

**CITY OF LEBANON,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016**

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the 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, 2016, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, as of December 31, 2016, and 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.

Emphasis of Matter

As discussed in Note 5 to the basic financial statements, effective January 1, 2016 the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement, and Application*. As a result of the implementation of GASB Statement No. 72, the City disclosed its investments in accordance with the fair value hierarchy. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 - 14), the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 58), the Schedule of the City's Proportionate Share of Net Pension Liability (page 59), and the Schedule of City Contributions (page 60) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lebanon's basic financial statements. The combining and individual fund 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 Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2017 on our consideration of the City of Lebanon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lebanon's internal control over financial reporting and compliance.

July 3, 2017



PLODZIK & SANDERSON
Professional Association

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

As management of the City of Lebanon, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and the disclosures that follow this section.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information. In addition to this Management's Discussion and Analysis the basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes Funding Progress for Other Postemployment Benefits Plans and information about the New Hampshire Retirement System as required under GASB 68.

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

B. FINANCIAL HIGHLIGHTS

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

- Total assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by \$100,363,354.
- Governmental funds reported combined ending fund balances of \$12,510,087, an increase of \$4,908,653.
- General fund unassigned fund balance was \$8,194,871, an increase of \$2,081,399.
- Bonds/notes payable (governmental and business-type activities combined) was \$59,677,349, an increase of \$12,813,867.
- Annual requirements (governmental and business-type activities combined) to amortize all bonds/notes payable (principal and interest) was \$72,350,352, an increase of \$13,747,893.
- Authorized and unissued debt was \$26,907,753, a decrease of \$12,665,089.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

At the close of the current fiscal year, total assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by \$100,363,354, an increase of \$4,292,631 in comparison to the prior year.

The largest portion of net position (\$112,379,042) represents investment in capital assets (land, building, machinery and equipment and infrastructure) less related debt used to acquire those assets that is still outstanding. These capital assets are used by the City to provide services to citizens and are, consequently, not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$28,883,720	\$25,705,867	\$21,117,521	\$22,991,379	\$50,001,241	\$48,697,246
Capital Assets	\$87,957,744	\$87,465,723	\$84,309,801	\$83,285,635	\$172,267,545	\$170,751,358
Total Assets	\$116,841,464	\$113,171,590	\$105,427,322	\$106,277,014	\$222,268,786	\$219,448,604
Deferred Outflows of Resources	\$5,898,003	\$1,012,507	\$637,872	\$114,496	\$6,535,875	\$1,127,003
Long-term Liabilities Outstanding	\$53,497,268	\$46,280,375	\$46,101,147	\$32,970,568	\$99,598,415	\$79,250,943
Other Liabilities	\$16,287,783	\$17,953,219	\$7,899,616	\$22,339,046	\$24,187,399	\$40,292,265
Total Liabilities	\$69,785,051	\$64,233,594	\$54,000,763	\$55,309,614	\$123,785,814	\$119,543,208
Deferred Inflows of Resources	\$2,163,942	\$2,851,531	\$2,491,551	\$2,110,145	\$4,655,493	\$4,961,676
Net Position:						
Net Investment in Capital Assets	\$62,348,040	\$62,352,232	\$50,031,002	\$61,215,149	\$112,379,042	\$123,567,381
Restricted	\$1,314,072	\$1,263,311	\$4,721,222	\$2,100,337	\$6,035,294	\$3,363,648
Unrestricted	(\$12,871,638)	(\$16,516,571)	(\$5,179,344)	(\$14,343,735)	(\$18,050,982)	(\$30,860,306)
Total Net Position	\$50,790,474	\$47,098,972	\$49,572,880	\$48,971,751	\$100,363,354	\$96,070,723

An additional portion of net position (\$6,035,294) represents resources that are subject to external restrictions on how they may be used; the remaining balance represents the part of net position of the City that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements (unrestricted).

CHANGES IN NET POSITION						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues --						
Charges for Services	\$1,562,230	\$1,479,260	\$11,509,149	\$11,098,310	\$13,071,379	\$12,577,570
Operating Grants and Contributions	\$1,233,521	\$2,359,981	\$974,131	\$1,299,095	\$2,207,652	\$3,659,076
Capital Grants and Contributions	\$828,423	\$241,067	\$0	\$0	\$828,423	\$241,067
General Revenues --						
Property and Other Taxes	\$21,060,884	\$19,349,721	\$0	\$0	\$21,060,884	\$19,349,721
Licenses & Permits	\$3,275,217	\$2,752,103	\$0	\$0	\$3,275,217	\$2,752,103
Grants and Contributions Not Restricted to Specific Programs	\$772,760	\$737,817	\$0	\$0	\$772,760	\$737,817
Other General Revenues	\$459,163	\$721,136	\$760,622	\$724,740	\$1,219,785	\$1,445,876
Total Revenues	\$29,192,198	\$27,641,085	\$13,243,902	\$13,122,145	\$42,436,100	\$40,763,230
Contributions to Permanent Funds	\$6,900	\$0	\$0	\$0	\$6,900	\$0
Transfers	\$1,277,490	\$716,435	(\$1,277,490)	(\$716,435)	\$0	\$0
Total Revenues Including Transfers	\$30,476,588	\$28,357,520	\$11,966,412	\$12,405,710	\$42,443,000	\$40,763,230
Expenses:						
General Government	\$7,522,628	\$5,596,324	\$0	\$0	\$7,522,628	\$5,596,324
Public Safety	\$11,594,503	\$9,938,684	\$0	\$0	\$11,594,503	\$9,938,684
Highway and Streets	\$3,200,094	\$2,061,933	\$0	\$0	\$3,200,094	\$2,061,933
Sanitation	\$17,510	\$0	\$0	\$0	\$17,510	\$0
Sewage Collection and Disposal	\$0	\$0	\$4,237,109	\$4,035,393	\$4,237,109	\$4,035,393
Solid Waste Disposal	\$0	\$0	\$2,472,566	\$2,221,844	\$2,472,566	\$2,221,844

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
Water Distribution and Treatment	\$2,753	\$6,916	\$2,546,806	\$4,114,149	\$2,549,559	\$4,121,065
Welfare	\$412,204	\$431,641	\$0	\$0	\$412,204	\$431,641
Municipal Airport	\$0	\$0	\$2,108,802	\$2,047,108	\$2,108,802	\$2,047,108
Culture and Recreation	\$2,530,606	\$2,308,466	\$0	\$0	\$2,530,606	\$2,308,466
Conservation	\$42,793	\$29,820	\$0	\$0	\$42,793	\$29,820
Interest on Long-term Debt	\$1,018,443	\$1,166,930	\$0	\$0	\$1,018,443	\$1,166,930
Capital Outlay	\$443,552	\$0	\$0	\$0	\$443,552	\$0
Total Expenses	\$26,785,086	\$21,540,714	\$11,365,283	\$12,418,494	\$38,150,369	\$33,959,208
Change in Net Position	\$3,691,502	\$6,816,806	\$601,129	(\$12,784)	\$4,292,631	\$6,804,022
Net Position Beginning 1/1	\$47,098,972	\$40,282,166	\$48,971,751	\$48,984,535	\$96,070,723	\$89,266,701
Net Position Ending 12/31	\$50,790,474	\$47,098,972	\$49,572,880	\$48,971,751	\$100,363,354	\$96,070,723

Governmental Activities. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental activities for the year resulted in a change in net position of \$3,691,502.

	<u>Amount</u>
Net change in General Fund balance	\$2,587,899
Net change in Capital Improvements Fund balance	\$2,182,227
Net change in other governmental funds fund balance	\$138,527
Capital outlays exceed depreciation expense and asset disposals	\$492,021
Revenue that does not provide current financial resources	(\$15,630)
Offset the effect of providing/using resources through the issuance/repayment of long-term principal debt	(\$574,317)
Change in accrued interest expense, compensated absences payable, and postemployment benefits payable	(\$1,119,225)
Total	\$3,691,502

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Governmental Activities:				
General Government	\$7,522,628	28.1%	(\$7,353,051)	31.7%
Public Safety	\$11,594,503	43.3%	(\$10,327,775)	44.6%
Highway and Streets	\$3,200,094	11.9%	(\$2,864,007)	12.4%
Water Distribution and Treatment	\$2,753	0.0%	\$0	0.0%
Sanitation	\$17,510	0.1%	(\$1,351)	0.0%
Health	\$0	0.0%	\$23,444	-0.1%
Welfare	\$412,204	1.5%	(\$412,204)	1.8%
Culture and Recreation	\$2,530,606	9.4%	(\$2,129,170)	9.2%
Conservation	\$42,793	0.2%	(\$42,793)	0.2%
Interest on Long-Term Debt	\$1,018,443	3.8%	(\$1,018,443)	4.4%
Capital Outlay	\$443,552	1.7%	\$964,438	-4.2%
Total	<u>\$26,785,086</u>	<u>100.0%</u>	<u>(\$23,160,912)</u>	<u>100.0%</u>

Program revenues of \$3,624,174 covered 13.5% of program expenses. The remaining 86.5% was financed by general revenues including property and other taxes, licenses & permits, grants and contributions not restricted to specific programs and other general revenues. The primary funding source for governmental activities was taxes (\$21,060,884) consisting of property taxes (\$19,269,939) and other taxes (\$1,790,945). Property taxes comprise about 63.2% of total program, general revenues contributions and transfers. The Public Safety function makes up 43.3% of the total governmental activities expenses followed by General Government, 28.1%, and Highways and Streets (Public Works), 12.0%.

Business-type Activities. Business-type activities for the year resulted in a change in net position of \$601,129.

	<u>Amount</u>
Solid waste disposal operations	\$233,053
Water treatment and distribution operations	\$336,154
Sewage collection and disposal operations	\$387,656
Municipal Airport operations	(\$355,734)
Total	<u>\$601,129</u>

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Business Type Activities:				
Solid Waste Disposal	\$2,472,566	21.8%	\$793,851	71.0%
Water Treatment and Distribution	\$2,546,806	22.4%	\$324,669	29.0%
Sewage Collection and Disposal	\$4,237,109	37.3%	\$764,621	68.4%
Municipal Airport	\$2,108,802	18.6%	(\$765,144)	-68.4%
Total	<u>\$11,365,283</u>	<u>100.0%</u>	<u>\$1,117,997</u>	<u>100.0%</u>

D. FINANCIAL ANALYSIS OF CITY OF LEBANON FUNDS

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

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

At the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,510,087, an increase of \$4,908,653.

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

KEY ELEMENTS OF CHANGE IN COMBINED FUND BALANCES	
General Fund revenues and transfers in exceed expenditures and transfers out	\$2,587,899
Capital Improvements Fund expenditures exceed revenues and transfers in	\$2,182,227
Other governmental funds expenditures and transfers out exceed revenues and transfers in	<u>\$138,527</u>
Net Change in Fund Balances	<u>\$4,908,653</u>
Other Governmental Funds:	
Library Fund revenues and transfers in exceed expenditures	\$12,804
Public Safety Revolving Fund (Police) expenditures exceed revenues	(\$26,003)
Lebanon Open Space Fund revenues and transfers in exceed expenditures	\$3,877
Public Safety Revolving Fund (Fire) revenues exceed expenditures	\$5,119
Farmers Market Fund revenues exceed expenditures	\$1,204
Recreation Revolving Fund revenues exceed expenditures	\$90,765
Permanent fund (cemetery perpetual care) revenues exceed expenditures and transfers out	<u>\$50,761</u>
Net Change in Fund Balances	<u>\$138,527</u>

UNASSIGNED FUND BALANCE, DECEMBER 31, 2016	
Non-GAAP Budgetary Basis:	
Unassigned Fund Balance 1/1	<u>\$6,501,198</u>
Percentage of total general fund current year budgeted expenditures	23.9%
Changes:	
Unassigned fund balance used to reduce 2016 tax rate and voted from surplus	(\$800,700)
Revenue surplus	\$1,591,739
Unexpended balance of appropriations	\$1,871,004
Increase in nonspendable fund balance	(\$214,450)
Increase in assigned for abatement contingency	<u>(\$367,253)</u>
Unassigned fund balance 12/31 non-GAAP budgetary basis	<u>\$8,581,538</u>
Percentage of total general fund current year budgeted expenditures	30.7%
Reconciliation of Non-GAAP Basis to GAAP Basis:	
Deferral of property taxes not collected within 60 days of year-end	(\$601,667)
Elimination of the allowance for uncollectible taxes	<u>\$215,000</u>
Unassigned fund balance 12/31 GAAP basis	<u>\$8,194,871</u>

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

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

E. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Total investment in capital assets at year end was \$172,267,545 (net of accumulated depreciation).

<u>2016 CAPITAL ASSETS</u>			
	<u>Amount</u>		<u>Amount</u>
<u>Governmental Activities</u>		<u>Business-type Activities:</u>	
Not being depreciated:		Not being depreciated:	
Land	\$7,279,265	Land	\$616,500
Intangible assets	\$82,197	Construction in progress	\$8,318,252
Construction in progress	\$14,776,433		
		Total	\$8,934,752
	Total	\$22,137,895	
Net of depreciation:		Net of depreciation:	
		Land Improvements	\$12,590,690
Land Improvements	\$1,451,155	Building and Building Improvements	\$26,442,775
Building and Building Improvements	\$13,948,747	Machinery and Equipment	\$2,954,100
Machinery and Equipment	\$4,301,895	Infrastructure	\$33,387,484
Infrastructure	\$46,118,052		
		Total	\$75,375,049
	Total	\$65,819,849	
		Net BV business-type activities capital assets	\$84,309,801
Net BV value governmental activities capital assets	\$87,957,744		
		Net BV all capital assets	\$172,267,545
BV = Book Value			

<u>2016 CAPITAL BUDGET</u>			
<u>Purpose:</u>	<u>Amount</u>	<u>Source of Financing:</u>	<u>Amount</u>
Streets and Utilities	\$6,770,000	Intergovernmental (Grants)	\$3,133,650
Building Improvements	\$711,320	Debt Proceeds	\$7,449,410
Vehicles and Equipment	\$810,000	Interfund Transfers	\$1,340,260
Airport Infrastructure	\$2,987,000		
Other	\$645,000		
	Total		Total
	\$11,923,320		\$11,923,320
Other Includes:			
Bridge Improvements	\$370,000		
Route 120S Pedestrian Facility	\$275,000		
	Total		\$645,000

The capital improvements fund is where the acquisition or construction of major, expensive, and long-lived capital facilities are budgeted. Operating budgets are period oriented (January 1 to December 31); the capital improvements budget is project oriented.

