used only for specific purposes determined by a vote of the 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.

Assigned – Amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed.

Unassigned – Amounts that are available for any purpose. Positive amounts are reported only in the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by the offsetting of assigned fund balance amounts.

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

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

1-S Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable and the useful lives and impairment of tangible and intangible capital assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the City's operations. The City Council adopts a budget for the current year for the general, emergency management, and capital improvement governmental funds as well as the sewage collection and disposal, solid waste disposal, water treatment and distribution, and municipal airport proprietary funds. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

The head of any department, with the written approval of the City Manager, may transfer any unencumbered balance or any portion thereof from one fund or agency within their department to another fund or agency with their department. Expenditures may not legally exceed budgeted appropriations in total. Except for capital improvements, 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. For the fiscal year 2018, \$1,194,730 of the beginning general fund unassigned fund balance was voted from surplus.

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, Expenditures, and Changes in Fund Balance - Budgetary Basis presents the actual results to provide a comparison with the budget.

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The major difference between the budgetary basis and GAAP basis is as follows:

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

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

	General
Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 30,917,791
Adjustment:	
Basis difference:	
Inception of capital leases	374,212
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	963,544
To eliminate transfers between expendable trust and general funds	562,000
To eliminate transfers between blended funds	(562,000)
Change in deferred tax revenue relating to 60-day revenue recognition recognized as revenue on the GAAP basis, but not on the budgetary basis	38,343
Per Exhibit C-3 (GAAP basis)	\$ 32,293,890
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 30,297,331
Adjustment:	
Basis differences:	
Inception of capital leases	374,212
Encumbrances, beginning	340,509
Encumbrances, ending	(888,153)
GASB Statement No. 54:	
To record expenditures of the blended funds during the year	781,889
To eliminate transfers between general and blended funds	(562,000)
To recognize transfers out of the blended funds	638,923
Per Exhibit C-3 (GAAP basis)	\$ 30,982,711

2-C Deficit Fund Balance

The capital improvements fund had a deficit fund balance of \$860,324 at December 31, 2018. This deficit results from project expenditures in anticipation of future bond/note issuances and includes \$3,348,475 of intergovernmental payables representing unissued State Revolving Fund drawdown requests, see Note 11.

2-D Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized.

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Beginning net position for governmental and business-type activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, deferred inflows and outflows of resources, as follows:

	Local OPEB	State OPEB	Total OPEB
Governmental Activities:			
Change in total OPEB liability under current standards, January 1	\$ (125,080)	\$ (1,489,192)	\$ (1,614,272)
Initial balance of deferred outflows of resources	-	110,105	110,105
Initial balance of deferred inflows of resources	-	(4,699)	(4,699)
Cumulative restatement related to GASB No. 75 implementation (see Note 22)	<u>\$ (125,080)</u>	<u>\$ (1,383,786)</u>	<u>\$ (1,508,866)</u>
Business-type Activities - Sewage collection and disposal			
Change in total OPEB liability under current standards, January 1	\$ (21,430)	\$ (41,462)	\$ (62,892)
Initial balance of deferred outflows of resources	-	3,066	3,066
Initial balance of deferred inflows of resources	-	(131)	(131)
Cumulative restatement related to GASB No. 75 implementation (see Note 22)	<u>\$ (21,430)</u>	<u>\$ (38,527)</u>	<u>\$ (59,957)</u>
Business-type Activities - Solid waste disposal			
Change in total OPEB liability under current standards, January 1	\$ (16,584)	\$ (39,118)	\$ (55,702)
Initial balance of deferred outflows of resources	-	2,892	2,892
Initial balance of deferred inflows of resources	-	(123)	(123)
Cumulative restatement related to GASB No. 75 implementation (see Note 22)	<u>\$ (16,584)</u>	<u>\$ (36,349)</u>	<u>\$ (52,933)</u>
Business-type Activities - Water treatment and distribution			
Change in total OPEB liability under current standards, January 1	\$ 11,565	\$ (38,111)	\$ (26,546)
Initial balance of deferred outflows of resources	-	2,819	2,819
Initial balance of deferred inflows of resources	-	(120)	(120)
Cumulative restatement related to GASB No. 75 implementation (see Note 22)	<u>\$ 11,565</u>	<u>\$ (35,412)</u>	<u>\$ (23,847)</u>
Business-type Activities - Municipal airport			
Change in total OPEB liability under current standards, January 1	\$ (400)	\$ (21,161)	\$ (21,561)
Initial balance of deferred outflows of resources	-	1,565	1,565
Initial balance of deferred inflows of resources	-	(67)	(67)
Cumulative restatement related to GASB No. 75 implementation (see Note 22)	<u>\$ (400)</u>	<u>\$ (19,663)</u>	<u>\$ (20,063)</u>

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The City's deposits are covered by federal depository insurance (FDIC) or by collateral held by the City's agent in the City's name. The FDIC currently insures the first \$250,000 of the City's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the City's deposits was \$41,391,708 and the bank balances totaled \$42,033,813. Petty cash totaled \$2,165.

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Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 40,972,218
Cash per Statement of Net Position - Fiduciary Fund (Exhibit F)	419,490
Total cash and cash equivalents	\$ 41,391,708

NOTE 4 – RESTRICTED ASSETS

The following cash and investments are classified as restricted because of the statutory limitation placed on their use as they are earmarked for a specific purpose.

Cash and cash equivalents:	
General fund:	
Expendable trust	\$ 26,556
Grants	269,869
Emergency management	70,480
Heritage	32,063
Restricted funds	344,457
Total restricted cash and cash equivalents	743,425
Investments:	
General fund:	
Expendable trust	318,621
Accounts receivable:	
General fund:	
Grants	20,682
Total restricted assets	\$ 1,082,728

NOTE 5 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the City funds. The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City’s mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements and maturities as of December 31, 2018:

Investment type:	Valuation	Fair Value	Exempt from	Less Than 1	1-5 Years
	Measurement				
	Method				
Equities	Level 1	\$ 1,206,100	\$ 1,206,100	\$ -	\$ -
Fixed income	Level 1	13,654,946	1,748,919	2,562,165	9,343,862
Total fair value		\$ 14,861,046	\$ 2,955,019	\$ 2,562,165	\$ 9,343,862

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. The City’s Trustees of Trust Funds investment policy limits investment maturities for capital reserve funds to five years as a means of managing its exposure to fair value losses arising from increasing interest rates.

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Credit Risk - The City's Trustees of Trust Funds investment policy limits capital reserve investments to the highest grade domestic fixed investments (U.S. treasuries and agencies) as a means of managing credit risk. For trust funds, the policy specifies that not more than 45% nor less than 35% of the portfolio should be invested in equities; of which not more than 90% nor less than 70% in an S&P 500 Index fund, 5%-15% international equities, and the balance in small-cap and mid-cap index funds. Not more than 60% nor less than 40% of the portfolio should be invested in diversified fixed income pools or funds representative of the broad U.S. government and corporate market.

The cash balance, which composes the rest, should range between 0% and 10% of the total trust fund balance.

Investment type:	Fair Value	Exempt from Disclosure	Ratings as of Year-end	
			Aaa	Other
Equities	\$ 1,206,100	\$ 1,206,100	\$ -	\$ -
Fixed income	13,654,946	1,748,919	11,856,969	49,058
Total fair value	<u>\$ 14,861,046</u>	<u>\$ 2,955,019</u>	<u>\$ 11,856,969</u>	<u>\$ 49,058</u>

Custodial Credit Risk – This is the risk that in the event of the failure of the counterparty (e.g., broker/dealer) to honor a transaction, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have custodial credit risk policies for investments.

Concentration of Credit Risk – The City's Trustees of Trust Funds investment policy limits the amount it may invest in any one issuer to not more than 10% of the total trust fund balance, excepting U.S. obligations and mutual funds. There are no issuers that exceeded 5% of the City's total investments.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 10,249,438
Investments per Statement of Net Position - Fiduciary Funds (Exhibit F)	4,611,608
Total investments	<u>\$ 14,861,046</u>

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2018. The amount in the governmental activities has been reduced by an allowance for an estimated uncollectible amount of \$250,000, which is removed in the general fund due to the deferral of taxes receivable not collected within 60 days of year-end. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2018	\$ 876,533	\$ 876,533
Unredeemed (under tax lien):		
Levy of 2017	223,441	223,441
Levy of 2016	162,431	162,431
Levies of 2015 and prior	274,831	274,831
Less: allowance for estimated uncollectible taxes	(250,000) *	-
Net taxes receivable	<u>\$ 1,287,236</u>	<u>\$ 1,537,236</u>

