

**CITY OF LEBANON,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015**

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2015, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Lebanon as of December 31, 2015, and the respective changes in financial position, the respective budgetary comparison for the major general fund and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1-S and 2-C to the financial statements, in 2015, the Town changed its method of accounting for pension reporting with the adoption of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date*. 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 through 14), Schedule of Funding Progress for Other Postemployment Benefit Plan (page 58), Schedule of the City's Proportionate Share of Net Pension Liability (page 59), and 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual fund financial schedules and 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 September 12, 2016 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.

September 12, 2016



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, 2015. 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 four components: 1. government-wide financial statements, 2. fund financial statements, 3. notes to the basic financial statements, and 4. 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 \$96,070,723.
- Governmental funds reported combined ending fund balances of \$7,601,434, a decrease of <\$4,567,097>.
- General fund unassigned fund balance was \$6,113,472, an increase of \$858,038.
- General obligation bonds payable (governmental and business-type activities combined) was \$45,412,715, a decrease of <\$4,255,024>.
- Annual requirements (governmental and business-type activities combined) to amortize general obligation bonds payable (principal and interest) was \$58,602,459, a decrease of <\$6,589,362>.
- Authorized and unissued debt was \$39,572,842, an increase of \$6,398,920.

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 \$96,070,723, a decrease of <\$17,000,772> in comparison to the prior year.

The largest portion of net position (\$123,567,381) 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	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$25,705,867	\$27,069,968	\$22,991,379	\$24,447,659	\$47,439,038	\$51,517,627
Capital Assets	\$87,465,723	\$78,664,409	\$83,285,635	\$75,654,664	\$158,940,299	\$154,319,073
Total Assets	\$113,171,590	\$105,734,377	\$106,277,014	\$100,102,323	\$206,379,337	\$205,836,700
Deferred Outflows of Resources	\$1,012,507	\$780,428	\$114,496	\$88,252	\$202,748	\$868,680
Long-term Liabilities Outstanding	\$46,280,375	\$47,125,901	\$32,970,568	\$34,570,567	\$67,541,135	\$81,696,488
Other Liabilities	\$17,953,219	\$14,259,499	\$22,339,046	\$14,247,606	\$36,586,652	\$28,507,105
Total Liabilities	\$64,233,594	\$61,385,400	\$55,309,614	\$48,818,173	\$104,127,787	\$110,203,573
Deferred Inflows of Resources	\$2,851,531	\$4,847,239	\$2,110,145	\$2,387,867	\$4,498,012	\$7,235,106
Net Position:						
Net Investment in Capital Assets	\$62,352,232	\$51,339,725	\$61,215,149	\$51,685,860	\$112,901,009	\$103,025,585
Restricted	\$1,263,311	\$4,101,849	\$2,100,337	\$1,460,630	\$3,560,967	\$5,562,479
Unrestricted	(\$16,516,571)	(\$15,159,408)	(\$14,343,735)	(\$4,161,955)	(\$18,505,600)	(\$19,321,313)
Total Net Position	\$47,098,972	\$40,282,166	\$48,971,751	\$48,984,535	\$97,956,286	\$89,266,701

An additional portion of net position (\$3,363,648) 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					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues --						
Charges for Services	\$1,479,280	\$1,454,171	\$11,098,310	\$10,579,832	\$12,577,570	\$12,034,003
Operating Grants and Contributions	\$2,359,981	\$487,586	\$1,299,095	\$391,432	\$3,659,076	\$879,018
Capital Grants and Contributions	\$241,087	\$10,000	\$0	\$1,053,589	\$241,087	\$1,063,589
General Revenues --						
Property and Other Taxes	\$19,349,721	\$19,000,133	\$0	\$0	\$19,349,721	\$19,000,133
Licenses & Permits	\$2,752,103	\$2,505,928	\$0	\$0	\$2,752,103	\$2,505,928
Grants and Contributions Not Restricted to Specific Programs	\$737,817	\$2,731,242	\$0	\$0	\$737,817	\$2,731,242
Other General Revenues	\$721,136	\$532,791	\$724,740	\$725,376	\$1,445,876	\$1,258,167
Total Revenues	\$27,641,085	\$26,721,851	\$13,122,145	\$12,750,239	\$40,763,230	\$39,472,090
Transfers	\$716,435	\$1,037,825	(\$716,435)	(\$1,037,825)	\$0	\$0
Total Revenues Including Transfers	\$28,357,520	\$27,759,676	\$12,405,710	\$11,712,414	\$40,763,230	\$39,472,090
Expenses:						
General Government	\$5,596,324	\$5,251,091	\$0	\$0	\$5,596,324	\$5,251,091
Public Safety	\$9,938,684	\$9,980,068	\$0	\$0	\$9,938,684	\$9,980,068
Highway and Streets	\$2,061,933	\$3,131,240	\$0	\$0	\$2,061,933	\$3,131,240
Sanitation	\$0	\$0	\$0	\$0	\$0	\$0
Sewage Collection and Disposal	\$0	\$0	\$4,035,393	\$5,701,808	\$4,035,393	\$5,701,808
Solid Waste Disposal	\$0	\$0	\$2,221,844	\$2,501,292	\$2,221,844	\$2,501,292