The capital improvements budget for 2016 was \$11,923,320. It consisted of an original budget of \$10,223,320 supplemented on April 20, 2016 by a \$1,700,000 appropriation in connection with the NH120/Etna Road Sewer Improvements project.

Long-Term Debt

At the close of the current fiscal year, bonds/notes payable (governmental and business-type activities combined) was \$59,677,349, an increase of \$12,813,867; annual requirements (governmental and business-type activities combined) to amortize all bonds/notes payable (principal and interest) was \$72,350,352, an increase of \$13,747,893; authorized and unissued debt was \$26,907,753, a decrease of \$12,665,089. All outstanding debt is debt backed by the full faith and credit of the City.

Combined Sewer Overflow Separation and Utility Replacement Program: The U.S. Environmental Protection Agency (EPA) notified the City in November 2007 that it planned to file a lawsuit in the U.S. District Court for the State of New Hampshire regarding alleged violations of the Clean Water Act based on a sewer and storm water system in certain older sections of the City that discharged untreated sewer and storm water into two rivers and a brook. As of 2000, the City's system consisted of approximately 38 miles of sewer and

interceptors, with approximately 40% of the sewer system comprised of combined sewers conveying both sanitary sewer and storm water flows. In 2000, the EPA issued an Administrative Order that required the City to eliminate six of seven combined sewer overflows by December 31, 2008 and the seventh by December 31, 2012. The City made substantial progress on this but faced a series of logistical challenges that hampered its efforts and delayed the schedule. Because of the delay and the inability of the City to fulfill the requirements of the Administrative Order, the EPA and City negotiated the terms of a consent decree with a revised schedule to settle the lawsuit that was filed at the same time at the federal district court on May 27, 2009. The revised schedule will complete the elimination of combined sewer overflows no later than 2020.

<u>LONG-TERM LIABILITIES, DECEMBER 31, 2016</u>				
Governmental activities:				
	<u>Balance 1/1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31</u>
Bonds/notes Payable	\$24,148,280	\$3,091,633	(\$2,579,823)	\$24,660,090
Unamortized Bond Premium	\$644,716	\$157,638	(\$63,894)	\$738,460
Total Bonds/notes Payable	\$24,792,996	\$3,249,271	(\$2,643,717)	\$25,398,550
Capital Leases Payable	\$320,495	\$0	(\$109,341)	\$211,154
Compensated Absences Payable	\$1,372,574	\$143,555	\$0	\$1,516,129
Net Other Postemployment Benefits	\$1,280,108	\$17,037	\$0	\$1,297,145
Net Pension Liability	\$18,514,202	\$6,560,088	\$0	\$25,074,290
Total	<u>\$46,280,375</u>	<u>\$9,969,951</u>	<u>(\$2,753,058)</u>	<u>\$53,497,268</u>
Business-type activities:				
	<u>Balance 1/1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31</u>
Bonds/notes Payable	\$21,264,435	\$15,354,818	(\$3,091,728)	\$33,527,525
Unamortized Bond Premium	\$806,051	\$0	(\$54,777)	\$751,274
Total Bonds/notes Payable	\$22,070,486	\$15,354,818	(\$3,146,505)	\$34,278,799
Compensated Absences Payable	\$311,908	\$30,370	(\$3,680)	\$338,598
Accrued Landfill Closure and Postclosure Care Costs	\$8,244,471	\$283,536	\$0	\$8,528,007
Net Other Postemployment Benefits	\$250,090	\$0	(\$6,138)	\$243,952
Net Pension Liability	\$2,093,613	\$618,178	\$0	\$2,711,791
Total	<u>\$32,970,568</u>	<u>\$16,286,902</u>	<u>(\$3,156,323)</u>	<u>\$46,101,147</u>

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

From 2000 through 2017, the City has appropriated \$63.048 million for combined sewer overflow separation and utility replacement (the following table shows the various sources of financing); an additional \$6.5 million was identified in the City's 2017 - 2022 Capital Improvement Program for appropriation in 2018 making the total appropriation for the work when completed about \$69.548 million. The future appropriation(s) is subject to revision depending on construction market activity and how that activity translates into costs and timelines; construction conditions and engineering revisions.

Debt (general obligation and loans through the State Revolving Fund) is the primary source of financing the combined sewer overflow separation and utility replacement work. The consequent cost of borrowing is apportioned to the General Fund, Water Treatment and Distribution Fund, and Sewage Collection and Disposal Fund on a 40%, 30%, and 30% basis, respectively. The former is primarily supported through property taxation; the latter two by user fees.

<u>Source of Financing</u>	<u>Amount</u>
Water Treatment and Distribution Fund	\$575,556
Sewage Collection and Disposal Fund	\$20,900
General Fund	\$114,617
Water Investment Fees Fund	\$143,076
Capital Reserve Fund	\$432,790
General Obligation Debt	\$35,975,430
Premium on General Obligation Debt	\$775,890
State Revolving Fund	\$23,709,905
EPA Grants	\$299,400
Community Development Block Grant	\$1,000,000
Total	<u>\$63,047,564</u>

The combined sewer overflow separation work was an Army Corps of Engineers (ACOE) project the first two or three-years (2000 – 2002); without that involvement the total expected cost to the City might have been considerably larger (possibly \$3.5 million). Also, the City received a CDBG of \$1.000 million and an EPA grant of \$299,400 early on in the process. When ACOE involvement was terminated no further financial assistance was made available from the federal government; the work became the sole responsibility of the City to finance.

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

<u>AUTHORIZED AND UNISSUED DEBT, DECEMBER 31, 2016</u>					
<u>Yr. Authorized</u>	<u>Purpose</u>	<u>All</u>	<u>Responsible Fund</u>		
			<u>General (Property Taxes)</u>	<u>Water Treatment and Distribution (Service Fees)</u>	<u>Sewage Collection and Disposal (Service Fees)</u>
21-Dec-11	Combined Sewer Overflow Separation and Utility Replacement	\$568,665	\$227,466	\$170,599	\$170,599
21-Dec-11	Mechanic Street Bridge	\$126,000	\$126,000	\$0	\$0
19-Dec-12	Combined Sewer Overflow Separation and Utility Replacement	\$3,500,000	\$1,400,000	\$1,050,000	\$1,050,000
19-Dec-12	NH120 and Etna Road Sewer Improvements	\$700,000	\$0	\$0	\$700,000
18-Dec-13	Combined Sewer Overflow Separation and Utility Replacement	\$4,570,000	\$1,828,000	\$1,371,000	\$1,371,000
18-Dec-13	NH120 and Etna Road Sewer Improvements	\$1,870,000	\$0	\$0	\$1,870,000
18-Dec-13	Wastewater Treatment Facility Improvements	\$528,168	\$0	\$0	\$528,168
16-Apr-14	Dulac Street Reconstruction	\$1,490,000	\$1,490,000	\$0	\$0
17-Dec-14	NH120S/School Street Pedestrian Facility	\$66,000	\$66,000	\$0	\$0
17-Dec-14	Packard Hill Bridge #154-113	\$100,000	\$100,000	\$0	\$0
17-Dec-14	Combined Sewer Overflow Separation and Utility Replacement	\$4,970,000	\$1,988,000	\$1,491,000	\$1,491,000

Yr. Authorized	Purpose	All	Responsible Fund		
			General (Property Taxes)	Water Treatment and Distribution	Sewage Collection and Disposal
				(Service Fees)	(Service Fees)
17-Dec-14	Mechanic Street Reconstruction	\$513,920	\$513,920	\$0	\$0
17-Dec-14	Mechanic Street Bridge #120-115	\$36,000	\$36,000	\$0	\$0
15-Jul-15	NH120 and Etna Road Sewer Improvements	\$750,000	\$0	\$0	\$750,000
16-Dec-15	Mechanic Street Bridge #120-115	\$74,000	\$74,000	\$0	\$0
16-Dec-15	Combined Sewer Overflow Separation and Utility Replacement	\$5,070,000	\$2,028,000	\$1,521,000	\$1,521,000
16-Dec-15	NH120S/School Street Pedestrian Facility	\$275,000	\$275,000	\$0	\$0
20-Apr-16	NH120 and Etna Road Sewer Improvements	\$1,700,000	\$0	\$0	\$1,700,000
	Total	\$26,907,753	\$10,152,386	\$5,603,599	\$11,151,768

F. NEXT YEAR'S BUDGETS AND RATES

- In 2016, the total net assessed valuation, the amount on which the tax rate for municipal, county and local education tax is computed, decreased \$4,705,616 to \$1,871,296,258 from 2015. A citywide assessment update took place in 2015. The last update before that was in 2010; the next will be 2020. According to State law, annually, the assessors – Lebanon Board of Assessors – shall adjust assessments to reflect changes so that all assessments are reasonably proportional within the City and that all real estate be reappraised so that assessment are at full and true value at least as often as every five years. (New Hampshire Constitution Part 2 Article 6.)
- An increase in the total net assessed valuation exerts downward pressure on the tax rate; a decrease has the opposite influence. For 2017, an increase of 0.5%, or \$9,356,481, to \$1,880,652,739, is estimated.
- The property tax rate is computed as a means to bridge the gap between non-property tax revenues, spending and statutory tax credits and property assessment abatements. The Total Tax Rate is made up of four constituent rates: Municipal (general City services), School: Local, School: State and County. Appropriations (authorization to spend public moneys) are a legislative act. The Lebanon City Council is the City's legislative body; the Lebanon School District annual meeting and Grafton County delegation (comprised of state representatives from Grafton County) are the legislative bodies for the school and county.
- The 2017 City Budget estimates a 2017 Municipal Tax Rate (excluding school and county components) of \$10.70 per \$1,000 of assessed value, an increase of \$0.31, or 3.0%, over the comparable 2016 rate. A property assessed for tax purposes for \$250,000 will have an estimated 2017 municipal tax bill of about \$2,680, an increase of \$80 over the 2016 municipal tax bill.

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

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

Tax bills are mailed on or around June 1 and November 1 each year, with interest accruing at a rate of 12% on bills outstanding for more than 30 days. Within 18 months of the date assessed (April 1), the Tax Collector places a lien on properties for all uncollected property taxes. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed (taxes, penalties and interest) within the 2-year redemption period, the property is tax dedeed to the city. The June billing is considered an

estimate only. It is based by law on one-half of the prior year's tax rate. The balance of taxes due, taking into account current year budget activity, is billed in the fall after the New Hampshire Department of Revenue Administration has calculated the City's tax rate.

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

- **Landfill Fees:** No change in the fee for disposing solid waste at the landfill is planned for 2017. The estimated annual cost for an individual is \$36.60.

- **Water Service Fees:** A 7.0% water service rate increase was effective January 1, 2017. A water and sewer study is in progress. That study is expected to help determine a number of things including rate structure, future rate increases and spendable fund balance maintenance levels. The water service rate is \$46.70 per 1,000 cubic feet of metered water consumption; the estimated annualized metered water usage cost for an individual is \$169.66 ($\$46.70 \times 3,632.939 \text{ cf}/1,000 \text{ cf}$), an increase of \$11.08 from 2016, for a household \$420.76 ($\169.66×2.48), an increase of \$27.48; the estimated annual household water service cost is 0.60% of the statewide median household income (\$70,303/2015 US ACS). The estimated annual household water and sewer service cost combined is 1.81% of the statewide median household income (\$70,303/2015 US ACS). [An annual domestic water consumption estimate of 67,394 gallons (9,009.689 cubic feet; 7.481 gallons per cubic foot), translates into 184.641 gallons (24.681 cf) per day, 74,452 gallons (9.952 cf) per person based on a statewide 2.48 persons per household (consisting of all the people who occupy a housing unit), or 27,175.00 gallons (3,632.939 cf) per year. Individual circumstances can affect actual usage as can the type and condition of appliances, fixtures, and plumbing.]

In the last eight years there have been six water service rate increases. The last (7.0%) was January 1, 2017. The long-term objectives of a rate increase is to moderate future service rate increases by accumulating resources in advance as spendable fund balance sufficient for the Water Treatment and Distribution Fund to absorb projected operation and maintenance and debt service expenses over the next six-years (2017 – 2022). The intent is to balance recognition of future potential financial obligations and the ramifications of those obligations on future service rates and the fiscal integrity and soundness of the fund by adopting meaningful interim rate adjustments. The Combined Sewer Overflow Separation capital project has been and will continue to be a financial strain on the Water Treatment and Distribution Fund; the water treatment facility is schedule for major improvements in the near future.

- **Sewer Service Fees:** A 7.0% sewer service rate increase was effective January 1, 2017. A water and sewer study is in progress. That study is expected to help determine a number of things including rate structure, future rate increases and spendable fund balance maintenance levels. The sewer service rate is \$94.30 per \$1,000 cubic feet of metered water consumption; the estimated annual sewage usage cost (based on metered water consumption) for an individual is \$342.59 ($\$94.30 \times 3,632.939 \text{ cf}/1,000 \text{ cf}$), an increase of \$22.35 from 2016, for a household \$849.62 ($\342.59×2.48), an increase of \$55.42; the estimated annual household sewer service cost is 1.21% of the statewide median household income (\$70,303/2015 US ACS). The estimated annual household water and sewer service cost combined will be 1.81% of the statewide median household income (\$70,303/2015 US ACS). [An annual domestic water consumption estimate of 67,394 gallons (9,009.689 cubic feet; 7.481 gallons per cubic foot), translates into 184.641 gallons (24.681 cf) per day, 74,452 gallons (9.952 cf) per person based on a statewide 2.48 persons per household (consisting of all the people who occupy a housing unit), or 27,175.00 gallons (3,632.939 cf) per year. Individual circumstances can affect actual usage as can the type and condition of appliances, fixtures, and plumbing.]

In the last nine years there have been eight sewer service rate increases. The last (7.0%) was January 1, 2017. The long-term objectives of a rate increase is to moderate future service rate increases by accumulating resources in advance as spendable fund balance sufficient for the Sewage Collection and Disposal Fund to absorb projected operation and maintenance and debt service expenses over the next six-years (2017 – 2022). The intent is to balance recognition of future potential financial obligations and the ramifications of those obligations on future service rates and the fiscal integrity and soundness of the fund by adopting meaningful interim rate adjustments. The Combined Sewer Overflow Separation capital project has been and will continue to be a financial strain on the Sewage Collection and Disposal Fund, like on the Water Treatment and Distribution Fund. A major upgrade and improvement to the wastewater treatment facility was just completed; debt service of \$15,814,723, payable over the next twenty years, commenced in 2017 (including principal forgiveness of \$373,437).