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

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NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2018, 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, 2018 for the City’s individual major funds and nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	Governmental Funds			Total Governmental Funds
	General	Capital Improvements	Nonmajor	
Receivables:				
Accounts	\$ 838,221	\$ -	\$ 11,342	\$ 849,563
Restricted	20,682	-	-	20,682
Intergovernmental	-	2,600,600	-	2,600,600
Voluntary tax liens	33,150	-	-	33,150
Gross receivables	892,053	2,600,600	11,342	3,503,995
Less: allowance for uncollectibles	(442,409)	-	-	(442,409)
Net total receivables	<u>\$ 449,644</u>	<u>\$ 2,600,600</u>	<u>\$ 11,342</u>	<u>\$ 3,061,586</u>
	Proprietary Funds			Total Proprietary Funds
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	
Receivables:				
Accounts	\$ 305,105	\$ 419,184	\$ 86,968	\$ 861,409
Intergovernmental	2,203,260	48,103	2,027,931	4,450,821
Net total receivables	<u>\$ 2,508,365</u>	<u>\$ 467,287</u>	<u>\$ 2,114,899</u>	<u>\$ 5,312,230</u>
	Governmental Activities	Business-type Activities	Total Government- Wide	
Receivables:				
Accounts	\$ 870,245	\$ 861,409	\$ 1,731,654	
Intergovernmental	2,770,157	4,450,821	7,220,978	
Voluntary tax liens	33,150	-	33,150	
Gross receivables	3,673,552	5,312,230	8,985,782	
Less: allowance for uncollectibles	(442,409)	-	(442,409)	
Net total receivables	<u>\$ 3,231,143</u>	<u>\$ 5,312,230</u>	<u>\$ 8,543,373</u>	

NOTE 8 – PREPAID ITEMS

Prepaid items at December 31, 2018 consisted of the following:

	Government-wide Statements		Governmental Fund General	Proprietary Funds			
	Governmental Activities	Business-type Activities		Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport
Insurance	\$ 97,776	\$ 36,793	\$ 97,776	\$ 8,887	\$ 5,233	\$ 10,306	\$ 12,367
Debt	-	-	55,747	-	-	-	-
Interest	20,069	399,420	20,069	384,368	-	15,052	-
Other	173,918	1,525	173,918	-	-	1,250	275
Total	<u>\$ 291,763</u>	<u>\$ 437,738</u>	<u>\$ 347,510</u>	<u>\$ 393,255</u>	<u>\$ 5,233</u>	<u>\$ 26,608</u>	<u>\$ 12,642</u>

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NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

	Balance, beginning	Additions	Deletions	Balance, ending
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 7,404,265	\$ 225,021	\$ -	\$ 7,629,286
Intangible assets	82,197	29,650	-	111,847
Construction in progress	6,654,967	4,676,163	(3,180,344)	8,150,786
Total capital assets not being depreciated	<u>14,141,429</u>	<u>4,930,834</u>	<u>(3,180,344)</u>	<u>15,891,919</u>
Being depreciated:				
Land improvements	3,346,872	23,402	-	3,370,274
Buildings and building improvements	21,144,159	388,999	-	21,533,158
Machinery and equipment	10,489,345	1,093,548	(87,046)	11,495,847
Infrastructure	69,601,282	2,693,467	-	72,294,749
Total capital assets being depreciated	<u>104,581,658</u>	<u>4,199,416</u>	<u>(87,046)</u>	<u>108,694,028</u>
Total all capital assets	<u>118,723,087</u>	<u>9,130,250</u>	<u>(3,267,390)</u>	<u>124,585,947</u>
Less accumulated depreciation:				
Land improvements	(2,023,211)	(128,547)	-	(2,151,758)
Buildings and building improvements	(7,639,332)	(448,255)	-	(8,087,587)
Machinery and equipment	(5,420,786)	(651,314)	78,341	(5,993,759)
Infrastructure	(19,872,698)	(1,355,661)	-	(21,228,359)
Total accumulated depreciation	<u>(34,956,027)</u>	<u>(2,583,777)</u>	<u>78,341</u>	<u>(37,461,463)</u>
Net book value, capital assets being depreciated	<u>69,625,631</u>	<u>1,615,639</u>	<u>(8,705)</u>	<u>71,232,565</u>
Net book value, all governmental activities capital assets	<u>\$ 83,767,060</u>	<u>\$ 6,546,473</u>	<u>\$ (3,189,049)</u>	<u>\$ 87,124,484</u>
Business-type activities:				
At cost:				
Not being depreciated:				
Land	\$ 809,968	\$ -	\$ -	\$ 809,968
Construction in progress	12,862,005	6,446,957	(2,530,486)	16,778,476
Total capital assets not being depreciated	<u>13,671,973</u>	<u>6,446,957</u>	<u>(2,530,486)</u>	<u>17,588,444</u>
Being depreciated:				
Land improvements	42,470,222	843,137	-	43,313,359
Buildings and building improvements	40,177,609	387,658	-	40,565,267
Machinery and equipment	7,353,468	1,138,320	(914,266)	7,577,522
Infrastructure	58,196,524	2,054,284	-	60,250,808
Total capital assets being depreciated	<u>148,197,823</u>	<u>4,423,399</u>	<u>(914,266)</u>	<u>151,706,956</u>
Total all capital assets	<u>161,869,796</u>	<u>10,870,356</u>	<u>(3,444,752)</u>	<u>169,295,400</u>
Less accumulated depreciation:				
Land improvements	(30,343,908)	(908,946)	-	(31,252,854)
Buildings and building improvements	(13,977,914)	(645,507)	-	(14,623,421)
Machinery and equipment	(4,625,270)	(342,238)	822,839	(4,144,669)
Infrastructure	(20,205,198)	(1,077,274)	-	(21,282,472)
Total accumulated depreciation	<u>(69,152,290)</u>	<u>(2,973,965)</u>	<u>822,839</u>	<u>(71,303,416)</u>
Net book value, capital assets being depreciated	<u>79,045,533</u>	<u>1,449,434</u>	<u>(91,427)</u>	<u>80,403,540</u>
Net book value, all business-type activities capital assets	<u>\$ 92,717,506</u>	<u>\$ 7,896,391</u>	<u>\$ (2,621,913)</u>	<u>\$ 97,991,984</u>

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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:

Governmental activities:	
General government	\$ 114,253
Public safety	464,735
Highways and streets	1,788,480
Culture and recreation	197,115
Conservation	19,194
Total depreciation expense	<u>\$ 2,583,777</u>
Business-type activities:	
Sewage collection and disposal	\$ 1,139,692
Solid waste disposal	679,141
Water treatment and distribution	538,930
Municipal airport	616,202
Total depreciation expense	<u>\$ 2,973,965</u>

NOTE 10 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 51,139
Nonmajor governmental	Nonmajor governmental	4,903
General	Major proprietary - Municipal airport	827,791
Major proprietary - Water treatment and distribution	Major proprietary - Sewage collection and disposal	25
		<u>\$ 883,858</u>

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

Interfund Transfers - The composition of interfund transfers for the year ended December 31, 2018 is as follows:

	Transfers In	Transfers Out	Cumulative Transfers
Major governmental funds:			
General	\$ 1,662,102	\$ (2,053,200)	\$ (391,098)
Capital improvements	1,083,725	-	1,083,725
Nonmajor governmental funds	30,058	(25,262)	4,796
Total governmental funds	<u>2,775,885</u>	<u>(2,078,462)</u>	<u>697,423</u>
Major proprietary funds:			
Sewage collection and disposal	300,350	(492,900)	(192,550)
Solid waste disposal	543,025	(1,359,468)	(816,443)
Water treatment and distribution	329,080	(292,780)	36,300
Municipal airport	408,720	(133,450)	275,270
Total proprietary funds	<u>1,581,175</u>	<u>(2,278,598)</u>	<u>(697,423)</u>
Total	<u>\$ 4,357,060</u>	<u>\$ (4,357,060)</u>	<u>\$ -</u>

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

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NOTE 11 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$24,395,473 at December 31, 2018 consist of the following:

Governmental funds:	
General:	
Balance of 2018-19 district assessment due to the Lebanon School District	\$ 14,202,898
Fees due to the State of New Hampshire	1,517
Total general fund	<u>14,204,415</u>
Capital improvements:	
State of New Hampshire - drawdown requests	3,348,475
Total governmental funds	<u>17,552,890</u>
Proprietary funds:	
Sewage collection and disposal:	
State of New Hampshire - drawdown requests	2,511,357
Connection fees due to the Town of Hanover	137,246
Total sewer fund	<u>2,648,603</u>
Water treatment and distribution:	
State of New Hampshire - drawdown requests	2,511,357
Total proprietary funds	<u>5,159,960</u>
Fiduciary fund:	
Agency:	
Impact fees held for other governments	129,425
Trust funds held for the Lebanon School District	4,901,673
Total proprietary funds	<u>5,031,098</u>
Total intergovernmental payables due	<u>\$ 24,395,473</u>

NOTE 12 – CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2018. 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 for work completed are as follows:

	Contracts Payable	Retainage Payable
Governmental fund:		
Capital improvements	<u>\$ 546,190</u>	<u>\$ 390,946</u>
Proprietary funds:		
Sewage collection and disposal	447,101	307,351
Solid waste disposal	20,313	-
Water treatment and distribution	440,666	271,744
Total proprietary funds	<u>908,080</u>	<u>579,095</u>
Total	<u>\$ 1,454,270</u>	<u>\$ 970,041</u>

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The remaining balances of uncompleted construction contracts at December 31, 2018 are as follows:

	<u>Total Contracts</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Governmental fund:			
Capital improvements	\$ 8,310,686	\$ 3,290,463	\$ 5,020,223
Proprietary funds:			
Sewage collection and disposal	5,155,084	1,732,817	3,422,267
Solid waste disposal	528,840	121,256	407,584
Water treatment and distribution	4,791,531	1,155,406	3,636,125
Municipal airport	1,474,495	761,067	713,428
Total proprietary funds	<u>11,949,950</u>	<u>3,770,546</u>	<u>8,179,404</u>
Total	<u>\$ 20,260,636</u>	<u>\$ 7,061,009</u>	<u>\$ 13,199,627</u>