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Water Distribution and Treatment	\$6,916	\$0	\$4,114,149	\$1,965,032	\$4,121,065	\$1,965,032
Welfare	\$431,641	\$401,680	\$0	\$0	\$431,641	\$401,680
Municipal Airport	\$0	\$0	\$2,047,108	\$1,462,396	\$2,047,108	\$1,462,396
Culture and Recreation	\$2,308,466	\$2,148,554	\$0	\$0	\$2,308,466	\$2,148,554
Conservation	\$29,820	\$58,817	\$0	\$0	\$29,820	\$58,817
Interest on Long-term Debt	\$1,166,930	\$1,346,983	\$0	\$0	\$1,166,930	\$1,346,983
Capital Outlay	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$21,540,714	\$22,318,433	\$12,418,494	\$11,475,778	\$33,959,208	\$33,794,211
Change in Net Position	\$6,816,808	\$5,441,243	(\$12,784)	\$238,636	\$6,804,022	\$5,677,879
Net Position Beginning 1/1 (Restated See Note 19)	\$40,282,166	\$56,633,977	\$48,984,535	\$50,759,639	\$89,266,701	\$107,393,616
Net Position Ending 12/31	\$47,098,972	\$62,075,220	\$48,971,751	\$50,998,275	\$96,070,723	\$113,071,495

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 \$6,816,806.

	<u>Amount</u>
Net Change in general fund balance	\$1,026,904
Net change in capital improvements fund balance	(\$5,505,260)
Net change in other governmental funds fund balance	(\$88,741)
Capital outlays exceed depreciation expense and asset disposals	\$8,801,314
Pension expenditure adjustments including to net of employee contributions	\$604,004
Revenue that does not provide current financial resources	\$48,259
Offset the effect of providing/using resources through the issuance/repayment of long-term principal debt	\$2,211,193
Change in accrued interest expense, compensated absences payable, and postemployment benefits payable	(\$280,867)
Total	\$6,818,806

	<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	\$5,596,324	26.0%	(\$5,422,828)	31.1%
Public Safety	\$9,938,684	46.1%	(\$8,628,120)	49.4%
Highway and Streets	\$2,051,933	9.6%	(\$1,763,224)	10.1%
Water Distribution and Treatment	\$6,916	0.0%	\$0	0.0%
Health	\$0	0.0%	\$19,223	-0.1%
Welfare	\$431,641	2.0%	(\$431,641)	2.5%
Culture and Recreation	\$2,308,466	10.7%	(\$2,059,606)	11.8%
Conservation	\$29,820	0.1%	(\$29,820)	0.2%
Interest on Long-Term Debt	\$1,166,930	5.4%	(\$1,166,930)	6.7%
Capital Outlay	\$0	0.0%	\$2,022,540	-11.6%
Total	\$21,540,714	100.0%	(\$17,460,406)	100.0%

Program revenues of \$4,080,308 covered 18.9% of program expenses. The remaining 81.1% was financed by general revenues including property and other taxes, licenses & permits, grants and contributions not restricted to specific programs and other general revenues. The primary funding source for governmental activities is taxes of \$19,349,721 (property taxes, \$17,950,092; other taxes, \$1,399,629). Property taxes are about 64.9% of total program and general revenues. The Public Safety function makes up 46.1% of the total governmental activities expenses followed by General Government, 26.0%, and Public Works 9.6%.

Business-type Activities. Business-type activities for the year resulted in a change in net position of \$<12,784>.

	<u>Amount</u>
Solid waste disposal operations	\$383,345
Water treatment and distribution operations	(\$1,397,112)
Sewage collection and disposal operations	\$613,658
Municipal airport operations	\$387,325
Total	(\$12,784)

	<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	\$2,221,844	17.9%	\$876,781	-4157.5%
Water Treatment and Distribution	\$4,114,149	33.1%	(\$1,339,912)	6353.6%
Sewage Collection and Disposal	\$4,035,393	32.5%	\$775,151	-3675.6%
Municipal Airport	\$2,047,108	16.5%	(\$333,109)	1579.5%
Total	\$12,418,494	100.0%	(\$21,089)	100.0%

D. FINANCIAL ANALYSIS OF CITY OF LEBANON FUNDS

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

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

At the close of the current fiscal year, governmental funds reported combined ending fund balances of \$7,601,434, a decrease of <\$4,567,097>.