- Labor Force Composition: The 2017 City Budget has 177.08 active full-time equivalent (FTE) positions (169.00 full-time; 8.08 regular part-time positions excluding seasonal and occasional employees and call firefighters). 117.00 positions, or 66.1%, are represented by one of four unions. Positions may be occupied or vacant, funded or unfunded. Positions are required to have an approved budget before they can be filled.
- The 2017 City Budget provides expenditures in the amount of \$55,255,810 (an increase of \$2,908,530, or 5.6%, from 2016) for the cost of general City government, solid waste disposal, water treatment and distribution, sewage collection and disposal, municipal airport operations, emergency management, and the acquisition or construction of major, expensive and long-lived capital facilities and equipment. The original budget of \$55,131,620 was appropriated December 21, 2016; two supplemental appropriations of \$64,190 and \$60,000, to implement a labor agreement and for a capital item, were approved March 1.
- The General Fund is 53.0% of the total 2017 City Budget; Capital Improvements Fund 21.9%; Sewage Collection And Disposal Fund 11.1%; Solid Waste Disposal Fund 6.0%; Water Treatment and Distribution Fund 5.8%; Municipal Airport Fund 2.2%; and Emergency Management Fund 0.0%.
- The operations and maintenance budget (excluding capital improvements, debt service, and interfund transfers) is 56.9% of the total budget, or \$31,425,770, an increase of \$639,775, or 2.1%.
- Personnel services (wages and statutory and non-statutory employee benefits) are 66.7% of the operations and maintenance budget, contractual services 22.8%, materials and supplies 9.7%, and property 0.8%. The expenditure mix varies by fund.
- The non-operations and maintenance budget (capital improvements, debt service, and interfund transfers) is 43.1% of the total budget, or \$23,830,040, an increase of \$2,268,755, or 10.5%.
- Capital improvements are 50.8% of the non-operations and maintenance budget, debt service 30.7%, and interfund transfers 18.5%.
- The 2017 City Budget provides estimated revenues of \$52,298,783, an increase of \$1,455,203, or 2.9%, from 2016.
- The General Fund makes up 53.7% of total revenues; Capital Improvements Fund 22.7%; Sewage Collection and Disposal Fund 9.8%; Water Treatment and Distribution Fund 6.1%; Solid Waste Disposal Fund 5.6%; Municipal Airport Fund 2.1%; and Emergency Management Fund 0.0%.
- Total applied spendable fund balance is \$2,957,027, an increase of \$1,453,327, or 96.7%, from 2016.
- The 2017 Capital Budget of \$12,110,050 is comprised of twenty-one (21) projects, of which four (4) will be financed fully, or partially, through the issuance of long-term debt (general obligation or through the State Revolving Fund).

<u>CITY BUDGETS</u>					
<u>Fund</u>	<u>2016</u>			<u>2017</u>	
	<u>Revised</u>	<u>Original</u>	<u>Supplemental</u>	<u>Revised</u>	<u>Change</u>
General	\$27,924,630	\$29,204,380	\$64,190	\$29,268,570	\$1,343,940
Solid Waste Disposal	\$3,305,740	\$3,289,530	\$0	\$3,289,530	(\$16,210)
Water Treatment and Distribution	\$3,170,920	\$3,208,760	\$0	\$3,208,760	\$37,840
Sewage Collection and Disposal	\$4,718,460	\$6,109,140	\$0	\$6,109,140	\$1,390,680
Municipal Airport	\$1,279,210	\$1,244,760	\$0	\$1,244,760	(\$34,450)
Emergency Management	\$25,000	\$25,000	\$0	\$25,000	\$0
Capital	\$11,923,320	\$12,050,050	\$60,000	\$12,110,050	\$186,730
Total	<u>\$52,347,280</u>	<u>\$55,131,620</u>	<u>\$124,190</u>	<u>\$55,255,810</u>	<u>\$2,908,530</u>
<u>Expenditure Type</u>					
Personnel Services	\$20,757,330	\$20,898,790	\$64,190	\$20,962,980	\$205,650
Contractual Services	\$17,681,535	\$17,736,040	(\$22,370)	\$17,713,670	\$32,135
Materials and Supplies	\$3,281,850	\$3,015,680	\$33,210	\$3,048,890	(\$232,960)
Property	\$988,600	\$1,761,120	\$49,160	\$1,810,280	\$821,680
Debt Service	\$5,989,420	\$7,322,940	\$0	\$7,322,940	\$1,333,520
Interfund Transfers	\$3,648,545	\$4,397,050	\$0	\$4,397,050	\$748,505
Total	<u>\$52,347,280</u>	<u>\$55,131,620</u>	<u>\$124,190</u>	<u>\$55,255,810</u>	<u>\$2,908,530</u>
Operation and Maintenance	\$30,785,995	\$31,361,580	\$64,190	\$31,425,770	\$639,775
Debt Service	\$5,989,420	\$7,322,940	\$0	\$7,322,940	\$1,333,520
Interfund Transfers	\$3,648,545	\$4,397,050	\$0	\$4,397,050	\$748,505
Capital	\$11,923,320	\$12,050,050	\$60,000	\$12,110,050	\$186,730
Total	<u>\$52,347,280</u>	<u>\$55,131,620</u>	<u>\$124,190</u>	<u>\$55,255,810</u>	<u>\$2,908,530</u>

G. REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

EXHIBIT A
CITY OF LEBANON, NEW HAMPSHIRE
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 22,221,458	\$ 10,694,082	\$ 32,915,540
Investments	1,286,774	9,511,924	10,798,698
Receivables, net of allowance for uncollectible:			
Accounts	183,292	702,865	886,157
Taxes	2,086,364	-	2,086,364
Intergovernmental	395,675	1,165,000	1,560,675
Internal balances	990,602	(990,602)	-
Prepaid items	297,493	34,252	331,745
Tax deeded property, subject to resale	40,210	-	40,210
Restricted assets:			
Cash and cash equivalents	1,235,645	-	1,235,645
Investments	110,740	-	110,740
Intergovernmental receivable	35,467	-	35,467
Capital assets:			
Land and construction in progress	22,137,895	8,934,752	31,072,647
Other capital assets, net of depreciation	65,819,849	75,375,049	141,194,898
Total assets	<u>116,841,464</u>	<u>105,427,322</u>	<u>222,268,786</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to pensions	<u>5,898,003</u>	<u>637,872</u>	<u>6,535,875</u>
LIABILITIES			
Accounts payable	672,008	199,538	871,546
Contracts payable	132,979	126,532	259,511
Retainage payable	62,472	519,119	581,591
Accrued interest payable	409,776	341,783	751,559
Intergovernmental payable	14,087,525	6,690,709	20,778,234
Escrow and performance deposits	110,697	10,825	121,522
Unearned revenue	-	11,110	11,110
Other	812,326	-	812,326
Long-term liabilities:			
Due within one year	2,634,041	1,665,963	4,300,004
Due in more than one year	50,863,227	44,435,184	95,298,411
Total liabilities	<u>69,785,051</u>	<u>54,000,763</u>	<u>123,785,814</u>
DEFERRED INFLOWS OF RESOURCES			
Debt forgiveness	1,367,070	2,405,369	3,772,439
Amounts related to pensions	796,872	86,182	883,054
Total deferred inflows of resources	<u>2,163,942</u>	<u>2,491,551</u>	<u>4,655,493</u>
NET POSITION			
Net investment in capital assets	62,348,040	50,031,002	112,379,042
Restricted	1,314,072	4,721,222	6,035,294
Unrestricted	<u>(12,871,638)</u>	<u>(5,179,344)</u>	<u>(18,050,982)</u>
Total net position	<u>\$ 50,790,474</u>	<u>\$ 49,572,880</u>	<u>\$ 100,363,354</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, 2016

	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	\$ 7,522,628	\$ 169,577	\$ -	\$ -	\$ (7,353,051)	\$ -	\$ (7,353,051)
Public safety	11,594,503	1,099,784	166,944	-	(10,327,775)	-	(10,327,775)
Highways and streets	3,200,094	2,541	333,546	-	(2,864,007)	-	(2,864,007)
Sanitation	17,510	-	16,159	-	(1,351)	-	(1,351)
Water distribution and treatment	2,753	-	2,753	-	-	-	-
Health	-	-	23,444	-	23,444	-	23,444
Welfare	412,204	-	-	-	(412,204)	-	(412,204)
Culture and recreation	2,530,606	290,328	111,108	-	(2,129,170)	-	(2,129,170)
Conservation	42,793	-	-	-	(42,793)	-	(42,793)
Interest on long-term debt	1,018,443	-	-	-	(1,018,443)	-	(1,018,443)
Capital outlay	443,552	-	579,567	828,423	964,438	-	964,438
Total governmental activities	<u>26,785,086</u>	<u>1,562,230</u>	<u>1,233,521</u>	<u>828,423</u>	<u>(23,160,912)</u>	<u>-</u>	<u>(23,160,912)</u>
Business-type activities:							
Sewage collection and disposal	4,237,109	4,933,894	67,836	-	-	764,621	764,621
Solid waste disposal	2,472,566	3,266,417	-	-	-	793,851	793,851
Water treatment and distribution	2,546,806	2,810,667	60,808	-	-	324,669	324,669
Municipal airport	2,108,802	498,171	845,487	-	-	(765,144)	(765,144)
Total business-type activities	<u>11,365,283</u>	<u>11,509,149</u>	<u>974,131</u>	<u>-</u>	<u>-</u>	<u>1,117,997</u>	<u>1,117,997</u>
Total	<u>\$ 38,150,369</u>	<u>\$ 13,071,379</u>	<u>\$ 2,207,652</u>	<u>\$ 828,423</u>	<u>(23,160,912)</u>	<u>1,117,997</u>	<u>(22,042,915)</u>
General revenues:							
Taxes:							
Property					19,269,939	-	19,269,939
Other					1,790,945	-	1,790,945
Motor vehicle permit fees					2,435,362	-	2,435,362
Licenses and other fees					839,855	-	839,855
Grants and contributions not restricted to specific programs					772,760	-	772,760
Miscellaneous					459,163	760,622	1,219,785
Total general revenues					<u>25,568,024</u>	<u>760,622</u>	<u>26,328,646</u>
Contributions to permanent funds					6,900	-	6,900
Transfers					1,277,490	(1,277,490)	-
Total general revenues, contributions, and transfers					<u>26,852,414</u>	<u>(516,868)</u>	<u>26,335,546</u>
Change in net position					3,691,502	601,129	4,292,631
Net position, beginning					47,098,972	48,971,751	96,070,723
Net position, ending					<u>\$ 50,790,474</u>	<u>\$ 49,572,880</u>	<u>\$ 100,363,354</u>

16 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, 2016

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 20,067,615	\$ 1,013,196	\$ 1,140,647	\$ 22,221,458
Investments	-	-	1,286,774	1,286,774
Receivables, net of allowances for uncollectable:				
Accounts	169,603	-	13,689	183,292
Taxes	2,301,364	-	-	2,301,364
Intergovernmental	-	205,838	-	205,838
Interfund receivable	1,034,037	-	30,950	1,064,987
Voluntary tax liens	34,724	-	-	34,724
Voluntary tax liens reserved until collected	(34,724)	-	-	(34,724)
Prepaid items	378,371	-	-	378,371
Tax deeded property, subject to resale	40,210	-	-	40,210
Restricted assets:				
Cash and cash equivalents	1,235,645	-	-	1,235,645
Investments	110,740	-	-	110,740
Intergovernmental receivable	35,467	-	-	35,467
Total assets	\$ 25,373,052	\$ 1,219,034	\$ 2,472,060	\$ 29,064,146
LIABILITIES				
Accounts payable	\$ 660,853	\$ -	\$ 11,155	\$ 672,008
Contracts payable	-	132,979	-	132,979
Intergovernmental	12,567,525	1,520,000	-	14,087,525
Interfund payable	27,364	-	47,021	74,385
Retainage payable	-	62,472	-	62,472
Escrow and performance deposits	110,697	-	-	110,697
Unearned revenue	812,326	-	-	812,326
Total liabilities	14,178,765	1,715,451	58,176	15,952,392
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	601,667	-	-	601,667
FUND BALANCES (DEFICIT)				
Nonspendable	418,581	-	1,314,072	1,732,653
Restricted	-	-	152,936	152,936
Committed	218,891	-	943,393	1,162,284
Assigned	1,760,277	-	3,483	1,763,760
Unassigned	8,194,871	(496,417)	-	7,698,454
Total fund balances (deficit)	10,592,620	(496,417)	2,413,884	12,510,087
Total liabilities, deferred inflows of resources, and fund balances	\$ 25,373,052	\$ 1,219,034	\$ 2,472,060	\$ 29,064,146

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

EXHIBIT C-2
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2016

Total fund balances of governmental funds (Exhibit C-1)		\$ 12,510,087
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 120,942,148	
Less accumulated depreciation	(32,984,404)	87,957,744
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.		(80,878)
Long term revenue (taxes) is not available to pay current-period expenditures and, therefore, is deferred in the governmental funds.		601,667
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(215,000)
Long term assets (State aid receivable) are not available to pay for current-period expenditures and therefore, are not reported in the governmental funds.		189,837
Certain items are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	\$ 5,898,003	
Deferred inflows of resources related to pensions	(796,872)	5,101,131
Deferred inflows of resources related to debt forgiveness that will be recognized annually in equal amounts for the duration of the bond issuance repayment.		(1,367,070)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(409,776)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds	\$ 24,660,090	
Unamortized bond premiums	738,460	
Capital leases	211,154	
Compensated absences	1,516,129	
Other postemployment benefits	1,297,145	
Net pension liability	25,074,290	(53,497,268)
Net position of governmental activities (Exhibit A)		\$ 50,790,474