NOTE 13 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources are as follows:

	<u>Government-wide Statements</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Amounts related to pensions (see Note 16)	\$ 2,831,401	\$ 262,281
Amounts related to other postemployment benefits (see Note 17)	260,591	24,140
Total	<u>\$ 3,091,992</u>	<u>\$ 286,421</u>

	<u>Proprietary Funds</u>			
	<u>Sewage Collection and Disposal</u>	<u>Solid Waste Disposal</u>	<u>Water Treatment and Distribution</u>	<u>Municipal Airport</u>
Amounts related to pensions (see Note 16)	\$ 83,391	\$ 71,803	\$ 62,930	\$ 44,157
Amounts related to other postemployment benefits (see Note 17)	7,675	6,608	5,793	4,064
Total	<u>\$ 91,066</u>	<u>\$ 78,411</u>	<u>\$ 68,723</u>	<u>\$ 48,221</u>

Deferred inflows of resources are as follows:

	<u>Government-wide Statements</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Unavailable revenue - Property taxes	\$ 18,648	\$ -
Unavailable revenue - Grants received in advance	246,857	-
Debt forgiveness	1,421,280	2,449,338
Deferred revenue	-	9,320
Amounts related to pensions (see Note 16)	1,714,188	158,789
Amounts related to other postemployment benefits (see Note 17)	76,053	12,798
	<u>\$ 3,477,026</u>	<u>\$ 2,630,245</u>

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CITY OF LEBANON, NEW HAMPSHIRE
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Deferred inflows of resources continued:

	Governmental Fund General	Proprietary Funds			Municipal Airport
		Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	
Unavailable revenue - Property taxes	\$ 421,396	\$ -	\$ -	\$ -	\$ -
Unavailable revenue - Grants received in advance	246,857	-	-	-	-
Debt forgiveness	-	1,383,380	-	1,065,958	-
Deferred revenue	-	-	-	-	9,320
Amounts related to pensions (see Note 16)	-	50,487	43,470	38,098	26,734
Amounts related to other postemployment benefits (see Note 17)	-	4,331	3,690	2,576	2,201
	<u>\$ 668,253</u>	<u>\$ 1,438,198</u>	<u>\$ 47,160</u>	<u>\$ 1,106,632</u>	<u>\$ 38,255</u>

NOTE 14 – CAPITAL LEASE OBLIGATIONS

The City has entered into certain capital lease agreements under which the related equipment will become the property of the City when all the terms of the lease agreements are met.

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2018
Governmental activities:		
Capital lease obligations:		
Ford Fusion	5.95%	\$ 4,285
Ford Interceptor	6.45%	8,932
Servers and related equipment	4.29%	37,091
Vehicle fleet	6.00%	221,077
Ford Interceptor	6.95%	25,138
Total capital lease obligations		<u>\$ 296,523</u>

Leased equipment under capital leases, included in capital assets, is as follows:

	Governmental Activities
Equipment:	
Ford Fusion	\$ 20,289
Ford Interceptor	42,115
Servers and related equipment	111,272
Vehicle fleet	341,661
Ford Interceptor	32,551
Total equipment	547,888
Less: accumulated depreciation	(157,470)
Total capital lease equipment	<u>\$ 390,418</u>

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The annual requirements to amortize the capital leases payable as of December 31, 2018, including interest payments, are as follows:

Fiscal Year Ending December 31,	Governmental Activities
2019	\$ 169,083
2020	146,024
2021	7,413
2022	7,413
Total requirements	329,933
Less: interest	(33,410)
Present value of remaining payments	\$ 296,523

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

NOTE 15 – LONG-TERM LIABILITIES

Changes in the City’s long-term liabilities consisted of the following for the year ended December 31, 2018:

	Balance January 1, 2018 (as restated)	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Governmental activities:					
Bonds/notes payable:					
Bonds/notes	\$ 25,089,160	\$ 3,633,683	\$ (2,753,642) *	\$ 25,969,201	\$ 2,707,066
Premium	912,376	228,520	(86,474)	1,054,422	79,684
Total bonds/notes payable	26,001,536	3,862,203	(2,840,116)	27,023,623	2,786,750
Capital leases	97,221	374,212	(174,910)	296,523	148,456
Compensated absences	1,646,744	14,722	(47,572)	1,613,894	69,311
Net pension liability	23,656,755	-	(1,695,390)	21,961,365	-
Net other postemployment benefits	2,803,924	747,531	-	3,551,455	-
Total long-term liabilities	\$ 54,206,180	\$ 4,998,668	\$ (4,757,988)	\$ 54,446,860	\$ 3,004,517

***Water Pollution Control Revolving Fund Program** – Included in the \$2,753,642 debt reduction is a one-time principal forgiveness received under the Water Pollution Control Revolving Fund Program. The loan was consolidated by a promissory note on October 11, 2018, upon substantial completion of the Combined Sewer Overflow Project 11 (Phase 1). The total loan amount issued was \$728,283 (in the governmental activities), of which 10.0%, or \$72,828 was forgiven in the form of federal financial assistance.

	Balance January 1, 2018 (as restated)	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Business-type activities:					
Bonds/notes payable:					
Bonds/notes	\$ 37,365,709	\$ 2,721,424	\$ (2,810,736) *	\$ 37,276,397	\$ 1,743,844
Premium	696,497	111,000	(64,963)	742,534	54,777
Total bonds/notes payable	38,062,206	2,832,424	(2,875,699)	38,018,931	1,798,621
Compensated absences	320,337	10,662	(54,557)	276,442	44,192
Accrued landfill closure and postclosure care	8,366,643	386,953	-	8,753,596	18,400
Net pension liability	2,221,646	-	(187,313)	2,034,333	-
Net other postemployment benefits	366,102	78,019	-	444,121	-
Total long-term liabilities	\$ 49,336,934	\$ 3,308,058	\$ (3,117,569)	\$ 49,527,423	\$ 1,861,213

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***Water Pollution Control Revolving Fund Program** – Included in the \$2,810,736 debt reduction is a one-time principal forgiveness received under the Water Pollution Control Revolving Fund Program. The loan was consolidated by a promissory note on October 11, 2018, upon substantial completion of the Combined Sewer Overflow Project 11 (Phase 1). The total loan amount issued was \$1,092,424 (\$546,212 in the sewer proprietary fund and \$546,212 in the water proprietary fund), of which 10.0%, or \$109,242 (\$54,621 in the sewer proprietary fund and \$54,621 in the water proprietary fund) was forgiven in the form of federal financial assistance.

Long-term bonds/notes are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2018	Current Portion
Governmental activities:						
Bonds/notes payable:						
(Majority multi purpose)	\$ 5,273,904	2000	2020	5.125-5.50	\$ 480,000	\$ 240,000
	\$ 2,490,682	2001	2021	4.125-5.00	357,600	119,200
	\$ 2,490,682	2002	2022	3.00-5.00	365,000	95,000
	\$ 1,118,620	2003	2023	4.00-6.00	278,300	55,660
	\$ 3,506,098	2004	2024	3.00-5.00	1,032,858	172,143
	\$ 4,583,082	2005	2025	4.00-4.50	1,575,000	225,000
	\$ 4,441,665	2006	2026	4.50-5.00	1,770,000	225,000
	\$ 6,584,511	2007	2027	4.00-4.75	2,787,400	323,600
	\$ 2,396,404	2008	2028	4.00-4.125	715,250	74,525
	\$ 3,797,000	2009	2029	3.02-5.02	1,360,000	156,000
	\$ 3,948,393	2010	2030	3.823	2,343,440	197,370
	\$ 3,651,784	2011	2031	3.55	2,265,000	190,000
	\$ 428,374	2012	2032	2.57-3.18	285,040	20,360
	\$ 2,912,891	2014	2034	3.392	1,110,527	74,035
	\$ 655,000	2014	2024	5.10	390,000	65,000
	\$ 1,819,100	2016	2036	2.51	1,630,000	95,000
	\$ 1,272,534	2016	2036	2.00	947,699	-
	\$ 1,280,000	2017	2036	2.00	1,008,000	56,000
	\$ 1,856,400	2017	2037	2.52	1,740,000	115,000
	\$ 2,905,400	2018	2038	3.20	2,905,400	175,400
	\$ 728,283	2018	2038	2.70	622,687	32,773
Total bonds/notes payable					25,969,201	2,707,066
Bond premium					1,054,422	79,684
Total governmental activities					27,023,623	2,786,750
Business-type activities:						
Bonds/notes payable:						
(Majority multi purpose)	\$ 3,297,982	2001	2021	4.125-5.00	\$ 77,400	\$ 25,800
	\$ 1,769,210	2003	2023	4.00-6.00	96,700	19,340
	\$ 1,281,902	2004	2024	3.00-5.00	167,142	27,857
	\$ 1,254,393	2005	2025	4.00-4.50	420,000	60,000
	\$ 2,070,164	2006	2026	4.50-5.00	830,000	105,000
	\$ 1,901,689	2007	2027	4.00-4.75	1,187,600	121,400
	\$ 1,574,416	2008	2028	2.352	709,387	-
	\$ 2,030,611	2008	2028	4.00-4.125	1,054,750	105,475
	\$ 1,410,000	2009	2029	3.02-5.02	750,000	69,000
	\$ 3,152,607	2010	2030	3.823	1,891,560	157,630
	\$ 4,720,716	2011	2031	3.55	3,055,000	235,000