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	\$1,026,904
Capital improvements fund expenditures exceed revenues and transfers in	(\$5,505,260)
Other governmental funds expenditures and transfers out exceed revenues and transfers in	(\$88,741)
Net Change in Fund Balances	(\$4,567,097)
Other Governmental Funds:	
Library fund expenditures exceed revenues and transfers in	(\$933)
Public safety revolving fund (Police) expenditures exceed revenues	(\$27,630)
Lebanon open space fund expenditures exceed revenues and transfers in	(\$41,602)
Public safety revolving fund (Fire) expenditures exceed revenues	(\$8,163)
Farmers market fund revenues exceed expenditures	\$1,509
Permanent fund (cemetery perpetual care) revenues exceed expenditures and transfers out	(\$11,922)
Net Change in Fund Balances	(\$88,741)

UNASSIGNED FUND BALANCE, DECEMBER 31, 2015	
Non-GAAP Budgetary Basis:	
Unassigned Fund Balance 1/1	\$6,681,942
Percentage of total general fund current year budgeted expenditures	22.3%
Changes:	
Unassigned fund balance used to reduce 2015 tax rate and voted from surplus	(\$1,049,551)
Revenue surplus	\$137,931
Unexpended balance of appropriations	\$1,759,897
Increase in nonspendable fund balance	(\$31,177)
Increase in assigned for abatement contingency	\$2,156
Unassigned fund balance 12/31 non-GAAP budgetary basis	\$6,501,198
Percentage of total general fund current year budgeted expenditures	23.2%
Reconciliation of Non-GAAP Basis to GAAP Basis:	
Deferral of property taxes not collected within 60 days of year-end	(\$585,630)
Elimination of the allowance for uncollectible taxes	\$197,904
Unassigned fund balance 12/31 GAAP basis	\$6,113,472

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 \$170,751,358 (net of accumulated depreciation).

2015 CAPITAL ASSETS			
	<u>Amount</u>		<u>Amount</u>
Governmental Activities		Business-type Activities:	
Not being depreciated:		Not being depreciated:	
Land	\$7,279,265	Land	\$646,500
Intangible assets	\$82,197	Construction in progress	\$20,270,869
Construction in progress	<u>\$12,475,460</u>	Total	<u>\$20,887,369</u>
Total	\$19,836,922	Net of depreciation:	
Net of depreciation:		Land Improvements	\$13,374,036
Land Improvements	\$1,538,087	Building and Building Improvements	\$12,013,975
Building and Building Improvements	\$14,400,337	Machinery and Equipment	\$2,657,007
Machinery and Equipment	\$4,338,134	Infrastructure	\$34,353,248
Infrastructure	<u>\$47,352,243</u>	Total	<u>\$67,398,266</u>
Total	\$67,628,801	Net BV business-type activities capital assets	<u>\$83,285,635</u>
Net BV value governmental activities capital assets	<u>\$87,465,723</u>	Net BV all capital assets	<u>\$170,751,358</u>
BV = Book Value			

2015 CAPITAL BUDGET			
Purpose:	<u>Amount</u>	Source of Financing:	<u>Amount</u>
Streets and Utilities	\$9,250,000	Intergovernmental (Grants)	\$2,744,000
Buildings	\$280,000	Debt Proceeds	\$7,245,920
Vehicles and Equipment	\$1,255,000	Interfund Transfers	\$1,605,080
Other	<u>\$810,000</u>		
Total	\$11,595,000	Total	\$11,595,000

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 2015 was \$11,595,000, consisting of an original budget of \$10,845,000 supplemented on July 15, 2016 by a \$750,000 appropriation in connection with the NH120/Etna Road Sewer Improvements project.

Long-Term Debt

At the close of the current fiscal year, General obligation bonds payable (governmental and business-type activities combined) was \$45,412,715, a decrease of <\$4,255,024>; annual requirements (governmental and business-type activities combined) to amortize general obligation bonds payable (principal and interest) was \$58,602,459, a decrease of <\$6,589,362>; authorized and unissued debt was \$39,572,842, an increase of \$6,398,920. All outstanding debt is general obligation 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.