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, 2016

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 21,045,543	\$ -	\$ 16,400	\$ 21,061,943
Licenses and permits	3,214,377	-	-	3,214,377
Intergovernmental	2,060,025	530,066	-	2,590,091
Charges for services	1,363,750	-	198,480	1,562,230
Miscellaneous	490,051	49,501	167,046	706,598
Total revenues	<u>28,173,746</u>	<u>579,567</u>	<u>381,926</u>	<u>29,135,239</u>
EXPENDITURES				
Current:				
General government	5,519,348	-	7,441	5,526,789
Public safety	10,485,693	-	104,726	10,590,419
Highways and streets	3,080,323	-	-	3,080,323
Water distribution and treatment	2,753	-	-	2,753
Welfare	408,377	-	-	408,377
Culture and recreation	2,301,029	-	178,336	2,479,365
Conservation	9,095	-	14,504	23,599
Debt service:				
Principal	2,366,483	-	-	2,366,483
Interest	1,076,560	-	-	1,076,560
Capital outlay	939,113	2,247,776	-	3,186,889
Total expenditures	<u>26,188,774</u>	<u>2,247,776</u>	<u>305,007</u>	<u>28,741,557</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,984,972</u>	<u>(1,668,209)</u>	<u>76,919</u>	<u>393,682</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,565,077	639,258	80,666	2,285,001
Transfers out	(962,150)	(26,303)	(19,058)	(1,007,511)
Bond proceeds	-	3,237,481	-	3,237,481
Total other financing sources (uses)	<u>602,927</u>	<u>3,850,436</u>	<u>61,608</u>	<u>4,514,971</u>
Net change in fund balances	2,587,899	2,182,227	138,527	4,908,653
Fund balances (deficit), beginning	8,004,721	(2,678,644)	2,275,357	7,601,434
Fund balances (deficit), ending	<u>\$ 10,592,620</u>	<u>\$ (496,417)</u>	<u>\$ 2,413,884</u>	<u>\$ 12,510,087</u>

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

EXHIBIT C-4
CITY OF LEBANON, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2016

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 4,908,653
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense and capital asset disposals in the current period.		
Capitalized capital outlay	\$ 2,866,063	
Capital asset disposals	(95,423)	
Depreciation expense	<u>(2,278,619)</u>	492,021
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	\$ 16,037	
Change in allowance for uncollectible property taxes	(17,096)	
Decrease in deferred aid revenue	<u>(14,571)</u>	(15,630)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Proceeds of debt	\$ (3,091,633)	
Bond premium on new issuance	(157,638)	
Repayment of bond principal	2,579,823	
Debt forgiveness received to be amortized	(157,593)	
Repayment of capital leases	109,341	
Amortization of bond premium	63,894	
Amortization of debt forgiveness	<u>79,489</u>	(574,317)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 31,144	
Decrease in prepaid items	(80,878)	
Increase in compensated absences payable	(143,555)	
Increase in postemployment benefits payable	(17,037)	
Change in net pension liability and related deferred outflows and inflows of resources	<u>(908,899)</u>	(1,119,225)
Change in net position of governmental activities (Exhibit B)		<u><u>\$ 3,691,502</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, 2016

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes	\$ 20,431,606	\$ 21,044,484	\$ 612,878
Licenses and permits	2,522,710	3,214,377	691,667
Intergovernmental	1,130,058	1,141,542	11,484
Charges for services	1,163,890	1,363,750	199,860
Miscellaneous	282,527	387,262	104,735
Total revenues	<u>25,530,791</u>	<u>27,151,415</u>	<u>1,620,624</u>
EXPENDITURES			
Current:			
General government	6,118,885	5,446,460	672,425
Public safety	11,004,650	10,439,722	564,928
Highways and streets	3,744,400	3,167,873	576,527
Welfare	450,980	408,377	42,603
Culture and recreation	2,299,840	2,261,275	38,565
Conservation	9,330	9,095	235
Debt service:			
Principal	2,366,500	2,366,483	17
Interest	1,076,650	1,076,560	90
Total expenditures	<u>27,071,235</u>	<u>25,175,845</u>	<u>1,895,390</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,540,444)</u>	<u>1,975,570</u>	<u>3,516,014</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,593,139	1,564,254	(28,885)
Transfers out	(853,395)	(877,781)	(24,386)
Total other financing sources (uses)	<u>739,744</u>	<u>686,473</u>	<u>(53,271)</u>
Net change in fund balance	<u>\$ (800,700)</u>	2,662,043	<u>\$ 3,462,743</u>
Increase in nonspendable fund balance		(214,450)	
Increase in assigned for abatement contingency		(367,253)	
Unassigned fund balance, beginning		6,501,198	
Unassigned fund balance, ending		<u>\$ 8,581,538</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, 2016

	Business-type Activities				Total Enterprise Funds
	Major Funds				
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	
ASSETS					
Cash and cash equivalents	\$ 3,991,872	\$ 4,266,262	\$ 2,219,327	\$ 216,621	\$ 10,694,082
Investments	225,332	8,786,447	500,145	-	9,511,924
Receivables:					
Accounts	279,125	289,227	65,475	69,038	702,865
Intergovernmental	385,438	75,361	142,378	561,823	1,165,000
Prepaid items	8,320	4,781	9,415	11,736	34,252
Capital assets:					
Land and construction in progress	6,797,361	-	951,179	1,186,212	8,934,752
Other capital assets, net of depreciation	42,241,381	10,748,779	15,834,821	6,550,068	75,375,049
Total assets	<u>53,928,829</u>	<u>24,170,857</u>	<u>19,722,740</u>	<u>8,595,498</u>	<u>106,417,924</u>
DEFERRED OUTFLOWS OF RESOURCES					
Amounts related to pensions	<u>211,107</u>	<u>156,318</u>	<u>180,402</u>	<u>90,045</u>	<u>637,872</u>
LIABILITIES					
Current liabilities:					
Accounts payable	47,192	40,383	17,875	94,088	199,538
Contract payable	93,330	27,138	6,064	-	126,532
Retainage payable	453,810	-	65,309	-	519,119
Internal balances	-	-	-	990,602	990,602
Accrued interest payable	159,209	46,623	123,039	12,912	341,783
Intergovernmental payable	5,550,709	-	1,140,000	-	6,690,709
Escrow and performance deposits	-	-	-	10,825	10,825
Unearned revenue	9,325	-	-	1,785	11,110
Long-term liabilities:					
Due within one year	726,841	329,585	541,859	67,678	1,665,963
Due in more than one year	23,718,014	11,484,203	8,116,687	1,116,280	44,435,184
Total liabilities	<u>30,758,430</u>	<u>11,927,932</u>	<u>10,010,833</u>	<u>2,294,170</u>	<u>54,991,365</u>
DEFERRED INFLOWS OF RESOURCES					
Debt forgiveness	1,380,067	-	1,025,302	-	2,405,369
Amounts related to pensions	28,522	21,120	24,374	12,166	86,182
Total deferred inflows of resources	<u>1,408,589</u>	<u>21,120</u>	<u>1,049,676</u>	<u>12,166</u>	<u>2,491,551</u>
NET POSITION					
Net investment in capital assets	25,691,350	8,206,004	9,105,086	7,028,562	50,031,002
Restricted	3,497,485	202,830	768,459	252,448	4,721,222
Unrestricted	(7,215,918)	3,969,289	(1,030,912)	(901,803)	(5,179,344)
Total net position	<u>\$ 21,972,917</u>	<u>\$ 12,378,123</u>	<u>\$ 8,842,633</u>	<u>\$ 6,379,207</u>	<u>\$ 49,572,880</u>

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

EXHIBIT E-2
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Funds
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended December 31, 2016

	Business-type Activities				Total Enterprise Funds
	Major Funds				
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	
Operating revenues:					
User charges	\$ 4,933,894	\$ 3,266,417	\$ 2,810,667	\$ 498,171	\$ 11,509,149
Miscellaneous	95,621	107,664	26,972	410,472	640,729
Total operating revenues	<u>5,029,515</u>	<u>3,374,081</u>	<u>2,837,639</u>	<u>908,643</u>	<u>12,149,878</u>
Operating expenses:					
Salaries and wages	901,095	746,562	785,572	513,298	2,946,527
Operation and maintenance	1,662,682	941,552	924,991	980,735	4,509,960
Depreciation and amortization	750,517	704,385	536,092	580,325	2,571,319
Total operating expenses	<u>3,314,294</u>	<u>2,392,499</u>	<u>2,246,655</u>	<u>2,074,358</u>	<u>10,027,806</u>
Operating gain (loss)	<u>1,715,221</u>	<u>981,582</u>	<u>590,984</u>	<u>(1,165,715)</u>	<u>2,122,072</u>
Nonoperating revenue (expense):					
Interest income	8,895	89,776	16,034	188	114,893
Intergovernmental revenues	67,836	-	60,808	845,487	974,131
Sale of City owned property	-	5,000	-	-	5,000
Interest expense	(922,815)	(80,067)	(300,151)	(34,444)	(1,337,477)
Total nonoperating revenues	<u>(846,084)</u>	<u>14,709</u>	<u>(223,309)</u>	<u>811,231</u>	<u>(243,453)</u>
Other financing sources (uses):					
Transfers in	3,759	-	253,909	110,290	367,958
Transfers out	(485,240)	(763,238)	(285,430)	(111,540)	(1,645,448)
Total other financing sources (uses)	<u>(481,481)</u>	<u>(763,238)</u>	<u>(31,521)</u>	<u>(1,250)</u>	<u>(1,277,490)</u>
Change in net position	387,656	233,053	336,154	(355,734)	601,129
Net position, beginning	21,585,261	12,145,070	8,506,479	6,734,941	48,971,751
Net position, ending	<u>\$ 21,972,917</u>	<u>\$ 12,378,123</u>	<u>\$ 8,842,633</u>	<u>\$ 6,379,207</u>	<u>\$ 49,572,880</u>

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

EXHIBIT E-3
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2016

	Business-type Activities				Total Enterprise Funds
	Major Funds				
	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	
Cash flows from operating activities:					
Receipts from customers and users	\$ 6,730,005	\$ 3,551,103	\$ 2,895,976	\$ 1,523,797	\$ 14,700,881
Payments to employees and suppliers	(15,392,958)	(1,412,053)	(2,829,013)	(1,328,984)	(20,963,008)
Net cash provided (used) by operating activities	(8,662,953)	2,139,050	66,963	194,813	(6,262,127)
Cash flows from capital and related financing activities:					
Proceeds of long term debt	14,182,682	-	945,557	-	15,128,239
Principal paid on bonds	(1,529,950)	(300,000)	(585,373)	(66,579)	(2,481,902)
Sale of City owned property	-	5,000	-	-	5,000
Acquisition and construction of fixed assets	(2,291,348)	(405,543)	(486,792)	(896,413)	(4,080,096)
Payments from the state	67,836	-	60,808	845,487	974,131
Interest paid	(922,815)	(80,067)	(300,151)	(34,444)	(1,337,477)
Net cash used by capital and related financing activities	9,506,405	(780,610)	(365,951)	(151,949)	8,207,895
Cash flows from non-capital financing activities:					
Operating transfers in (out)	(481,481)	(763,238)	(31,521)	(1,250)	(1,277,490)
Cash flows from investing activities:					
Sale of investments	(178,280)	(1,207,741)	(412,682)	-	(1,798,703)
Interest received	8,895	89,776	16,034	188	114,893
Net cash used by investing activities	(169,385)	(1,117,965)	(396,648)	188	(1,683,810)
Net increase (decrease) in cash	192,586	(522,763)	(727,157)	41,802	(1,015,532)
Cash, beginning	3,799,286	4,789,025	2,946,484	174,819	11,709,614
Cash, ending	\$ 3,991,872	\$ 4,266,262	\$ 2,219,327	\$ 216,621	\$ 10,694,082

Reconciliation of Operating Gain/(Loss) to Net Cash Provided (Used) by Operating Activities

Operating gain (loss)	\$ 1,715,221	\$ 981,582	\$ 590,984	\$ (1,165,715)	\$ 2,122,072
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:					
Depreciation expense	750,517	704,385	536,092	580,325	2,571,319
Capitalized expenses written off	-	-	-	476,334	476,334
(Increase) / Decrease in other receivables	1,689,454	175,901	56,126	611,561	2,533,042
(Increase) / Decrease in prepaid expenses	1,711	1,121	2,211	1,018	6,061
(Increase) / Decrease in deferred outflows of resources	(170,713)	(128,237)	(149,241)	(75,185)	(523,376)
Increase / (Decrease) in accounts payable	(9,750)	(29,201)	(3,611)	(382,022)	(424,584)
Increase / (Decrease) in contract payable	(1,183,884)	27,138	(294,091)	-	(1,450,837)
Increase / (Decrease) in retainage payable	(287,496)	-	(63,492)	(25,008)	(375,996)
Increase / (Decrease) in internal balances	-	-	-	71,427	71,427
Capitalized interest expense	217,735	-	8,844	-	226,579
Principal forgiveness of long-term debt issuances	(491,632)	-	(118,195)	-	(609,827)
Decrease in accrued interest payable	(28,954)	(2,998)	(9,509)	(882)	(42,343)
Increase in intergovernmental payables	(11,422,960)	-	(734,610)	-	(12,157,570)
Increase in escrow deposits	-	-	-	1,725	1,725
Increase / (Decrease) in unearned revenue	9,325	-	-	850	10,175
Increase / (Decrease) in compensated absences	16,008	(777)	14,362	(2,903)	26,690
Increase in other postemployment benefits payable	(5,912)	(2,272)	(923)	2,969	(6,138)
Increase in net pension liability	158,851	151,088	197,153	111,086	618,178
Increase / (Decrease) in deferred inflows of resources	379,526	(22,216)	34,863	(10,767)	381,406
Total adjustments	(10,378,174)	1,157,468	(524,021)	1,360,528	(8,384,199)
Net cash provided (used) by operating activities	\$ (8,662,953)	\$ 2,139,050	\$ 66,963	\$ 194,813	\$ (6,262,127)

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, 2016

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 525,919
Investments	<u>4,007,402</u>
Total assets	<u>\$ 4,533,321</u>
LIABILITIES	
Intergovernmental payable	<u>\$ 4,533,321</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, 2016

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CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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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 accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2016 the City implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a government should apply.

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 Government-wide and Fund Financial Statements

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. Generally, the effect of interfund activity has been eliminated from these statements. Primary government activities are distinguished between governmental and business-type activities. Governmental activities normally are supported through taxes and intergovernmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support.

The *Statement of Net Position* presents the financial position of the City at year-end. This statement includes all of the City's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenue rather than program revenue.

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

In the governmental fund financial statements, expenditures are reported by character: current, debt service or capital outlay. Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Debt service includes both interest and principal outlays related to bonds and notes. Capital outlay includes expenditures for equipment, real property, or infrastructure.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. administration and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are generally reported as nonoperating.

Other Financing Sources (Uses) – These additions to and reductions from resources in governmental fund financial statements normally result from transfers from/to other funds and financing provided by bond or note proceeds. Transfers are reported when incurred as “transfers in” by the receiving fund and as “transfers out” by the disbursing fund.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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1-C Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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.

Financial Statement Presentation - A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

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 and building 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 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 the activity pertaining to the multiple construction and renovation projects that are not reported in other funds.