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Long-term bonds/notes continued:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2018	Current Portion
Business-type activities (continued):						
Bonds/notes payable:						
(Majority multi purpose)	\$ 1,294,062	2011	2031	3.55	478,775	30,916
	\$ 4,306,526	2012	2032	2.57-3.18	2,259,960	334,640
	\$ 2,207,000	2013	2033	4.10-5.60	1,635,000	115,000
	\$ 4,369,336	2014	2034	3.392	1,665,796	111,053
	\$ 1,908,801	2016	2036	2.00	1,421,551	-
	\$ 11,541,564	2016	2036	2.00	9,810,326	-
	\$ 1,904,452	2016	2036	2.00	1,301,362	-
	\$ 1,920,000	2017	2036	2.00	1,512,000	84,000
	\$ 200,000	2017	2036	1.96	184,185	8,574
	\$ 4,672,089	2017	2037	2.42	4,204,881	-
	\$ 1,629,000	2018	2038	3.20	1,629,000	84,000
	\$ 1,092,424	2018	2037	2.70	890,557	49,159
Total bonds/notes payable					<u>37,276,397</u>	<u>1,743,844</u>
Bond premium					742,534	54,777
Total					<u>38,018,931</u>	<u>1,798,621</u>
Grand total					<u>\$ 65,042,554</u>	<u>\$ 4,585,371</u>

The annual requirements to amortize all general obligation bonds/notes outstanding as of December 31, 2018, including interest payments, are as follows:

Governmental activities:			
Fiscal Year Ending December 31,	Principal	Interest	Total
2019	\$ 2,707,066	\$ 1,030,021	\$ 3,737,087
2020	2,718,413	886,172	3,604,585
2021	2,458,413	737,286	3,195,699
2022	2,322,213	628,940	2,951,153
2023	2,202,213	531,273	2,733,486
2024-2028	8,316,594	1,593,298	9,909,892
2029-2033	3,677,956	528,258	4,206,214
2034-2038	1,566,333	121,999	1,688,332
Totals	<u>\$ 25,969,201</u>	<u>\$ 6,057,247</u>	<u>\$ 32,026,448</u>
Business-type activities:			
Fiscal Year Ending December 31,	Principal	Interest	Total
2019	\$ 1,743,844	\$ 1,186,242	\$ 2,930,086
2020	2,789,573	1,080,675	3,870,248
2021	2,785,655	982,506	3,768,161
2022	2,757,966	886,462	3,644,428
2023	2,774,108	791,674	3,565,782
2024-2028	11,978,260	2,641,788	14,620,048
2029-2033	8,410,853	1,080,781	9,491,634
2034-2038	4,036,138	214,881	4,251,019
Totals	<u>\$ 37,276,397</u>	<u>\$ 8,865,009</u>	<u>\$ 46,141,406</u>

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Accrued Landfill Closure and Postclosure Care Costs – Federal and State laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site after closure. A liability is being recognized based on the future closure and postclosure care costs that will be incurred. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used through the end of the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$8,753,596 as of December 31, 2018, which is based on 100% usage of the closed unlined landfill, 100% usage of the closed C&D debris landfill, 100% usage of the secured (lined) landfill Phase I and IIa, and 52.9% usage of the secured (lined) landfill Phases IIB and IIC. The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2018. However, the actual cost of closure and postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations. The City expects to finance the closure and postclosure care costs through contemporaneous setting aside of sufficient amounts in a capital reserve fund.

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Bonds/Notes Authorized and Unissued – Bonds and notes authorized and unissued as of December 31, 2018 were as follows:

Per City Meeting Vote of	Purpose	Unissued Amount	Responsible Fund
2014	CSO Separation and Utility replacement	\$ 4,370,000	General/water treatment and distribution/sewage collection and disposal
2015	Packard Hill bridge	100,000	General
2015	CSO separation and utility replacement	4,970,000	General/water treatment and distribution/sewage collection and disposal
2016	Combined sewer overflow separation and utility replacement	5,070,000	General/water treatment and distribution/sewage collection and disposal
2017	CSO Separation and Utility replacement	6,300,000	General/water treatment and distribution/sewage collection and disposal
2017	Downtown visioning and tunnel improvements	200,000	General
2018	CSO Separation and Utility replacement	5,350,000	General/water treatment and distribution/sewage collection and disposal
2018	Downtown visioning and tunnel improvements	2,000,000	General
2018	Hillcrest Acres infrastructure construction	200,000	General/water treatment and distribution/sewage collection and disposal
2018	Lebanon Police Department HVAC repair and upgrade	50,000	General
2018	Streets rehabilitation/reconstruction	255,000	General/sewage collection and disposal
		<u>\$ 28,865,000</u>	

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NOTE 16 – DEFINED BENEFIT PENSION PLAN

Plan Description – The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25. The Pension Plan was 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 Pension Plan is a contributory, defined benefit plan providing service, disability, death, and vested retirement benefits to members and their beneficiaries. Substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and permanent police officers within the State are eligible and required to participate in the Pension Plan. 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.

Benefits Provided – The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and available to pay retirement benefits to all members.

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC) multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by $\frac{1}{4}$ of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances, subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Contributions - 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. Group I (employees other than police and fire) members are required to contribute 7% of earnable compensation and Group II (police and fire) members contribute 11.55% and 11.80%, respectively. For fiscal year 2018, the City contributed 25.33% for police, 27.79% for fire, and 11.08% for other employees. The contribution requirement for the fiscal year 2018 was \$2,181,851, which was paid in full.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – At December 31, 2018, the City reported a liability of \$23,995,698 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2018, the City's proportion was 0.50%, which was a decrease of 0.03% from its proportion measured as of June 30, 2017.

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For the year ended December 31, 2018, the City recognized pension expense of \$2,003,653. At December 31, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business-type Activities		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 172,574	\$ 1,028,161	\$ 15,986	\$ 95,241	\$ 188,560	\$ 1,123,402
Changes in assumptions	1,519,834	-	140,787	-	1,660,621	-
Net difference between projected and actual investment earnings on pension plan investments	-	508,205	-	47,076	-	555,281
Differences between expected and actual experience	175,291	177,822	16,238	16,472	191,529	194,294
Contributions subsequent to the measurement date	963,702	-	89,270	-	1,052,972	-
Total	\$ 2,831,401	\$ 1,714,188	\$ 262,281	\$ 158,789	\$ 3,093,682	\$ 1,872,977

The \$1,052,972 reported as deferred outflows of resources related to pensions results from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Governmental Activities	Business-type Activities	Total
2019	\$ 610,768	\$ 56,577	\$ 667,345
2020	467,990	43,351	511,341
2021	(654,874)	(60,663)	(715,537)
2022	(270,373)	(25,043)	(295,417)
Totals	\$ 153,511	\$ 14,222	\$ 167,732

Actuarial Assumptions – The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2017, using the following actuarial assumptions which, accordingly apply to 2018 measurements:

- Inflation: 2.5%
- Salary increases: 5.6% average, including inflation
- Wage inflation 3.25%
- Investment rate of return: 7.25% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

Long-term Rates of Return – The long-term expected rate of return on pension plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation.

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Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2018
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

Discount Rate – The discount rate used to measure the collective total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan’s actuarial funding policy as required by RSA 100-A:16. Based on those assumptions, the Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.25% as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
Governmental activities	June 30, 2018	\$ 29,219,777	\$ 21,961,365	\$ 15,878,595
Business-type activities	June 30, 2018	2,706,697	2,034,333	1,470,872
		<u>\$ 31,926,474</u>	<u>\$ 23,995,698</u>	<u>\$ 17,349,467</u>

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Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan financial report.

NOTE 17 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

17-A New Hampshire Retirement System (NHRS)

Plan Description – The New Hampshire Retirement System (NHRS or the System) administers a cost-sharing multiple-employer other postemployment benefit plan medical subsidy healthcare plan (OPEB Plan). For additional system information, please refer to the 2018 Comprehensive Annual Financial Report, which can be found on the system’s website at www.nhrs.org.

Benefits Provide - Benefit amounts and eligibility requirements for the OPEB Plan are set by State law (RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b), and members are designated in statute by type. The four membership types are Group II, Police Officers and Firefighters; Group I, Teachers; Group I, Political Subdivision Employees; and Group I, State Employees. The OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical insurance subsidy is a payment made by NHRS to the former employer or its insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certified dependent children with a disability who are living in the household and being cared for by the retiree. If the health insurance premium amount is less than the medical subsidy amount, then only the health insurance premium amount will be paid. If the health insurance premium amount exceeds the medical subsidy amount, then the retiree or other qualified person is responsible for paying any portion that the employer does not pay.

Group I benefits are based on creditable service, age and retirement date. Group II benefits are based on hire date, age and creditable service. The OPEB plan is closed to new entrants.

Maximum medical subsidy rates paid during fiscal year 2018 were as follows:

For qualified retirees not eligible for Medicare, the amounts were \$375.56 for a single-person plan and \$751.12 for a two-person plan.