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

The City reports the following major proprietary funds:

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

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

Water Treatment and Distribution Fund – accounts for the operation of the water treatment plant, wells, and water system.

Municipal Airport Fund – accounts for the operation of the Lebanon Municipal Airport.

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.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Permanent Fund - is used to record activity of legal trusts for which the interest on the corpus provides funds for the City's cemetery operations.

Fiduciary Fund – The City also reports the following fiduciary fund:

Agency Fund – are custodial in nature and do 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-D Cash and Cash Equivalents

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

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

1-E Restricted Assets

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-F 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-G 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.

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-H 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.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-I Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

1-J Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of \$10,000 or more and an estimated life in excess of one year. Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, bridges, sidewalks, drainage, and similar items) and are reported in the applicable governmental or business-type activities.

Purchased or constructed assets are recorded at actual cost or estimated historical cost. Donated capital assets received after June 15, 2015 are recorded at acquisition value and donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation.

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 governmental activities column of the government-wide Statement of Net Position. When cost of general capital assets cannot be determined from available records, estimated historical cost is used.

Capital assets of the enterprise fund are capitalized in the fund. The cost basis for enterprise fund capital assets is the same as that used for general capital assets. Additionally, net interest cost is capitalized on enterprise fund capital assets during the construction period.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements and in the enterprise fund financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

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

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

1-K 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-L Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Warrants for the year were issued on May 20 and October 27, and were due on June 18 and November 25, respectively. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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In connection with the setting of the tax rate, City officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for 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, 2016 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 1,788,005,458
For all other taxes	\$ 1,871,296,258

The tax rates and amounts assessed for the year ended December 31, 2016 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$10.39	\$ 19,455,533
School portion:		
State of New Hampshire	\$2.45	4,379,558
Local	\$13.43	25,128,630
County portion	\$1.86	3,471,780
Total	<u>\$28.13</u>	<u>\$ 52,435,501</u>

1-M 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, 2016.

1-N Deferred Outflows/Inflows of Resources

Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance 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-O Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable 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-P 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.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Sick Leave – Benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the City’s experience of making termination payments.

1-Q 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 are prepared by New Hampshire Retirement System, and are audited by the plan’s independent auditors.

1-R Net Position/Fund Balances

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

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

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

Nonspendable – This classification includes 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 – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for the 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 – This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed.

Unassigned – This classification includes the 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 an 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.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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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 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 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. At its annual meeting, the City adopts a budget for the current year for the general, emergency management, and capital improvement governmental funds and 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.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

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

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2016, \$800,700 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

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

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016

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

Revenues and other financing sources:	General
Per Exhibit D (budgetary basis)	\$ 28,715,669
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record revenue of the blended funds (expendable trusts, grants, emergency management, heritage, restricted, and CDBG funds)	1,021,272
Net effect of eliminated and recognized transfers in to the blended funds	823
Change in allowance for uncollectible property taxes, not recognized on GAAP basis	17,096
Change in deferred tax revenue relating to 60-day revenue recognition	(16,037)
Per Exhibit C-3 (GAAP basis)	\$ 29,738,823
 Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 26,053,626
Adjustment:	
Basis differences:	
Encumbrances, beginning	457,357
Encumbrances, ending	(556,871)
GASB Statement No. 54:	
To record expenditures of the blended funds (expendable trusts, grants, emergency management, heritage, restricted, and CDBG funds)	1,112,443
Net effect of eliminated and recognized transfers out of the blended funds	84,369
Per Exhibit C-3 (GAAP basis)	\$ 27,150,924

2-C Deficit Fund Balance

The capital improvements fund had a deficit fund balance at December 31, 2016. This deficit will be financed through a combination of future issuances of general obligation debt and transfers from the general fund.

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 \$34,677,104 and the bank balances totaled \$35,118,459. Of the bank balance, \$33,790,133 was covered by federal depository insurance or by collateral held by the City's agent in the City's name, and \$1,328,326 was uninsured and uncollateralized. Petty cash totaled \$2,065.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 34,151,185
Cash per Statement of Net Position-Fiduciary Funds (Exhibit F)	525,919
Total cash and cash equivalents	\$ 34,677,104

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016

NOTE 4 – RESTRICTED ASSETS

The following cash, investments, and intergovernmental receivables 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:		
Expendable trust	\$	74,761
Grants		794,151
Emergency management		56,926
Heritage		4,604
Other restricted		305,203
Total general fund		1,235,645
Investments:		
Expendable trust		110,740
Intergovernmental receivable:		
General:		
Grants		35,467
Total restricted assets	\$	1,381,852

NOTE 5 – INVESTMENTS

Note 1-G 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 as of December 31, 2016:

Investment type:	Valuation	Fair Value	Exempt from Disclosure	Less Than 1 Year	1-5 Years
	Measurement Method				
Equities	Level 1	\$ 1,112,467	\$ 1,112,467	\$ -	\$ -
Fixed income	Level 1	13,804,373	1,577,822	2,753,613	9,472,938
Total fair value		\$ 14,916,840	\$ 2,690,289	\$ 2,753,613	\$ 9,472,938

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. Most of the City's directly held marketable equity securities would be examples of Level 1 investments.

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 City held no Level 3 investments as of December 31, 2016.

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

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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.

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

Credit Risk - State law limits investments as explained in Note 1-G. The City’s investment policy manages the City’s investment in equities and indexed funds as a means to mitigate credit risk. As of December 31, 2016, the City’s investments in were rated as follows:

Investment type:	Fair Value	Exempt from Disclosure	Ratings as of Year-end	
			Aaa	Other
Equities	\$ 1,112,466	\$ 1,112,466	\$ -	\$ -
Fixed income	13,804,374	1,577,823	11,086,037	1,140,514
Total fair value	<u>\$ 14,916,840</u>	<u>\$ 2,690,289</u>	<u>\$ 11,086,037</u>	<u>\$ 1,140,514</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.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 10,909,438
Investments per Statement of Net Position-Fiduciary Fund (Exhibit F)	4,007,402
Total investments	<u>\$ 14,916,840</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, 2016. The amount in the governmental activities has been reduced by an allowance for an estimated uncollectible amount of \$215,000, which is removed in the general fund due to the deferral of taxes receivable not collected within 60 days of fiscal year-end.

Taxes receivable by year are as follows:

	As reported on:	
	Governmental Activities	General Fund
Property:		
Levy of 2016	\$ 1,123,046	\$ 1,123,046
Unredeemed (under tax lien):		
Levy of 2015	389,819	389,819
Levy of 2014	249,847	249,847
Levy of 2013	129,541	129,541
Levies of 2012 and prior	409,111	409,111
Less: allowance for estimated uncollectible taxes	(215,000) *	-
Net taxes receivable	<u>\$ 2,086,364</u>	<u>\$ 2,301,364</u>

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

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NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2016, consisted of accounts (billings for water, sewer, landfill, 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, 2016 for the City’s individual major funds and nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

Governmental Funds:

	General	Capital Improvements	Nonmajor Funds	Total
Receivables:				
Accounts	\$ 934,196	\$ -	\$ 13,689	\$ 950,066
Intergovernmental	-	205,838	-	205,838
Liens	34,724	-	-	34,724
Gross receivables	968,920	205,838	13,689	1,190,628
Less: allowances for uncollectibles	(799,317)	-	-	(799,317)
Net total receivables	<u>\$ 169,603</u>	<u>\$ 205,838</u>	<u>\$ 13,689</u>	<u>\$ 391,311</u>

Proprietary Funds:

	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	Total
Receivables:					
Accounts	\$ 279,125	\$ 289,227	\$ 65,475	\$ 69,038	\$ 702,865
Intergovernmental	385,438	75,361	142,378	561,823	1,165,000
Total receivables	<u>\$ 664,563</u>	<u>\$ 364,588</u>	<u>\$ 207,853</u>	<u>\$ 630,861</u>	<u>\$ 1,867,865</u>

NOTE 8 – PREPAID ITEMS

Prepaid items at December 31, 2016 consisted of the following:

	Business-type Activities						
	Governmental Activities	General	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport	Total
Insurance	\$ 273,768	\$ 273,768	\$ 8,120	\$ 4,781	\$ 9,415	\$ 11,736	\$ 34,052
Debt	-	55,747	-	-	-	-	-
Interest	-	25,131	-	-	-	-	-
Other	23,725	23,725	200	-	-	-	200
	<u>\$ 297,493</u>	<u>\$ 378,371</u>	<u>\$ 8,320</u>	<u>\$ 4,781</u>	<u>\$ 9,415</u>	<u>\$ 11,736</u>	<u>\$ 34,252</u>

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NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is as follows:

	Balance, beginning	Additions	Disposals	Balance, ending
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 7,279,265	\$ -	\$ -	\$ 7,279,265
Intangible assets	82,197	-	-	82,197
Construction in progress	12,475,460	2,300,973	-	14,776,433
Total capital assets not being depreciated	<u>19,836,922</u>	<u>2,300,973</u>	<u>-</u>	<u>22,137,895</u>
Being depreciated:				
Land improvements	3,306,968	39,904	-	3,346,872
Buildings and building improvements	21,144,159	-	-	21,144,159
Machinery and equipment	9,266,963	525,186	(348,028)	9,444,121
Infrastructure	64,869,101	-	-	64,869,101
Total capital assets being depreciated	<u>98,587,191</u>	<u>565,090</u>	<u>(348,028)</u>	<u>98,804,253</u>
Total all capital assets	<u>118,424,113</u>	<u>2,866,063</u>	<u>(348,028)</u>	<u>120,942,148</u>
Less accumulated depreciation:				
Land improvements	(1,768,881)	(126,836)	-	(1,895,717)
Buildings and building improvements	(6,743,822)	(451,590)	-	(7,195,412)
Machinery and equipment	(4,928,829)	(466,002)	252,605	(5,142,226)
Infrastructure	(17,516,858)	(1,234,191)	-	(18,751,049)
Total accumulated depreciation	<u>(30,958,390)</u>	<u>(2,278,619)</u>	<u>252,605</u>	<u>(32,984,404)</u>
Net book value, capital assets being depreciated	<u>67,628,801</u>	<u>(1,713,529)</u>	<u>(95,423)</u>	<u>65,819,849</u>
Net book value, all governmental activities capital assets	<u>\$ 87,465,723</u>	<u>\$ 587,444</u>	<u>\$ (95,423)</u>	<u>\$ 87,957,744</u>
Business-type activities:				
At cost:				
Not being depreciated:				
Land	\$ 616,500	\$ -	\$ -	\$ 616,500
Construction in progress	20,270,869	3,401,456	(15,354,073)	8,318,252
Total capital assets not being depreciated	<u>20,887,369</u>	<u>3,401,456</u>	<u>(15,354,073)</u>	<u>8,934,752</u>
Being depreciated:				
Land improvements	41,811,813	197,488	-	42,009,301
Buildings and building improvements	25,066,631	14,708,579	-	39,775,210
Machinery and equipment	6,678,068	650,309	(82,743)	7,245,634
Infrastructure	52,626,614	-	-	52,626,614
Total capital assets being depreciated	<u>126,183,126</u>	<u>15,556,376</u>	<u>(82,743)</u>	<u>141,656,759</u>
Total all capital assets	<u>147,070,495</u>	<u>18,957,832</u>	<u>(15,436,816)</u>	<u>150,591,511</u>
Less accumulated depreciation:				
Land improvements	(28,437,777)	(980,834)	-	(29,418,611)
Buildings and building improvements	(13,052,656)	(279,779)	-	(13,332,435)
Machinery and equipment	(4,021,061)	(344,942)	74,469	(4,291,534)
Infrastructure	(18,273,366)	(965,764)	-	(19,239,130)
Total accumulated depreciation	<u>(63,784,860)</u>	<u>(2,571,319)</u>	<u>74,469</u>	<u>(66,281,710)</u>
Net book value, capital assets being depreciated	<u>62,398,266</u>	<u>12,985,057</u>	<u>(8,274)</u>	<u>75,375,049</u>
Net book value, all business-type activities capital assets	<u>\$ 83,285,635</u>	<u>\$ 16,386,513</u>	<u>\$ (15,362,347)</u>	<u>\$ 84,309,801</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	\$ 1,917,461
Public safety	341,964
Conservation	19,194
Total governmental activities depreciation expense	<u>\$ 2,278,619</u>
Business-type activities:	
Sewage collection and disposal	\$ 750,517
Solid waste disposal	704,385
Water treatment and distribution	536,092
Municipal airport	580,325
Total business-type activities depreciation expense	<u>\$ 2,571,319</u>

NOTE 10 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 43,435
Nonmajor governmental	General	27,364
Nonmajor governmental	Nonmajor governmental	3,586
General	Major proprietary - Municipal airport	990,602
		<u>\$ 1,064,987</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, 2016 is as follows:

	Transfers from Other Funds	Transfers to Other Funds	Cumulative Transfers
Major governmental funds:			
General	\$ 1,565,077	\$ 962,150	\$ 602,927
Capital improvements	639,258	26,303	612,955
Nonmajor governmental funds:			
Public library	27,737	-	27,737
LOST Account	235	-	235
Recreation	52,694	-	52,694
Permanent	-	19,058	(19,058)
Total nonmajor governmental funds	<u>80,666</u>	<u>19,058</u>	<u>61,608</u>
Total governmental funds	<u>2,285,001</u>	<u>1,007,511</u>	<u>1,277,490</u>
Major enterprise funds:			
Municipal airport	110,290	111,540	(1,250)
Sewage collection and disposal	3,759	485,240	(481,481)
Solid waste disposal	-	763,238	(763,238)
Water treatment and distribution	253,909	285,430	(31,521)
Total enterprise funds	<u>367,958</u>	<u>1,645,448</u>	<u>(1,277,490)</u>
Total	<u>\$ 2,652,959</u>	<u>\$ 2,652,959</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 \$25,311,555 at December 31, 2016 consist of the following:

Governmental funds:	
General:	
Balance of 2016-2017 district assessment due to the Lebanon School District	\$ 12,565,835
Fees due to the State of New Hampshire	1,690
Total general fund	<u>12,567,525</u>
Capital improvements:	
State of New Hampshire - drawdown requests	1,520,000
Total governmental funds	<u>14,087,525</u>
Proprietary funds:	
Sewage collection and disposal:	
State of New Hampshire - drawdown requests	5,512,938
Connection fees due to Town of Hanover	37,771
Total sewer fund	<u>5,550,709</u>
Water treatment and distribution:	
State of New Hampshire - drawdown requests	1,140,000
Total proprietary funds	<u>6,690,709</u>
Agency funds:	
Impact fees held for other governments	87,908
Trust funds held for the Lebanon School District	4,445,413
Total agency funds	<u>4,533,321</u>
Total intergovernmental payables	<u><u>\$ 25,311,555</u></u>