For those qualified retirees eligible for Medicare, the amounts were \$236.84 for a single-person plan and \$473.68 for a two-person plan.

Contributions – The OPEB Plan is funded by allocating to the 401(h) subtrust the lesser of: 25% of all employer contributions made in accordance with RSA 100-A:16 or the percentage of employer contributions determined by the actuary to be the minimum rate necessary to maintain the benefits provided under RSA 100-A:53-b, RSA 100-A:53-c, and RSA 100-A:53-d. For fiscal year 2018, the minimum rates determined by the actuary to maintain benefits were the lesser of the two options and were used to determine the employer contributions due to the 401(h) subtrust. The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the OPEB Plan. Administrative costs are allocated to the OPEB Plan based on fund balances. For fiscal year 2018, the City contributed 4.10% for police and fire, and 0.30% for other employees. The contribution requirement for the fiscal year 2018 was \$237,906, which was paid in full.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At December 31, 2018, the City reported a liability of \$2,367,418 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City’s proportion of the net OPEB liability was based on a projection of the City’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2018, the City’s proportion was 0.52% which was an increase of 0.16% from its proportion measured as of June 30, 2017.

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For the year ended December 31, 2018, the City recognized OPEB expense of \$807,781. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities		Business-type Activities		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 143,211	\$ -	\$ 13,267	\$ -	\$ 156,478	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	-	6,885	-	638	-	7,523
Differences between expected and actual experience	12,718	-	1,178	-	13,896	-
Contributions subsequent to the measurement date	104,662	-	9,695	-	114,357	-
Total	<u>\$ 260,591</u>	<u>\$ 6,885</u>	<u>\$ 24,140</u>	<u>\$ 638</u>	<u>\$ 284,731</u>	<u>\$ 7,523</u>

The \$114,357 reported as deferred outflows of resources related to OPEB results from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	Governmental Activities	Business-type Activities	Total
2019	\$ 153,782	\$ 14,245	\$ 168,027
2020	(2,148)	(199)	(2,347)
2021	(2,148)	(199)	(2,347)
2022	(442)	(40)	(482)
Totals	<u>\$ 149,044</u>	<u>\$ 13,807</u>	<u>\$ 162,851</u>

Actuarial Assumptions – The total OPEB liability in this report is based on an actuarial valuation performed as of June 30, 2018 and a measurement date of June 30, 2017. The total OPEB liability was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

- Price inflation: 2.5% per year
- Wage inflation: 3.25% per year
- Salary increases: 5.6% average, including inflation
- Investment rate of return: 7.25% net of OPEB plan investment expense, including inflation
- Health care trend rate: Not applicable, given that the benefits are fixed stipends

Mortality rates were based on the RP-2014 healthy annuitant and employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

Long-term Rates of Return – The long-term expected rate of return on OPEB plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation.

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Following is a table presenting target allocations and long-term rates of return for 2018:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2018
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.50%
Emerging Int'l Equities	7.00%	6.00%
Total international equity	20.00%	
Core Bonds	4.50%	0.50%
Short Duration	2.50%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.80%
Absolute Return Fixed Income	7.00%	1.14%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.25%
Opportunistic	5.00%	2.15%
Total alternative investments	15.00%	
Real estate	10.00%	3.25%
Total	100.00%	

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2018 was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made under the current statute RSA 100-A:16 and that plan member contributions will be made under RSA 100-A:16. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the collective total OPEB liability.

Sensitivity of the City’s Proportionate Share of the OPEB Liability to Changes in the Discount Rate – The following table presents the City’s proportionate share of the OPEB liability calculated using the discount rate of 7.25% as well as what the City’s proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
Governmental activities	June 30, 2018	\$ 2,255,126	2,166,715	\$ 1,919,056
Business-type activities	June 30, 2018	208,895	200,703	177,767
		<u>\$ 2,464,021</u>	<u>\$ 2,367,418</u>	<u>\$ 2,096,823</u>

Sensitivity of the City’s Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Assumption – GASB No. 75 requires the sensitivity of the OPEB liability to the healthcare cost trend assumption. Since the medical subsidy benefits are fixed stipends, there is no sensitivity to changes in the healthcare cost trend assumption.

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit OPEB Plan financial report.

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17-B City of Lebanon Retiree Health Benefit Program

Plan Description – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. The postemployment benefit liability is recognized on the Statement of Net Position over time.

Benefits Provided – The City provides postemployment healthcare benefits for certain eligible retirees. The City provides medical benefits to its eligible retirees. The benefits are provided through the New Hampshire Inter-Local Trust.

Employees Covered by Benefit Terms – At January 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	62
Active employees	<u>161</u>
Total participants covered by OPEB plan	<u><u>223</u></u>

Total OPEB Liability – The City’s total OPEB liability of \$1,628,158 was measured as of January 1, 2018, and was determined by an actuarial valuation of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability of \$1,628,158 in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate:	4.1%
Healthcare Cost Trend Rates:	
Current Year Trend	8.0%
Second Year Trend	7.5%
Decrement	0.5% - 1.0%
Ultimate Trend	5.0%
Year Ultimate Trend is Reached	2022

The discount rate was based on the index provided by *Bond Buyer 20-Bond General Obligation Index* based on the 20-year AA municipal bond rate as of December 31, 2018.

Mortality rates were based on the RP-2014 fully generational mortality table with projection scale MP-2017.

Changes in the Total OPEB Liability

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
OPEB liability beginning of year	\$ 1,439,812	\$ 253,099	\$ 1,692,911
Changes for the year:			
Service cost	47,415	8,335	55,750
Interest	49,885	8,769	58,654
Assumption changes and difference between actual and expected experience	(77,548)	(13,633)	(91,181)
Benefit payments	(74,824)	(13,152)	(87,976)
OPEB liability end of year	<u><u>\$ 1,384,740</u></u>	<u><u>\$ 243,418</u></u>	<u><u>\$ 1,628,158</u></u>

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Sensitivity of the City's OPEB Liability to Changes in the Discount Rate – The following table presents the City's OPEB liability calculated using the discount rate of 4.10% as well as what the City's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.10%) or 1-percentage point higher (5.10%) than the current rate:

Total OPEB Liability	Discount Rate		
	1% Decrease	Baseline 4.10%	1% Increase
Governmental Activities	\$ 1,504,228	\$ 1,384,740	\$ 1,276,490
Business-type Activities	264,422	243,418	224,389
	<u>\$ 1,768,650</u>	<u>\$ 1,628,158</u>	<u>\$ 1,500,879</u>

Sensitivity of the City's OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following table presents the City's OPEB liability calculated using the healthcare cost trend rate of 8.00% in the first year, decreasing in decrements to an ultimate rate of 5.00% by 2022, as well as what the City's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.00% decreasing to 4.00%) or 1-percentage point higher (9.00% decreasing to 6.00%) than the current rate:

Total OPEB Liability	Healthcare Cost Trend Rates		
	1% Decrease	Baseline	1% Increase
	7.00% Year 1	8.00% Year 1	9.00% Year 1
	Decreasing to	Decreasing to	Decreasing to
	4.00%	5.00%	6.00%
Governmental Activities	\$ 1,242,796	\$ 1,384,740	\$ 1,549,881
Business-type Activities	218,466	243,418	272,448
	<u>\$ 1,461,262</u>	<u>\$ 1,628,158</u>	<u>\$ 1,822,329</u>

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB – For the year ended December 31, 2018, the City recognized OPEB expense of \$104,551. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities		Business-type Activities		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 69,168	\$ -	\$ 12,160	\$ -	\$ 81,327

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	Governmental Activities	Business-type Activities	Total
2019	\$ (8,380)	\$ (1,473)	\$ (9,853)
2020	(8,380)	(1,473)	(9,853)
2021	(8,380)	(1,473)	(9,853)
2022	(8,380)	(1,473)	(9,853)
2023	(8,380)	(1,473)	(9,853)
Thereafter	(27,268)	(4,795)	(32,062)
Totals	<u>\$ (69,168)</u>	<u>\$ (12,160)</u>	<u>\$ (81,327)</u>

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NOTE 18 – ENCUMBRANCES

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at December 31, 2018 and are as follows:

General fund:	
General government	\$ 680,486
Public safety	109,054
Highways and streets	84,982
Culture and recreation	13,631
Total encumbrances	<u>\$ 888,153</u>

NOTE 19 – STATE AID TO WATER POLLUTION PROJECTS

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

Bond Issued	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
C-769 Wastewater Treatment Facility Upgrade	\$ -	\$ -	\$ -	\$ 175,329	\$ 29,385	\$ 204,714
C-844 Wastewater SAG (CSO)	169,557	63,452	233,009	254,336	95,184	349,520
L-145 Landfill SAG	-	-	-	48,103	-	48,103
	<u>\$ 169,557</u>	<u>\$ 63,452</u>	<u>\$ 233,009</u>	<u>\$ 477,768</u>	<u>\$ 124,569</u>	<u>\$ 602,337</u>

At December 31, 2018, the City is due to receive the following annual amounts to offset debt payments of both governmental and business-type activities:

Fiscal Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 6,362	\$ 4,586	\$ 10,948	\$ 41,851	\$ 12,757	\$ 54,608
2020	7,145	5,560	12,705	42,491	13,565	56,056
2021	8,764	5,882	14,646	44,385	13,394	57,779
2022	8,750	5,548	14,298	43,829	12,241	56,070
2023	8,689	5,215	13,904	32,514	11,088	43,602
2024-2028	43,655	20,714	64,369	143,408	37,601	181,009
2029-2033	42,616	11,761	54,377	63,925	17,642	81,567
2034-2038	35,414	4,016	39,430	53,121	6,025	59,146
2039-2041	8,162	170	8,332	12,244	256	12,500
Totals	<u>\$ 169,557</u>	<u>\$ 63,452</u>	<u>\$ 233,009</u>	<u>\$ 477,768</u>	<u>\$ 124,569</u>	<u>\$ 602,337</u>

NOTE 20 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the Statement of Net Position at December 31, 2018 include the following:

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets:			
Net book value, all capital assets	\$ 87,124,484	\$ 97,991,984	\$ 185,116,468
Less:			
General obligation bonds payable	(25,969,201)	(37,276,397)	(63,245,598)
Unamortized bond premiums	(1,054,422)	(742,534)	(1,796,956)
Capital leases payable	(296,523)	-	(296,523)
Total net investment in capital assets	<u>59,804,338</u>	<u>59,973,053</u>	<u>119,777,391</u>

(Continued)

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

Governmental activities net position continued:

	Governmental Activities	Business-type Activities	Total
Restricted net position:			
Capital projects	-	3,496,912	3,496,912
Library	189,827	-	189,827
Perpetual care - nonexpendable	1,363,052	-	1,363,052
Water investment fees	-	501,944	501,944
Airport passenger facility charges	-	46,267	46,267
Total restricted net position	<u>1,552,879</u>	<u>4,045,123</u>	<u>5,598,002</u>
Unrestricted (deficit)	<u>(13,134,688)</u>	<u>325,816</u>	<u>(12,808,872)</u>
Total net position	<u>\$ 48,222,529</u>	<u>\$ 64,343,992</u>	<u>\$ 112,566,521</u>

NOTE 21 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2018 include the following:

	General Fund	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:				
Prepaid items	\$ 347,510	\$ -	\$ -	\$ 347,510
Tax deeded property	46,322	-	-	46,322
Permanent fund - principal balance	-	-	1,363,052	1,363,052
Total nonspendable fund balance	<u>393,832</u>	<u>-</u>	<u>1,363,052</u>	<u>1,756,884</u>
Restricted:				
Heritage fund - donations	25,000	-	-	25,000
Public library	-	-	189,827	189,827
Total restricted fund balance	<u>25,000</u>	<u>-</u>	<u>189,827</u>	<u>214,827</u>
Committed:				
Expendable trust	375,457	-	-	375,457
Heritage fund	7,063	-	-	7,063
Police public safety revolving	-	-	160,512	160,512
Lebanon open space	-	-	674,463	674,463
Fire public safety revolving	-	-	14,194	14,194
Recreation revolving	-	-	93,977	93,977
Total committed fund balance	<u>382,520</u>	<u>-</u>	<u>943,146</u>	<u>1,325,666</u>
Assigned:				
Encumbrances	888,153	-	-	888,153
Abatements	600,000	-	-	600,000
Grants	15,909	-	-	15,909
Restricted funds	308,595	-	-	308,595
Emergency management	70,480	-	-	70,480
Farmers market	-	-	772	772
Total assigned fund balance	<u>1,883,137</u>	<u>-</u>	<u>772</u>	<u>1,883,909</u>
Unassigned (deficit):				
General fund	11,523,314	-	-	11,523,314
CDBG fund (deficit)	(434)	-	-	(434)
Capital improvements (deficit)	-	(860,324)	-	(860,324)
Total unassigned fund balance (deficit)	<u>11,522,880</u>	<u>(860,324)</u>	<u>-</u>	<u>10,662,556</u>
Total governmental fund balances	<u>\$ 14,207,369</u>	<u>\$ (860,324)</u>	<u>\$ 2,496,797</u>	<u>\$ 15,843,842</u>

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 22 – PRIOR PERIOD ADJUSTMENTS

Net position at January 1, 2018 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements		
	Governmental Activities	Business-type Activities	Total
To restate for the cumulative changes related to implementation of GASB No. 75, see Note 2-D	\$ (1,508,866)	\$ (156,800)	\$ (1,665,666)
Net position, as previously reported	47,712,469	61,899,406	109,611,875
Net position, as restated	<u>\$ 46,203,603</u>	<u>\$ 61,742,606</u>	<u>\$ 107,946,209</u>

	Proprietary Funds			
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport
To restate for the cumulative changes related to implementation of GASB No. 75, see Note 2-D	\$ (59,957)	\$ (52,933)	\$ (23,847)	\$ (20,063)
Net position, as previously reported	27,071,837	13,146,244	13,460,019	8,221,306
Net position, as restated	<u>\$ 27,011,880</u>	<u>\$ 13,093,311</u>	<u>\$ 13,436,172</u>	<u>\$ 8,201,243</u>

NOTE 23 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2018, the City was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability programs.

The Primex³ Workers' Compensation and Property/Liability programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2018 to December 31, 2018 by Primex³, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 24 – CAFETERIA BENEFIT PLAN

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

1. Premium Conversion Benefit for Group Medical and Dental Plans;
2. Healthcare Flexible Spending Account; or
3. Dependent Care Reimbursement 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 \$2,650 annually into the Healthcare Flexible Spending Account or \$5,000 annually into the Dependent Care Reimbursement Account. This cap applies to both City contributions and employee pre-tax contributions. There are no limits on contributions to the Premium Conversion Benefit for Group Medical and Dental Plans.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 January 1 and ends on December 31. To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 and 3 above), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

NOTE 25 – SECURITY AGREEMENT

The City entered a security agreement with Dartmouth-Hitchcock Medical Center (DHMC) on May 17, 2013. The purpose of the agreement is to finance the possible future expansion of the City sewer system to the DHMC properties. Under the agreement, DHMC established an escrow account in the amount of \$475,000. At December 31, 2017, the balance in the escrow account was \$549,724. The City may only access these funds if certain terms in the security agreement are met related to the expansion of services. If no action is taken, the security agreement will expire after ten years.

NOTE 26 – CONTINGENT LIABILITIES

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

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

NOTE 27 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through January 10, 2020, the date the December 31, 2018 financial statements were available to be issued, and the following event was identified:

On May 10, 2018, the City entered a lease-purchase agreement totaling \$341,116 for a three year lease-purchase of eight new police vehicles.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of the City's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,					
	2013	2014	2015	2016	2017	2018
City's:						
Proportion of the net pension liability	0.54%	0.52%	0.52%	0.52%	0.53%	0.50%
Proportionate share of the net pension liability	\$ 23,325,532	\$ 19,345,430	\$ 20,607,815	\$ 27,786,081	\$ 25,878,401	\$ 23,995,698
Covered payroll	\$ 11,097,378	\$ 10,876,951	\$ 11,206,359	\$ 11,555,902	\$ 12,700,824	\$ 11,902,341
Proportionate share of the net pension liability as a percentage of its covered payroll	210.19%	177.86%	183.89%	240.45%	203.75%	201.60%
Plan fiduciary net position as a percentage of the total pension liability	59.81%	66.32%	65.47%	58.30%	62.66%	64.73%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

EXHIBIT H
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of City Contributions - Pensions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,					
	2013	2014	2015	2016	2017	2018
Contractually required contribution	\$ 1,347,646	\$ 1,672,029	\$ 1,745,205	\$ 1,871,074	\$ 1,927,693	\$ 2,106,239
Contributions in relation to the contractually required contributions	(1,347,646)	(1,672,029)	(1,745,205)	(1,871,074)	(1,927,693)	(2,106,239)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 11,097,378	\$ 10,876,951	\$ 11,206,359	\$ 11,555,902	\$ 12,700,824	\$ 11,902,341
Contributions as a percentage of covered payroll	12.14%	15.37%	15.57%	16.19%	15.18%	17.70%

The Note to the Required Supplementary Information – Pension Liability is an integral part of this schedule.

CITY OF LEBANON, NEW HAMPSHIRE

**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018**

***Schedule of the City's Proportionate Share of Net Pension Liability and
Schedule of City Contributions - Pensions***

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits G and H represent the actuarial determined costs associated with the City's pension plan at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	21 years beginning July 1, 2018 (30 years beginning July 1, 2009)
Asset Valuation Method	5-year smooth market for funding purposes
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% per year, net of investment expenses, including inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP -2015, based in the last experience study.

Other Information:

Notes Contribution rates for fiscal year 2018 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.