NOTE 12 – CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2016. The projects include street construction, water and sewer improvements, airport improvements, sidewalk construction, and other capital improvements. At year-end, the City's commitments with contractors are as follows:

	Accounts Payable	Intergovernmental Payable	Contracts Payable	Retainage Payable
Governmental activities:				
Capital improvements	\$ -	\$ 1,520,000	\$ 132,979	\$ 62,472
Business-type activities:				
Capital improvements	\$ -	\$ 6,652,938	\$ 126,532	\$ 519,119
Airport improvements	49,005	-	-	-
Total	<u>\$ 49,005</u>	<u>\$ 6,652,938</u>	<u>\$ 126,532</u>	<u>\$ 519,119</u>

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NOTE 13 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources consist of the following:

Governmental activities:	
Amounts related to pensions	<u>\$ 5,898,003</u>
Proprietary funds:	
Sewage collection and disposal:	
Amounts related to pensions	211,107
Solid waste disposal:	
Amounts related to pensions	156,318
Water treatment and distribution:	
Amounts related to pensions	180,402
Municipal airport:	
Amounts related to pensions	<u>90,045</u>
Total proprietary funds	<u>637,872</u>
Total deferred outflows of resources	<u><u>\$ 6,535,875</u></u>

Deferred inflows of resources consist of the following:

	<u>Exhibit A</u>	<u>Exhibit C-1</u>
Governmental activities:		
General fund:		
Property taxes levied prior to their due date	\$ -	\$ 601,667
Future debt forgiveness on loans outstanding	1,367,070	-
Amounts related to pensions	<u>796,872</u>	-
Total governmental activities	<u>2,163,942</u>	<u>\$ 601,667</u>
Proprietary funds:		
Sewage collection and disposal:		
Future debt forgiveness on loans outstanding	1,380,067	
Amounts related to pensions	28,522	
Solid waste disposal:		
Amounts related to pensions	21,120	
Water treatment and distribution:		
Future debt forgiveness on loans outstanding	1,025,302	
Amounts related to pensions	24,374	
Municipal airport:		
Amounts related to pensions	<u>12,166</u>	
Total proprietary funds	<u>2,491,551</u>	
Total deferred inflows of resources	<u><u>\$ 4,655,493</u></u>	

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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, 2016
Capital lease obligations:		
Ford Fusion	5.95%	\$ 12,146
Ford SUV and 5 sedans	4.75%	59,750
Ford Interceptor	6.50%	6,212
Ford Interceptor	6.45%	25,204
Servers and related equipment	4.29%	83,454
Ford Interceptor	5.45%	4,277
Ford Interceptor	6.45%	11,997
Ford Fusion	6.45%	8,114
Total capital lease obligations		<u>\$ 211,154</u>

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

	Governmental Activities
Equipment:	
Ford Fusion	\$ 20,289
Ford SUV and 5 sedans	179,380
Ford Interceptor	36,159
Ford Interceptor	42,115
Servers and related equipment	111,272
Ford Interceptor	20,335
Ford Interceptor	29,168
Ford Fusion	19,730
Total equipment	<u>458,448</u>
Less: accumulated depreciation	(138,757)
Total capital lease equipment	<u>\$ 319,691</u>

The annual requirements to amortize the capital leases payable as of December 31, 2016, including interest payments, are as follows:

Fiscal Year Ending December 31,	Governmental Activities
2017	\$ 125,838
2018	54,376
2019	41,086
2020	18,026
Total requirements	<u>239,326</u>
Less: interest	(28,172)
Present value of remaining payments	<u>\$ 211,154</u>

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

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NOTE 15 – LONG-TERM LIABILITIES

Changes in the City’s long-term liabilities consisted of the following for the year ended December 31, 2016:

Governmental activities:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Bonds/notes payable:					
Bonds/notes	\$ 24,148,280	\$ 3,091,633	\$ (2,579,823) *	\$ 24,660,090	\$ 2,435,583
Premiums	644,716	157,638	(63,894)	738,460	63,894
Total bonds/notes payable	<u>24,792,996</u>	<u>3,249,271</u>	<u>(2,643,717)</u>	<u>25,398,550</u>	<u>2,499,477</u>
Capital leases	320,495	-	(109,341)	211,154	113,934
Compensated absences	1,372,574	143,555	-	1,516,129	20,630
Net other postemployment benefits	1,280,108	17,037	-	1,297,145	-
Net pension liability	18,514,202	6,560,088	-	25,074,290	-
Total long-term liabilities	<u>\$ 46,280,375</u>	<u>\$ 9,969,951</u>	<u>\$ (2,753,058)</u>	<u>\$ 53,497,268</u>	<u>\$ 2,634,041</u>

***Water Pollution Control Revolving Fund Program** – Included in the \$2,579,823 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 December 2, 2016, upon substantial completion of the CSO and Utility Replacement Improvements Phase 9 Project. The total loan amount of \$1,272,543 included drawdowns of \$1,260,753 and \$11,790 of interest capitalized into the loan. Of the total loan, 12.5% of the drawdowns (\$157,593) were forgiven in the form of federal financial assistance.

Business-type activities:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Bonds/notes payable:					
Bonds/notes	\$ 21,264,435	\$ 15,354,818	\$ (3,091,728) *	\$ 33,527,525	\$ 1,572,824
Premiums	806,051	-	(54,777)	751,274	54,777
Total bonds payable	<u>22,070,486</u>	<u>15,354,818</u>	<u>(3,146,505)</u>	<u>34,278,799</u>	<u>1,627,601</u>
Compensated absences	311,908	30,370	(3,680)	338,598	19,962
Accrued landfill closure and postclosure care costs	8,244,471	283,536	-	8,528,007	18,400
Net other postemployment benefits	250,090	-	(6,138)	243,952	-
Net pension liability	2,093,613	618,178	-	2,711,791	-
Total long-term liabilities	<u>\$ 32,970,568</u>	<u>\$ 16,286,902</u>	<u>\$ (3,156,323)</u>	<u>\$ 46,101,147</u>	<u>\$ 1,665,963</u>

***Water Pollution Control Revolving Fund Program** – Included in the \$3,091,278 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 December 2, 2016, upon substantial completion of the CSO and Utility Replacement Improvements Phase 9 Project. The total loan amount of \$1,908,801 included drawdowns of \$1,891,113 and \$17,688 of interest capitalized into the loan, which was split 50% to the sewage collection and disposal proprietary fund and 50% to the water treatment and distribution proprietary fund. Of the total loan, 12.5% of the drawdowns (\$236,389) were forgiven in the form of federal financial assistance.

In addition, included in the \$3,091,278 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 December 14, 2016, upon substantial completion of the Energy Evaluation and Wastewater Treatment Facility Improvements Project. The total loan amount of \$1,904,452 related to the sewage collection and disposal proprietary fund, and included drawdowns of \$1,867,187 and \$37,265 of interest capitalized into the loan. Of the total loan, 20% of the drawdowns (\$373,437) were forgiven in the form of federal financial assistance.

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Long-term liabilities are comprised of the following:

Governmental activities:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2016	Current Portion
Bonds/notes payable:						
(Majority multi purpose)	\$ 5,273,904	2000	2020	5.125-5.50	\$ 960,000	\$ 240,000
	\$ 2,490,682	2001	2021	4.125-5.00	596,000	119,200
	\$ 2,490,682	2002	2022	3.00-5.00	560,000	100,000
	\$ 1,118,620	2003	2023	4.00-6.00	389,620	55,660
	\$ 3,506,098	2004	2024	3.00-5.00	1,377,144	172,143
	\$ 4,583,082	2005	2025	4.00-4.50	2,025,000	225,000
	\$ 4,441,665	2006	2026	4.50-5.00	2,220,000	225,000
	\$ 6,584,511	2007	2027	4.00-4.75	3,454,600	338,600
	\$ 2,396,404	2008	2028	4.00-4.125	1,034,301	159,525
	\$ 3,797,000	2009	2029	3.02-5.02	1,672,000	156,000
	\$ 3,948,393	2010	2030	3.823	2,738,180	197,370
	\$ 3,651,784	2011	2031	3.55	2,645,000	190,000
	\$ 428,374	2012	2032	2.57-3.18	331,350	23,950
	\$ 2,912,891	2014	2034	3.392	1,258,602	74,035
	\$ 655,000	2014	2024	5.10	520,000	65,000
	\$ 1,819,100	2016	2036	2.51	1,819,100	94,100
	\$ 1,272,534	2016	2036	2.00	1,059,193	-
					24,660,090	2,435,583
Bond premium					738,460	63,894
					25,398,550	2,499,477
Capital leases payable:						
Ford Interceptor	\$ 20,335	2013	2017	5.45	4,277	4,277
Ford Interceptor	\$ 29,168	2014	2018	6.45	11,997	5,811
Ford Fusion	\$ 19,730	2014	2018	6.45	8,115	3,931
Ford Fusion	\$ 20,289	2015	2019	5.95	12,146	3,817
Ford SUV and 5 Ford sedans	\$ 179,380	2015	2017	4.75	59,750	59,750
Ford Interceptor	\$ 36,159	2015	2017	6.50	6,212	6,212
Ford Interceptor	\$ 42,115	2015	2019	6.45	25,204	7,882
Servers and related equipment	\$ 111,272	2015	2020	4.29	83,453	22,254
					211,154	113,934
Compensated absences payable:						
Accrued vacation leave					1,516,129	20,630
Other postemployment benefit					1,297,145	-
Net pension liability					25,074,290	-
Total					\$ 53,497,268	\$ 2,634,041

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Business-type activities:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2016	Current Portion
Bonds/notes payable:						
(Majority multi purpose)	\$ 3,297,982	2001	2021	4.125-5.00	\$ 129,000	\$ 25,800
	\$ 609,188	2002	2022	3.00-5.00	60,000	60,000
	\$ 1,769,210	2003	2023	4.00-6.00	135,380	19,340
	\$ 1,281,902	2004	2024	3.00-5.00	222,856	27,857
	\$ 1,254,393	2005	2025	4.00-4.50	540,000	60,000
	\$ 2,070,164	2006	2026	4.50-5.00	1,040,000	105,000
	\$ 1,901,689	2007	2027	4.00-4.75	1,410,400	111,400
	\$ 1,574,416	2008	2028	2.352	867,028	-
	\$ 2,030,611	2008	2028	4.00-4.125	1,265,699	105,475
	\$ 1,410,000	2009	2029	3.02-5.02	888,000	69,000
	\$ 3,152,607	2010	2030	3.823	2,206,820	157,630
	\$ 4,720,716	2011	2031	3.55	3,525,000	235,000
	\$ 1,294,062	2011	2031	3.55	538,048	29,219
	\$ 4,306,526	2012	2032	2.57-3.18	2,938,650	341,050
	\$ 2,207,000	2013	2033	4.10-5.60	1,865,000	115,000
	\$ 4,369,336	2014	2034	3.392	1,887,902	111,053
	\$ 1,908,801	2016	2036	2.00	1,588,792	-
	\$ 11,541,564	2016	2036	2.00	10,964,486	-
	\$ 1,904,452	2016	2036	2.00	1,454,464	-
					33,527,525	1,572,824
Bond premium					751,274	54,777
Accrued landfill closure and postclosure care costs payable					34,278,799	1,627,601
Compensated absences payable:					8,528,007	18,400
Accrued vacation leave					338,598	19,962
Other postemployment benefit					243,952	-
Net pension liability					2,711,791	-
Total					\$ 46,101,147	\$ 1,665,963

The annual requirements to amortize all bonds/notes outstanding as of December 31, 2016, including interest payments, are as follows:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2017	\$ 2,435,586	\$ 1,025,797	\$ 3,461,383
2018	2,475,640	910,255	3,385,895
2019	2,383,640	761,360	3,145,000
2020	2,343,640	656,720	3,000,360
2021	2,088,640	524,427	2,613,067
2022-2026	8,420,934	1,480,360	9,901,294
2027-2031	3,614,840	409,405	4,024,245
2032-2036	897,170	65,741	962,911
Totals	\$ 24,660,090	\$ 5,834,065	\$ 30,494,155

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Business-type activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2017	\$ 1,572,824	\$ 780,145	\$ 2,352,969
2018	2,326,321	1,025,257	3,351,578
2019	2,334,182	939,283	3,273,465
2020	2,330,068	856,074	3,186,142
2021	2,325,978	771,032	3,097,010
2022-2026	10,816,759	2,637,933	13,454,692
2027-2031	7,668,409	1,069,195	8,737,604
2032-2036	4,152,984	249,753	4,402,737
Totals	<u>\$ 33,527,525</u>	<u>\$ 8,328,672</u>	<u>\$ 41,856,197</u>

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 \$8,528,007 as of December 31, 2016, 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 49.8% 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, 2016. 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, 2016 were as follows:

Per City Meeting Vote of	Purpose	Unissued Amount	Responsible Fund
2011	Combined sewer overflow separation and utility replacement	\$ 300,000	General/water treatment and distribution/sewage collection and disposal
2011	Combined sewer overflow separation and utility replacement	268,665	General/water treatment and distribution/sewage collection and disposal
2011	Mechanic Street bridge	126,000	General
2012	Combined sewer overflow separation and utility replacement	3,500,000	General/water treatment and distribution/sewage collection and disposal
2012	NH 120 and Etna Road sewer improvements	700,000	Sewage collection and disposal
2014	CSO Separation and Utility Replacement	4,570,000	General/water treatment and distribution/sewage collection and disposal
2014	NH 120 and Etna Road sewer improvements	1,870,000	Sewage collection and disposal
2014	Phase II Wastewater treatment facility improvements	528,168	Sewage collection and disposal
2014	Dulac Street Reconstruction	1,490,000	General
2015	NH 120 and School Street Pedestrian Facility	66,000	General
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
2015	Mechanic Street Reconstruction	513,920	General
2015	Mechanic Street bridge	36,000	General
2015	NH 120 and Etna Road sewer improvements	750,000	Sewage collection and disposal
2016	Mechanic Street bridge	74,000	General
2016	Combined sewer overflow separation and utility replacement	5,070,000	General/water treatment and distribution/sewage collection and disposal
2016	NH 120 and School Street Pedestrian Facility	275,000	General
2016	NH 120 and Etna Road sewer improvements	1,700,000	Sewage collection and disposal
		<u>\$ 26,907,753</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. All employees except police officers and firefighters are required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. For fiscal year 2016, the City contributed 26.38% for police, 29.16% for firefighters, and 11.17% for all other employees. The contribution requirements for the fiscal years 2014, 2015, and 2016 were \$1,899,756, \$2,048,022, and \$2,102,882, respectively, which were paid in full in each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2016 the City reported a liability of \$27,786,081 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the City's proportion was 0.52253097% which was an increase of 0.00233217% from its proportion measured as of June 30, 2015.