EXHIBIT I
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of the City's Proportionate Share of the Net Other Postemployment Benefits Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,		
	2016	2017	2018
City's proportion of the net OPEB liability	0.35%	0.36%	0.52%
City's proportionate share of the net OPEB liability (asset)	\$ 1,695,898	\$ 1,629,045	\$ 2,367,418
City's covered payroll	\$ 11,555,902	\$ 12,700,824	\$ 11,902,341
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	14.68%	12.83%	19.89%
Plan fiduciary net position as a percentage of the total OPEB liability	5.21%	7.91%	7.53%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

EXHIBIT J
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of City Contributions - Other Postemployment Benefits
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2018

	December 31,		
	2016	2017	2018
Contractually required contribution	\$ 203,555	\$ 211,169	\$ 228,719
Contributions in relation to the contractually required contribution	(203,555)	(211,169)	(228,719)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered payroll	\$ 11,555,902	\$ 12,700,824	\$ 11,902,341
Contributions as a percentage of covered payroll	1.76%	1.66%	1.92%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

EXHIBIT K
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Changes in the City's Total Other Postemployment Benefits Liability and Related Ratios
Retiree Health Benefit Program
For the Fiscal Year Ended December 31, 2018

	December 31, 2018
OPEB liability, beginning of year	\$ 1,692,911
Changes for the year:	
Service cost	55,750
Interest	58,654
Assumption changes and difference between actual and expected experience	(91,181)
Benefit payments	(87,976)
OPEB liability, end of year	\$ 1,628,158
Covered payroll	\$ 8,170,172
 Total OPEB liability as a percentage of covered payroll	 19.93%

The Notes to the Required Supplementary Information – Other Postemployment Benefit Liability is an integral part of this schedule.

CITY OF LEBANON, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

Schedule of the City’s Proportionate Share of Net Other Postemployment Benefits Liability and Schedule of City Contributions – Other Postemployment Benefits

As required by GASB Statement No. 75, Exhibits I and J represent the actuarial determined costs associated with the City’s other postemployment benefits at December 31, 2018. These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

There were no changes to benefit terms or assumptions in the current actuarial valuation report.

Methods and Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	Not applicable under statutory funding
Asset Valuation Method	5-year smooth market: 20% corridor
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	3.62% per year
Investment Rate of Return	7.25% per year, net of OPEB plan investment expense, including inflation for determining solvency contributions
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Healthy Annuitant and Employee generational mortality tables for males and females with credibility adjustments, adjusted for fully generational mortality improvements using Scale MP-2015, based on the last experience study.

Schedule of Changes in City’s Total Other Postemployment Benefits Liability and Related Ratios

As required by GASB Statement No. 75, Exhibit K represents the actuarial determined costs associated with the City’s other postemployment benefits at December 31, 2018. The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Assumptions and Methodology

Economic Assumptions:

Discount Rate	A discount rate of 4.10% was used as of December 31, 2018. The discount rate was based on the <u>Bond Buyer’s 20 Bond Index</u> .
Mortality Rate:	RP-2014 fully generation mortality table with projection scale MP-2017.

CITY OF LEBANON, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFIT LIABILITY
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2018

Health Care Trend Rate It was assumed that health care costs would increase in accordance with the trend rates in the following table:

<u>Year</u>	<u>Current Valuation</u>	<u>Prior Valuation</u>
2018	8.0%	7.0%
2019	7.5%	6.0%
2020	7.0%	5.0%
2021	6.0%	5.0%
2022+	5.0%	5.0%

Participation Rate It was assumed that 40% of the current active employees covered under the active plan on the day before retirement would enroll in the retiree medical plan upon retirement.

Percent Married It was assumed that 40% of employees who elect retiree health care coverage for themselves would also elect coverage for their spouse upon retirement. It was assumed that male spouses are three years older than their wives and female spouses are three years younger than the retiree. For current retirees, actual census information was used.

Actuarial Value of Assets N/A

Per Capita Costs Per Capita Claim Costs prior to age 65 were developed by applying morbidity aging factors to the average premium rates reflecting the demographic characteristics of the insured group. Below are the annual per capita claim costs used:

<u>Age</u>	<u>Male</u>	<u>Female</u>
55	11,198	11,620
56	11,647	11,820
57	12,110	12,020
58	12,559	12,317
59	13,022	12,628
60	13,505	12,946
61	14,003	13,264
62	14,521	13,595
63	14,797	13,858
64	15,080	14,120

Administrative Expense Included in the premiums used

Participant Salary Increases 3.50% annually.

Payroll Growth Rate 2.50% annually.

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, 2018

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 20,262,854	\$ 20,495,506	\$ 232,652
Yield	5,000	44,704	39,704
Excavation	5,000	7,170	2,170
Payment in lieu of taxes	1,596,500	1,698,219	101,719
Interest and penalties on taxes	170,000	160,157	(9,843)
Total from taxes	<u>22,039,354</u>	<u>22,405,756</u>	<u>366,402</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	2,354,700	2,677,997	323,297
Building permits	250,000	533,526	283,526
Other	55,730	62,608	6,878
Total from licenses, permits, and fees	<u>2,660,430</u>	<u>3,274,131</u>	<u>613,701</u>
Intergovernmental:			
State:			
Meals and rooms distribution	700,607	700,607	-
Highway block grant	326,034	325,849	(185)
Water pollution grants	8,596	8,596	-
Other	44,039	44,144	105
Federal:			
FEMA	-	77,989	77,989
Other	379,020	270,496	(108,524)
Total from intergovernmental	<u>1,458,296</u>	<u>1,427,681</u>	<u>(30,615)</u>
Charges for services:			
Income from departments	1,346,150	1,547,893	201,743
Miscellaneous:			
Sale of municipal property	2,000	160,826	158,826
Interest on investments	110,000	143,120	33,120
Other	299,300	296,282	(3,018)
Total from miscellaneous	<u>411,300</u>	<u>600,228</u>	<u>188,928</u>
Other financing sources:			
Transfers in	1,628,110	1,662,102	33,992
Total revenues and other financing sources	29,543,640	<u>\$ 30,917,791</u>	<u>\$ 1,374,151</u>
Amounts voted from fund balance	1,194,730		
Total revenues, other financing sources, and use of fund balance	<u>\$ 30,738,370</u>		

SCHEDULE 2
CITY OF LEBANON, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2018

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ 74,216	\$ 706,560	\$ 597,687	\$ 85,768	\$ 97,321
Election and registration	-	616,550	572,774	5,269	38,507
Financial administration	68,611	2,830,780	2,606,361	195,609	97,421
Legal	-	300,000	672,369	-	(372,369)
Personnel administration	955	522,720	448,702	40,888	34,085
Planning and zoning	72,880	689,500	659,815	61,076	41,489
General government buildings	22,150	341,550	320,687	291,876	(248,863)
Cemeteries	-	52,340	25,595	-	26,745
Insurance, not otherwise allocated	-	239,020	206,068	-	32,952
Advertising and regional associations	-	21,710	21,710	-	-
Other	-	235,380	235,380	-	-
Total general government	<u>238,812</u>	<u>6,556,110</u>	<u>6,367,148</u>	<u>680,486</u>	<u>(252,712)</u>
Public safety:					
Police	16,266	5,812,390	5,413,408	81,056	334,192
Fire	29,218	4,671,100	4,566,178	27,998	106,142
Building inspection	-	485,830	481,190	-	4,640
Other	-	979,580	960,537	-	19,043
Total public safety	<u>45,484</u>	<u>11,948,900</u>	<u>11,421,313</u>	<u>109,054</u>	<u>464,017</u>
Highways and streets:					
Administration	-	865,000	786,323	4,776	73,901
Highways and streets	24,202	2,538,540	2,388,366	66,398	107,978
Bridges	-	3,500	-	-	3,500
Street lighting	-	151,860	154,244	-	(2,384)
Other	30,473	149,250	135,998	13,808	29,917
Total highways and streets	<u>54,675</u>	<u>3,708,150</u>	<u>3,464,931</u>	<u>84,982</u>	<u>212,912</u>
Welfare:					
Administration and direct assistance	-	257,110	193,628	-	63,482
Vendor payments and other	-	259,530	259,530	-	-
Total welfare	<u>-</u>	<u>516,640</u>	<u>453,158</u>	<u>-</u>	<u>63,482</u>
Culture and recreation:					
Parks and recreation	1,538	997,540	996,617	4,956	(2,495)
Library	-	1,368,420	1,336,140	8,675	23,605
Patriotic purposes	-	8,500	6,100	-	2,400
Total culture and recreation	<u>1,538</u>	<u>2,374,460</u>	<u>2,338,857</u>	<u>13,631</u>	<u>23,510</u>
Conservation	-	10,070	9,020	-	1,050
Debt service:					
Principal of long-term debt	-	2,648,060	2,680,813	-	(32,753)
Interest on long-term debt	-	1,024,360	1,038,170	-	(13,810)
Total debt service	<u>-</u>	<u>3,672,420</u>	<u>3,718,983</u>	<u>-</u>	<u>(46,563)</u>
Other financing uses:					
Transfers out	-	1,951,620	1,976,277	-	(24,657)
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 340,509</u>	<u>\$ 30,738,370</u>	<u>\$ 29,749,687</u>	<u>\$ 888,153</u>	<u>\$ 441,039</u>

SCHEDULE 3
CITY OF LEBANON, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended December 31, 2018

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 10,640,252
Changes:		
Amounts voted from fund balance		(1,194,730)
2018 Budget summary:		
Revenue surplus (Schedule 1)	\$ 1,374,151	
Unexpended balance of appropriations (Schedule 2)	<u>441,039</u>	
2018 Budget surplus		1,815,190
Increase in nonspendable fund balance		(4,650)
Decrease in assigned fund balance (non-encumbrance)		<u>420,000</u>
Unassigned fund balance, ending (Non-GAAP Budgetary Basis)		11,676,062
<i>Reconciliation on Non-GAAP Budgetary Basis to GAAP Basis</i>		
To record deferred property taxes not collected within 60 days of the fiscal year-end, not recognized on a budgetary basis		(402,748)
Elimination of the allowance for uncollectible taxes		250,000
Fund deficit of blended CDBG fund		<u>(434)</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u><u>\$ 11,522,880</u></u>