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For the year ended December 31, 2016, the City recognized pension expense of \$913,187. At December 31, 2016 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
Differences between expected and actual experience	\$ 69,681	\$ 316,626	\$ 7,536	\$ 34,243	\$ 77,217	\$ 350,869
Net difference between projected and actual investment earnings on pension plan investments	1,568,776	-	169,664	-	1,738,440	-
Changes in assumptions	3,085,849	-	333,735	-	3,419,584	-
Changes in proportion	185,922	480,246	20,107	51,939	206,029	532,185
Contributions subsequent to the measurement date	987,775	-	106,830	-	1,094,605	-
Total	<u>\$ 5,898,003</u>	<u>\$ 796,872</u>	<u>\$ 637,872</u>	<u>\$ 86,182</u>	<u>\$ 6,535,875</u>	<u>\$ 883,054</u>

The \$987,775 in the governmental activities and the \$106,803 in the business-type activities reported as deferred outflows of resources related to pensions results from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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
2017	\$ 732,290	\$ 79,197	\$ 811,487
2018	732,290	79,197	811,487
2019	1,370,727	148,244	1,518,971
2020	1,218,681	131,801	1,350,482
2021	59,368	6,421	65,789
Totals	<u>\$ 4,113,356</u>	<u>\$ 444,860</u>	<u>\$ 4,558,216</u>

Actuarial Assumptions: The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015, using the following actuarial assumptions which, accordingly apply to 2016 measurements:

- Inflation: 2.5%
- Salary increases: 5.6% average, including inflation
- 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 the last experience study.

The actuarial assumptions used in the June 30, 2015 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 2016:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return 2016
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%	4.75%
Emerging Int'l Equities	7.00%	6.25%
Total international equity	20.00%	
Core Bonds	5.00%	(0.64%)
Short Duration	2.00%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	(1.71%)
Absolute Return Fixed Income	7.00%	1.08%
Total fixed income	25.00%	
Private equity	5.00%	6.25%
Private debt	5.00%	4.75%
Opportunistic	5.00%	3.68%
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:

Governmental activities:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2016	\$ 32,218,755	\$ 25,074,290	\$ 19,149,089

Business-type activities:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2016	\$ 3,484,468	\$ 2,711,791	\$ 2,070,980

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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 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description and Annual OPEB Cost - The City provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents in accordance with the provisions of various employment contracts and collective bargaining agreements. The benefit levels, employee contributions, and employer contributions are governed by the City's contractual agreements.

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

The City has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2016:

Annual required contribution/OPEB cost		\$	172,704
Interest on net OPEB obligation			61,207
Adjustment to Annual Required Contribution (ARC)			(96,371)
Contributions made (pay-as-you-go)			<u>(126,641)</u>
Increase in net OPEB obligation			10,899
Net OPEB obligation, beginning			1,530,198
Net OPEB obligation, ending			<u>\$ 1,541,097</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the six preceding years were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2016	\$ 137,541	\$ 126,641	92.1%	\$ 1,541,097
December 31, 2015	\$ 244,395	\$ 134,586	55.1%	\$ 1,530,198
December 31, 2014	\$ 236,161	\$ 120,319	50.9%	\$ 1,420,389
December 31, 2013	\$ 251,291	\$ 121,199	48.2%	\$ 1,304,547
December 31, 2012	\$ 241,786	\$ 101,840	42.1%	\$ 1,174,455
December 31, 2011	\$ 385,011	\$ 149,631	38.9%	\$ 1,034,509
December 31, 2010	\$ 367,873	\$ 128,018	34.8%	\$ 799,129

As of January 1, 2016, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$1,780,509, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,780,509. The covered payroll (annual payroll of active employees covered by the plan) was \$10,039,419 during fiscal year 2016, and the ratio of the UAAL to the covered payroll was 17.74%.

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

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

In the January 1, 2016 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 9% initially, reduced by decrements to an ultimate rate of 5.0% for years 2020 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2016 was 30 years.

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, 2016 and are as follows:

General fund:	
General government:	
Executive	\$ 63,950
Election and registration	1,959
Financial administration	192,693
Planning and zoning	88,903
Public safety:	
Police	30,465
Fire	28,899
Highways and streets:	
Highways and streets	108,983
Other	39,601
Culture and recreation:	
Parks and recreation	<u>1,418</u>
Total encumbrances	<u><u>\$ 556,871</u></u>

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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	Business-type Activities			Governmental Activities			City-wide		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
C-769 Wastewater Treatment Facility Upgrade	\$ 214,289	\$ 43,098	\$ 257,387	\$ -	\$ -	\$ -	\$ 214,289	\$ 43,098	\$ 257,387
C-844 Wastewater SAG (CSO)	284,756	104,546	389,302	189,837	69,698	259,535	474,593	174,244	648,837
L-145 Landfill SAG	75,361	-	75,361	-	-	-	75,361	-	75,361
	<u>\$ 574,406</u>	<u>\$ 147,644</u>	<u>\$ 722,050</u>	<u>\$ 189,837</u>	<u>\$ 69,698</u>	<u>\$ 259,535</u>	<u>\$ 764,243</u>	<u>\$ 217,342</u>	<u>\$ 981,585</u>

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As of December 31, 2016, the City is due to receive the following annual amounts to offset debt payments of both governmental and business-type activities:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2017	\$ 15,390	\$ 2,538	\$ 17,928
2018	4,890	3,706	8,596
2019	6,362	4,586	10,948
2020	7,145	5,560	12,705
2021	8,764	5,882	14,646
2022-2026	43,644	24,280	67,924
2027-2031	43,105	15,266	58,371
2032-2036	40,293	6,904	47,197
2037-2041	20,244	976	21,220
Totals	<u>\$ 189,837</u>	<u>\$ 69,698</u>	<u>\$ 259,535</u>

Business-type activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2017	\$ 56,461	\$ 10,989	\$ 67,450
2018	40,177	12,088	52,265
2019	41,851	12,757	54,608
2020	42,491	13,565	56,056
2021	44,385	13,394	57,779
2022-2026	174,095	49,479	223,574
2027-2031	84,140	23,553	107,693
2032-2036	60,440	10,355	70,795
2037-2041	30,366	1,464	31,830
Totals	<u>\$ 574,406</u>	<u>\$ 147,644</u>	<u>\$ 722,050</u>

NOTE 20 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental and business-type activities net position reported on the government-wide Statement of Net Position at December 31, 2016 include the following:

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets:			
Netbook value of all capital assets	\$ 87,957,744	\$ 84,309,801	\$ 172,267,545
Less:			
General obligation bonds payable	(24,660,090)	(33,527,525)	(58,187,615)
Unamortized bond premiums	(738,460)	(751,274)	(1,489,734)
Capital leases payable	(211,154)	-	(211,154)
Total net investment in capital assets	<u>62,348,040</u>	<u>50,031,002</u>	<u>112,379,042</u>
Restricted net position:			
Permanent funds	1,314,072	-	1,314,072
Capital projects	-	4,721,222	4,721,222
Total restricted net position	<u>1,314,072</u>	<u>4,721,222</u>	<u>6,035,294</u>
Unrestricted	(12,871,638)	(5,179,344)	(18,050,982)
Total net position	<u>\$ 50,790,474</u>	<u>\$ 49,572,880</u>	<u>\$ 100,363,354</u>

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NOTE 21 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2016 include the following:

	General Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepaid items	\$ 378,371	\$ -	\$ -	\$ 378,371
Tax deeded property, subject to resale	40,210	-	-	40,210
Nonexpendable portion of permanent trust funds	-	-	1,314,072	1,314,072
Total nonspendable	<u>418,581</u>	<u>-</u>	<u>1,314,072</u>	<u>1,732,653</u>
Restricted:				
Library	-	-	152,936	152,936
Committed:				
Expendable trust funds	214,287	-	-	214,287
Heritage Fund	4,604	-	-	4,604
Police outside detail	-	-	88,889	88,889
LOST Account	-	-	755,698	755,698
Public safety revolving	-	-	8,041	8,041
Recreation	-	-	90,765	90,765
Total committed	<u>218,891</u>	<u>-</u>	<u>943,393</u>	<u>1,162,284</u>
Assigned:				
Encumbrances	556,871	-	-	556,871
Abatements	842,882	-	-	842,882
Grants	15,909	-	-	15,909
Restricted funds	288,119	-	-	288,119
Emergency management	56,496	-	-	56,496
Farmers market	-	-	3,483	3,483
Total assigned	<u>1,760,277</u>	<u>-</u>	<u>3,483</u>	<u>1,763,760</u>
Unassigned (deficit):				
General fund	8,194,871	-	-	8,194,871
Capital improvements fund	-	(496,417)	-	(496,417)
Total unassigned (deficit)	<u>8,194,871</u>	<u>(496,417)</u>	<u>-</u>	<u>7,698,454</u>
Total fund balance (deficit)	<u>\$ 10,592,620</u>	<u>\$ (496,417)</u>	<u>\$ 2,413,884</u>	<u>\$ 12,510,087</u>

NOTE 22 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2016, the City was a member of the Local Government Center Property-Liability Trust, LLC Workers' Compensation and Property/Liability Programs for the period January to June. For the period July to December, the City was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs. These entities are considered public entity risk pools, currently operating as common risk management and insurance programs for their members.

The Local Government Center Property-Liability Trust, LLC, is a Trust organized to provide certain property and liability insurance coverages to qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the City shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage ran from July 1, 2015 to June 30, 2016. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability, and public officials' liability subject to a \$1,000 deductible. Contributions for property/liability insurance during 2016 totaled \$250,250. The City also had contributions for workers' compensation insurance totaling \$310,313. There were no unpaid contributions for the year ended December 31, 2016.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1, 2016 to July 1, 2017 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 expenditures/expenses for the year ended December 31, 2016 were \$125,125 for property/liability and \$155,157 for workers' compensation.

NOTE 23 – CAFETERIA BENEFIT PLAN

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

1. 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 \$2,600 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.

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 24 – 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, 2016, the balance in the escrow account was \$513,316. 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 25 – CONTINGENT LIABILITIES

There are various legal claims and suits pending against the City which arose in the normal course of operations. 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 26 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through July 3, 2017, the date the December 31, 2016 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2016

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2016	January 1, 2016	\$ -	\$ 1,780,509	\$ 1,780,509	0.00%	\$ 10,039,419	17.74%
December 31, 2014	January 1, 2014	\$ -	\$ 2,454,840	\$ 2,454,840	0.00%	\$ 9,243,213	26.56%
December 31, 2012	January 1, 2012	\$ -	\$ 2,446,659	\$ 2,446,659	0.00%	\$ 9,745,151	25.11%

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

EXHIBIT H
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, 2016

<u>Fiscal Year</u>	<u>Actuarial Valuation Date</u>	<u>City's Proportion of Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>City Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
December 31, 2016	July 1, 2016	0.52253097%	\$ 27,786,081	\$ 11,555,902	240.45%	58.30%
December 31, 2015	July 1, 2015	0.52019880%	\$ 20,607,815	\$ 11,206,359	183.89%	65.47%
December 31, 2014	July 1, 2014	0.51538533%	\$ 19,345,430	\$ 10,876,951	177.86%	66.32%
December 31, 2013	July 1, 2013	0.54197723%	\$ 23,325,532	\$ 11,097,378	210.19%	59.81%

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

EXHIBIT I
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of City Contributions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended December 31, 2016

Fiscal Year	Actuarial Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2016	July 1, 2016	\$ 1,871,074	\$ 1,871,074	\$ -	\$ 11,555,902	16.19%
December 31, 2015	July 1, 2015	\$ 1,745,205	\$ 1,745,205	\$ -	\$ 11,206,359	15.57%
December 31, 2014	July 1, 2014	\$ 1,672,029	\$ 1,672,029	\$ -	\$ 10,876,951	15.37%
December 31, 2013	July 1, 2013	\$ 1,347,646	\$ 1,347,646	\$ -	\$ 11,097,378	12.14%

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

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, Exhibit G represents the actuarial determined costs associated with the City's other postemployment benefits for the fiscal year ended December 31, 2016.

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

A brief description of the retiree medical insurance plan:

a. **Plan Types:**

Medical

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

b. **Plan Types:**

Group 1

Hire prior to 7/1/2011: Members may retire at age 60; or once their age plus service equals 70.

Hire on or after 7/1/2011: Members may retire at age 65

Group 2

Vested prior to 1/1/2012: Members may retire at age 60; or age 45 with 20 years of service.

Not Vested prior to 1/1/2012, but hired prior to 7/1/2011: Members may retire at age 60; or upon attainment of the minimum age and service requirements according to the following table:

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

Hired on or after 7/1/2011: Members may retire at age 60; or at age 52.5 with 25 years of service.

c. **Benefit/Cost Sharing:**

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

d. **Spouse Benefit:**

Yes

e. **Surviving Spouse Benefit:**

Yes

f. **Annual Medical
Premiums:**

Effective January 1, 2016 through December 31, 2016
Effective January 1, 2016 through December 31, 2016

	<u>Plan</u>	<u>Single</u>	<u>Couple</u>	<u>Family</u>
Pre 65	Blue Choice Plan	\$ 11,104.20	\$ 22,208.28	\$ 29,981.28
	Comp 100 Plan	\$ 14,748.12	\$ 29,496.36	\$ 39,820.08
	Comp 300 Plan	\$ 13,506.72	\$ 27,013.56	\$ 36,468.24
	JY Plan	\$ 15,230.64	\$ 30,461.28	\$ 41,122.68
Post 65	Medicomp MC3	\$ 6,443.04		
	Medicomp MCNR	\$ 2,448.00		

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016

Schedule of the City's Proportionate Share of Net Pension Liability & Schedule of City Contributions

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits H and I represent the actuarial determined costs associated with the City's pension plan at December 31, 2016.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2016:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	23 Years beginning July 1, 2016 (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	2.85% per year
Investment Rate of Return	7.25% per year
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 tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

Other Information:

Notes Contribution rates for Fiscal Year 2014 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.