SCHEDULE 4
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2018

	Special Revenue Funds						Permanent Fund	Total
	Public Library	Police Public Safety Revolving	Lebanon Open Space	Fire Public Safety Revolving	Farmers Market	Recreation Revolving		
ASSETS								
Cash and cash equivalents	\$ 184,924	\$ 150,932	\$ 674,463	\$ 12,432	\$ 772	\$ 94,817	\$ 60,392	\$ 1,178,732
Investments	-	-	-	-	-	-	1,358,702	1,358,702
Accounts receivable, net of allowance for uncollectable	-	9,580	-	1,762	-	-	-	11,342
Interfund receivable	4,903	-	-	-	-	-	-	4,903
Total assets	<u>\$ 189,827</u>	<u>\$ 160,512</u>	<u>\$ 674,463</u>	<u>\$ 14,194</u>	<u>\$ 772</u>	<u>\$ 94,817</u>	<u>\$ 1,419,094</u>	<u>\$ 2,553,679</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 840	\$ -	\$ 840
Interfund payable	-	-	-	-	-	-	56,042	56,042
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>840</u>	<u>56,042</u>	<u>56,882</u>
Fund balances:								
Nonspendable	-	-	-	-	-	-	1,363,052	1,363,052
Restricted	189,827	-	-	-	-	-	-	189,827
Committed	-	160,512	674,463	14,194	-	93,977	-	943,146
Assigned	-	-	-	-	772	-	-	772
Total fund balances	<u>189,827</u>	<u>160,512</u>	<u>674,463</u>	<u>14,194</u>	<u>772</u>	<u>93,977</u>	<u>1,363,052</u>	<u>2,496,797</u>
Total liabilities and fund balances	<u>\$ 189,827</u>	<u>\$ 160,512</u>	<u>\$ 674,463</u>	<u>\$ 14,194</u>	<u>\$ 772</u>	<u>\$ 94,817</u>	<u>\$ 1,419,094</u>	<u>\$ 2,553,679</u>

SCHEDULE 5
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2018

	Special Revenue Funds							Total
	Public Library	Police Public Safety Revolving	Lebanon Open Space	Fire Public Safety Revolving	Farmers Market	Recreation Revolving	Permanent Fund	
Revenues:								
Taxes	\$ -	\$ -	\$ 18,594	\$ -	\$ -	\$ -	\$ -	\$ 18,594
Charges for services	-	335,753	-	93,930	-	157,350	-	587,033
Miscellaneous	60,313	-	6,144	-	16,074	-	(29,516)	53,015
Total revenues	<u>60,313</u>	<u>335,753</u>	<u>24,738</u>	<u>93,930</u>	<u>16,074</u>	<u>157,350</u>	<u>(29,516)</u>	<u>658,642</u>
Expenditures:								
Current:								
General government	-	-	-	-	-	-	8,315	8,315
Public safety	-	280,070	-	97,563	-	-	-	377,633
Culture and recreation	55,716	-	-	-	18,411	148,062	-	222,189
Conservation	-	-	200	-	-	-	-	200
Total expenditures	<u>55,716</u>	<u>280,070</u>	<u>200</u>	<u>97,563</u>	<u>18,411</u>	<u>148,062</u>	<u>8,315</u>	<u>608,337</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,597</u>	<u>55,683</u>	<u>24,538</u>	<u>(3,633)</u>	<u>(2,337)</u>	<u>9,288</u>	<u>(37,831)</u>	<u>50,305</u>
Other financing sources (uses):								
Transfers in	28,510	-	1,050	-	-	-	498	30,058
Transfers out	-	-	-	-	-	-	(25,262)	(25,262)
Total other financing sources (uses)	<u>28,510</u>	<u>-</u>	<u>1,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,764)</u>	<u>4,796</u>
Net change in fund balances	33,107	55,683	25,588	(3,633)	(2,337)	9,288	(62,595)	55,101
Fund balances, beginning	156,720	104,829	648,875	17,827	3,109	84,689	1,425,647	2,441,696
Fund balances, ending	<u>\$ 189,827</u>	<u>\$ 160,512</u>	<u>\$ 674,463</u>	<u>\$ 14,194</u>	<u>\$ 772</u>	<u>\$ 93,977</u>	<u>\$ 1,363,052</u>	<u>\$ 2,496,797</u>

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



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, as of and for the year ended December 31, 2018, 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 January 10, 2020.

Internal Control Over Financial Reporting

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

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

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

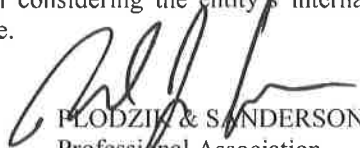
Compliance and Other Matters

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

Purpose of this Report

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

January 10, 2020


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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on the City of Lebanon's major federal program for the year ended December 31, 2018. The City of Lebanon's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Lebanon's major federal program 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 its major federal program for the year ended December 31, 2018.

Report on Internal Control Over Compliance

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

City of Lebanon


Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

January 10, 2020



PLODZIE & SANDERSON
Professional Association

SCHEDULE II
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<u>Passed Through the New Hampshire Community Development Finance Authority</u>				
Community Development Block Grant/State's Program:				
River Valley Community College/RVCC Business and Industry Training Center	14.228	15-094-CDED	\$ -	\$ 1,000
TPHT/Tracy Street Project	14.228	17-094-CDHS	380,000	385,446
<i>PROGRAM TOTAL</i>			<u>380,000</u>	<u>386,446</u>
U.S. DEPARTMENT OF THE INTERIOR				
<u>Passed Through the New Hampshire Department of Cultural Resources</u>				
Historic Preservation Fund Grants-In-Aid	15.904	CLG-P17AS00072-05	-	15,813
U.S. DEPARTMENT OF TRANSPORTATION				
<u>Passed Through the New Hampshire Department of Transportation</u>				
Airport Improvement Program:				
Reconstruct, Mark, Light, and Sign a Portion of Taxiways 'B,' 'B1,' 'B2,' B3,' and 'B4'	20.106	AIP #3-33-0010-53-2016	-	27,844
Improve Terminal Building - Terminal Area Improvements to Comply with ADA Requirements	20.106	AIP #3-33-0010-54-2017	-	48,243
Remove Obstructions - Relocate Portion of the Perimeter Fence and Construct Vehicle Service Road	20.106	AIP #3-33-0010-55-2017	-	26,761
Improve Runway 18/36 Safety Area - Phase 1, Preliminary Design (Data Collection and Conceptual Engineering)	20.106	AIP #3-33-0010-57-2017	-	104,584
<i>PROGRAM TOTAL</i>			<u>-</u>	<u>207,432</u>
Highway Planning and Construction:				
South Main Street Bridge	20.205	13558A	-	3,162
Lahaye Drive Pedestrian/Bike Improvements	20.205	41366	-	25,293
<i>PROGRAM TOTAL</i>			<u>-</u>	<u>28,455</u>
<u>Passed Through the New Hampshire Department of Safety</u>				
HIGHWAY SAFETY CLUSTER				
State and Community Highway Safety	20.600	315-18B-090	-	9,963
National Priority Safety Program:				
Lebanon Distracted Driving Patrols	20.616	318-18B-040	-	4,595
Lebanon DWI Patrols	20.616	308-18B-074	-	4,543
<i>CLUSTER TOTAL</i>			<u>-</u>	<u>19,101</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<u>Passed Through the National Association of County and City Health Officials</u>				
Medical Reserve Corps Small Grant Program	93.008	MRC 12 1776	-	1,149
<u>Passed Through the Vermont Department of Health</u>				
Public Health Emergency Preparedness	93.069	03420-6638S	-	17,659
U.S. DEPARTMENT OF HOMELAND SECURITY				
<u>Passed Through the New Hampshire Department of Safety</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters):				
July 2013 Severe Storms	97.036	FEMA-4139-DR-NH	-	9,529
Severe Weather August 2017	97.036	FEMA-4329-DR-NH	-	68,460
<i>PROGRAM TOTAL</i>			<u>-</u>	<u>77,989</u>

(Continued)

SCHEDULE II (continued)
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
Homeland Security Grant Program:				
Warm Zone Equipment	97.067	N/A	-	5,996
Fire Training	97.067	N/A	-	5,661
<i>PROGRAM TOTAL</i>			-	11,657
DIRECT FUNDING				
U.S. DEPARTMENT OF JUSTICE				
Bullet Proof Vest Partnership Program	16.607	N/A	-	2,700
Public Safety Partnership and Community Policing Grants	16.710	N/A	-	80,561
Body Worn Camera Policy Implementation	16.835	N/A	-	18,000
U.S. DEPARTMENT OF HOMELAND SECURITY				
SAFER Grant - DHHS	97.083	N/A	-	128,258
<i>Total Expenditures of Federal Awards</i>			<u>\$ 380,000</u>	<u>\$ 995,220</u>

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, 2018

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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, 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.

Note 3. Indirect Cost Rate

The City of Lebanon has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.