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, 2016

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 18,746,116	\$ 19,269,939	\$ 523,823
Yield	5,000	5,321	321
Excavation	5,000	5,367	367
Payment in lieu of taxes	1,505,490	1,592,839	87,349
Interest and penalties on taxes	170,000	171,018	1,018
Total from taxes	<u>20,431,606</u>	<u>21,044,484</u>	<u>612,878</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	2,271,110	2,435,362	164,252
Building permits	200,000	719,746	519,746
Other	51,600	59,269	7,669
Total from licenses, permits, and fees	<u>2,522,710</u>	<u>3,214,377</u>	<u>691,667</u>
Intergovernmental:			
State:			
Meals and rooms distribution	704,180	704,180	-
Highway block grant	319,719	319,719	-
Water pollution grants	16,159	16,159	-
Other	40,000	43,662	3,662
Federal:			
FEMA	50,000	57,822	7,822
Total from intergovernmental	<u>1,130,058</u>	<u>1,141,542</u>	<u>11,484</u>
Charges for services:			
Income from departments	1,163,890	1,363,750	199,860
Miscellaneous:			
Sale of municipal property	1,100	16,630	15,530
Interest on investments	7,000	23,995	16,995
Rent of property	23,500	23,665	165
Fines and forfeits	24,700	65,930	41,230
Other	226,227	257,042	30,815
Total from miscellaneous	<u>282,527</u>	<u>387,262</u>	<u>104,735</u>
Other financing sources:			
Transfers in	1,593,139	1,564,254	(28,885)
Total revenues and other financing sources	27,123,930	<u>\$ 28,715,669</u>	<u>\$ 1,591,739</u>
Unassigned fund balance used to reduce tax rate	800,700		
Total revenues, other financing sources, and use of fund balance	<u>\$ 27,924,630</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, 2016

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ 70,871	\$ 556,020	\$ 527,120	\$ 63,950	\$ 35,821
Election and registration	1,741	614,660	579,761	1,959	34,681
Financial administration	260,003	2,735,690	2,481,723	192,693	321,277
Legal	-	300,000	246,297	-	53,703
Personnel administration	-	380,640	311,817	-	68,823
Planning and zoning	60,674	684,650	627,927	88,903	28,494
General government buildings	-	335,630	234,775	-	100,855
Cemeteries	-	9,370	8,004	-	1,366
Insurance, not otherwise allocated	-	255,665	228,098	-	27,567
Advertising and regional associations	-	21,180	21,342	-	(162)
Other	-	225,380	225,380	-	-
Total general government	<u>393,289</u>	<u>6,118,885</u>	<u>5,492,244</u>	<u>347,505</u>	<u>672,425</u>
Public safety:					
Police	3,749	5,289,700	4,900,716	30,465	362,268
Fire	3,000	4,263,570	4,140,907	28,899	96,764
Building inspection	-	476,740	470,314	-	6,426
Other	-	974,640	875,170	-	99,470
Total public safety	<u>6,749</u>	<u>11,004,650</u>	<u>10,387,107</u>	<u>59,364</u>	<u>564,928</u>
Highways and streets:					
Public works garage	12,943	864,850	849,312	-	28,481
Highways and streets	43,376	2,564,850	1,996,782	108,983	502,461
Bridges	-	3,500	427	-	3,073
Street lighting	-	141,100	146,180	-	(5,080)
Other	1,000	170,100	83,907	39,601	47,592
Total highways and streets	<u>57,319</u>	<u>3,744,400</u>	<u>3,076,608</u>	<u>148,584</u>	<u>576,527</u>
Welfare:					
Administration	-	217,450	174,847	-	42,603
Vendor payments	-	233,530	233,530	-	-
Total welfare	<u>-</u>	<u>450,980</u>	<u>408,377</u>	<u>-</u>	<u>42,603</u>
Culture and recreation:					
Parks and recreation	-	982,820	970,301	1,418	11,101
Library	-	1,308,520	1,281,156	-	27,364
Patriotic purposes	-	8,500	8,400	-	100
Total culture and recreation	<u>-</u>	<u>2,299,840</u>	<u>2,259,857</u>	<u>1,418</u>	<u>38,565</u>
Conservation	-	9,330	9,095	-	235
Debt service:					
Principal of long-term debt	-	2,366,500	2,366,483	-	17
Interest on long-term debt	-	1,076,650	1,076,560	-	90
Total debt service	<u>-</u>	<u>3,443,150</u>	<u>3,443,043</u>	<u>-</u>	<u>107</u>
Other financing uses:					
Transfers out	-	853,395	877,781	-	(24,386)
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 457,357</u>	<u>\$ 27,924,630</u>	<u>\$ 25,954,112</u>	<u>\$ 556,871</u>	<u>\$ 1,871,004</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, 2016*

Unassigned fund balance, beginning, non-GAAP budgetary basis		\$ 6,501,198
Changes:		
Unassigned fund balance used to reduce 2016 tax rate		(800,700)
2016 Budget summary:		
Revenue surplus (Schedule 1)	\$ 1,591,739	
Unexpended balance of appropriations (Schedule 2)	<u>1,871,004</u>	
2016 Budget surplus		3,462,743
Increase in nonspendable fund balance		(214,450)
Increase in assigned for abatement contingency		<u>(367,253)</u>
Unassigned fund balance, ending, non-GAAP budgetary basis (Exhibit D)		8,581,538
<i>Reconciliation of Non-GAAP Basis to GAAP Basis</i>		
To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of year-end		(601,667)
Elimination of the allowance for uncollectible taxes		<u>215,000</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u>\$ 8,194,871</u>

SCHEDULE 4
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2016

	Special Revenue Funds							Total
	Public Library	Police Outside Detail	LOST Account	Public Safety Revolving	Farmers Market	Recreation	Permanent Fund	
ASSETS								
Cash and cash equivalents	\$ 130,288	\$ 79,800	\$ 758,541	\$ 3,441	\$ 3,483	\$ 90,775	\$ 74,319	\$ 1,140,647
Investments	-	-	-	-	-	-	1,286,774	1,286,774
Accounts receivable	-	9,089	-	4,600	-	-	-	13,689
Interfund receivable	30,950	-	-	-	-	-	-	30,950
Total assets	<u>\$ 161,238</u>	<u>\$ 88,889</u>	<u>\$ 758,541</u>	<u>\$ 8,041</u>	<u>\$ 3,483</u>	<u>\$ 90,775</u>	<u>\$ 1,361,093</u>	<u>\$ 2,472,060</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 8,302	\$ -	\$ 2,843	\$ -	\$ -	\$ 10	\$ -	\$ 11,155
Interfund payable	-	-	-	-	-	-	47,021	47,021
Total liabilities	<u>8,302</u>	<u>-</u>	<u>2,843</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>47,021</u>	<u>58,176</u>
Fund balances:								
Nonspendable	-	-	-	-	-	-	1,314,072	1,314,072
Restricted	152,936	-	-	-	-	-	-	152,936
Committed	-	88,889	755,698	8,041	-	90,765	-	943,393
Assigned	-	-	-	-	3,483	-	-	3,483
Total fund balances	<u>152,936</u>	<u>88,889</u>	<u>755,698</u>	<u>8,041</u>	<u>3,483</u>	<u>90,765</u>	<u>1,314,072</u>	<u>2,413,884</u>
Total liabilities and fund balances	<u>\$ 161,238</u>	<u>\$ 88,889</u>	<u>\$ 758,541</u>	<u>\$ 8,041</u>	<u>\$ 3,483</u>	<u>\$ 90,775</u>	<u>\$ 1,361,093</u>	<u>\$ 2,472,060</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, 2016

	Special Revenue Funds							Total
	Public Library	Police Outside Detail	LOST Account	Public Safety Revolving	Farmers Market	Recreation	Permanent Fund	
Revenues:								
Taxes	\$ -	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ -	\$ 16,400
Charges for services	-	73,170	-	10,672	-	114,638	-	198,480
Miscellaneous	76,548	-	1,746	-	11,492	-	77,260	167,046
Total revenues	<u>76,548</u>	<u>73,170</u>	<u>18,146</u>	<u>10,672</u>	<u>11,492</u>	<u>114,638</u>	<u>77,260</u>	<u>381,926</u>
Expenditures:								
Current:								
General government	-	-	-	-	-	-	7,441	7,441
Public safety	-	99,173	-	5,553	-	-	-	104,726
Culture and recreation	91,481	-	-	-	10,288	76,567	-	178,336
Conservation	-	-	14,504	-	-	-	-	14,504
Total expenditures	<u>91,481</u>	<u>99,173</u>	<u>14,504</u>	<u>5,553</u>	<u>10,288</u>	<u>76,567</u>	<u>7,441</u>	<u>305,007</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,933)</u>	<u>(26,003)</u>	<u>3,642</u>	<u>5,119</u>	<u>1,204</u>	<u>38,071</u>	<u>69,819</u>	<u>76,919</u>
Other financing sources (uses):								
Transfers in	27,737	-	235	-	-	52,694	-	80,666
Transfers out	-	-	-	-	-	-	(19,058)	(19,058)
Total other financing sources (uses)	<u>27,737</u>	<u>-</u>	<u>235</u>	<u>-</u>	<u>-</u>	<u>52,694</u>	<u>(19,058)</u>	<u>61,608</u>
Net change in fund balances	12,804	(26,003)	3,877	5,119	1,204	90,765	50,761	138,527
Fund balances, beginning	140,132	114,892	751,821	2,922	2,279	-	1,263,311	2,275,357
Fund balances, ending	<u>\$ 152,936</u>	<u>\$ 88,889</u>	<u>\$ 755,698</u>	<u>\$ 8,041</u>	<u>\$ 3,483</u>	<u>\$ 90,765</u>	<u>\$ 1,314,072</u>	<u>\$ 2,413,884</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, 2016, and the related notes to the financial statements, which collectively comprise the City of Lebanon's basic financial statements, and have issued our report thereon dated July 3, 2017.

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.

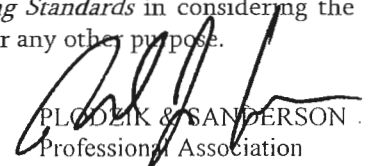
Compliance and Other Matters

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.

July 3, 2017


PLODZIK & SANDERSON
Professional Association



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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 each of the City of Lebanon's major federal programs for the year ended December 31, 2016. The City of Lebanon's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with 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 each of the City of Lebanon's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 each major federal program. However, our audit does not provide a legal determination of the City of Lebanon's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lebanon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the City of Lebanon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lebanon's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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

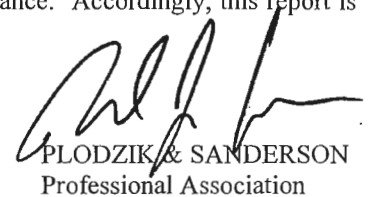
Independent Auditor's on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance

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 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.

July 3, 2017



PLODZIK & SANDERSON
Professional Association

*SCHEDULE I
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016*

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:
Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant / State's Program
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$750,000

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

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through the New Hampshire Community Development Finance Authority				
Community Development Block Grant/State's Program:				
Fresh Air Sensors	14.228	14-094-CDED	\$ -	\$ 8,034
Rodgers House Energy Improvements	14.228	15-094-CDHS	400,000	415,487
River Valley Community College/RVCC Business and Industry Training Center	14.228	15-094-CDED	393,867	404,903
<i>PROGRAM TOTAL</i>			<u>793,867</u>	<u>828,424</u>
U.S. DEPARTMENT OF THE INTERIOR				
Passed Through the New Hampshire Department of Cultural Resources				
Historic Preservation Fund Grants-In-Aid	15.904	CLG-P15AS00020-04	-	26,251
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through the New Hampshire Department of Transportation				
Airport Improvement Program:				
Phase II Design of Obstruction Removal; and Replace Existing Obstruction Lighth with Hazard Beacon	20.106	AIP #3-33-0010-47-2012	-	47,782
Construction of an Addition to the Snow Removal Equipment Storage (SRES) Building(Design-Only)	20.106	AIP #3-33-0010-48-2012	-	10,798
Environmental Assessment, Permitting and Mitigation for Obstruction Removal	20.106	AIP #3-33-0010-49-2013	-	5,087
Remove Obstructions from Wetlands and Tree Stump Grinding	20.106	AIP #3-33-0010-52-2016	-	405,682
Reconstruct, Mark, Light, and Sign a Portion of Taxiways 'B,' 'B1,' 'B2,' 'B3,' and 'B4'	20.106	AIP #3-33-0010-53-2016	-	312,975
<i>PROGRAM TOTAL</i>			<u>-</u>	<u>782,324</u>
Passed Through the New Hampshire Department of Transportation				
Highway Planning and Construction:				
Mechanic Street Reconstruction	20.205	10034B	-	17,356
South Main Street Bridge	20.205	13558A	-	3,829
Safe Routes to Schools	20.205	16007	-	3,027
NH Route 120 Pedestrian Improvements	20.205	16046	-	507,102
<i>PROGRAM TOTAL</i>			<u>-</u>	<u>531,314</u>
Passed Through the New Hampshire Highway Safety Agency				
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	315-17B-076	-	8,187

(Continued)

The accompanying notes are an integral part of this schedule.

SCHEDULE II (Continued)
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Passed Through the New Hampshire Department of Environmental Services				
Capitalization Grants for Clean Water State Revolving Funds: <i>(note 4)</i>				
Energy Efficiency	66.458	CS-330092-06	-	20,435
Combined Sewer Separation and Utility Replacement	66.458	CS-330092-07	-	12,371
<i>PROGRAM TOTAL</i>			-	32,806
Capitalization Grants for Drinking Water State Revolving Funds <i>(note 4)</i>	66.468	SWP-245	-	2,753
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through the National Association of the County and City Health Officials				
Medical Reserve Corps Small Grant Program	93.008	MRC 12 1776	-	483
Passed Through the Vermont Department of Health				
Public Health Emergency Preparedness	93.069	03420-6638S	-	250
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through the New Hampshire Department of Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4139-DR-NH	-	1,779
Emergency Management Performance Grants	97.042	N/A	-	14,097
Homeland Security Grant Program	97.067	N/A	-	19,500
DIRECT FUNDING				
U.S. DEPARTMENT OF JUSTICE				
Bullet Proof Vest Partnership Program	16.607	N/A	-	5,513
Total Expenditures of Federal Awards			\$ 793,867	\$ 2,253,681

The accompanying notes are an integral part of this schedule.

CITY OF LEBANON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED
DECEMBER 31, 2016

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, 2016. 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, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or 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.

Note 4. Loans Outstanding

The City of Lebanon had the following loan balances outstanding at December 31, 2016. The loans made during the year are included in the federal expenditures presented in the Schedule.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balances at December 31, 2016</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$4,165,806