<u>LONG-TERM LIABILITIES, DECEMBER 31, 2015</u>				
Governmental activities:	<u>Balance 1/1</u> <u>(as restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31</u>
General Obligation Bonds Payable	\$26,559,763	\$0	(\$2,411,483)	\$24,148,280
Unamortized Bond Premium	\$700,728	\$0	(\$56,012)	\$644,716
Total bonds payable	\$27,260,491	\$0	(\$2,467,495)	\$24,792,996
Capital Leases Payable	\$64,193	\$389,215	(\$132,913)	\$320,495
Compensated Absences Payable	\$1,223,837	\$158,666	(\$9,929)	\$1,372,574
Net Other Postemployment Benefits	\$1,197,314	\$82,794	\$0	\$1,280,108
Total	\$29,745,835	\$630,675	(\$2,610,337)	\$27,766,173
Business-type activities:				
	<u>Balance 1/1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31</u>
General Obligation Bonds Payable	\$23,107,976	\$0	(\$1,843,541)	\$21,264,435
Unamortized Bond Premium	\$860,828	\$0	(\$54,777)	\$806,051
Total bonds payable	\$23,968,804	\$0	(\$1,898,318)	\$22,070,486
Compensated Absences Payable	\$321,528	\$6,924	(\$16,542)	\$311,908
Accrued Landfill Closure and Postclosure Care Costs	\$8,091,798	\$152,873	\$0	\$8,244,471
Net Other Postemployment Benefits	\$223,075	\$27,015	\$0	\$250,090
Total	\$32,605,203	\$186,812	(\$1,914,860)	\$30,876,955

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

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

From 2000 through 2015, the City has appropriated \$51.678 million for combined sewer overflow separation and utility replacement; an additional \$5,070,000 was appropriated in 2016; \$12,800,000 has been identified in the City's 2017 - 2022 Capital Improvements Program for appropriation in 2017 and 2018 making the total appropriation for the work when completed \$69.548 million. Future appropriations are subject to revision depending on construction market activity and how that activity translates into costs and timelines, construction conditions and engineering revisions.

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

<u>Source of Financing</u>	<u>Amount</u>
Water Treatment and Distribution Fund	\$575,556
Sewage Collection and Disposal Fund	\$20,900
General Fund	\$114,817
Water Investment Fees Fund	\$143,076
Capital Reserve Fund	\$432,790
General Obligation Debt	\$30,905,430
Premium on General Obligation Debt	\$775,890
State Revolving Fund	\$17,409,905
EPA Grants	\$299,400
Community Development Block Grant	\$1,000,000
Total	<u>\$51,677,564</u>

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

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

<u>AUTHORIZED AND UNISSUED DEBT, DECEMBER 31, 2015</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>
2001 - 2007	Wastewater Treatment Facility Improvements	\$10,874,184	\$0	\$0	\$10,874,184
21-Dec-11	Combined Sewer Overflow Separation and Utility Replacement	\$3,750,000	\$1,500,000	\$1,125,000	\$1,125,000
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 Elna Road Sewer Improvements	\$700,000	\$0	\$0	\$700,000
19-Dec-12	Route 4/4A Sewer Force Main Realignment and Replacement	\$510,000	\$0	\$0	\$510,000
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 Elna Road Sewer Improvements	\$1,870,000	\$0	\$0	\$1,870,000

Yr. Authorized	Purpose	All	Responsible Fund		
			General	Water Treatment and	Sewage
			(Property Taxes)	Distribution (Service Fees)	Collection and Disposal (Service Fees)
18-Dec-13	Wastewater Pump Station and Infrastructure	\$260,000	\$0	\$0	\$260,000
18-Dec-13	Wastewater Treatment Facility Improvements	\$3,100,000	\$0	\$0	\$3,100,000
16-Apr-14	Slayton Hill Road Reconstruction	\$1,976,738	\$1,976,738	\$0	\$0
16-Apr-14	Dulac Street Reconstruction	\$1,490,000	\$1,490,000	\$0	\$0
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	CSD Separation and Utility Replacement (SRF)	\$4,970,000	\$1,988,000	\$1,491,000	\$1,491,000
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
17-Dec-14	Downtown Visioning and Tunnel Improvements (Parking Lot Rail Tunnel)	\$410,000	\$410,000	\$0	\$0
15-Jul-15	NH120 and Etna Road Sewer Improvements (CS-330092-09)	\$750,000	\$0	\$0	\$750,000
Total		\$39,572,842	\$11,454,658	\$5,037,000	\$23,101,184

F. NEXT YEAR'S BUDGETS AND RATES

- The 2015 total net assessed valuation, on which the tax rate for municipal, county and local education tax is computed, increased \$11,870,243 to \$1,876,001,874 from 2014. A citywide assessment update took place in 2015. The last update was in 2010; the next 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 2016, an increase of 0.5%, or \$9,380,009, to \$1,885,381,883, is estimated. Additional provision was made for assessment challenges in 2015 projected forward to 2016. This is typical coming out of a citywide assessment update. So-called “overlay” is the taking into account of the raising of additional taxes to offset taxes that might not be collected to varying degrees such as in the form of abatements. As 2016 progresses it is expected the Chief Assessor will be in a better position to assess the potential exposure to the City in terms of appeals.
- 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 2016 City Budget estimates a 2016 Municipal Tax Rate (excluding school and county components) of \$10.39 per \$1,000 of assessed value, \$0.35, or 3.5%, higher than the comparable 2015 rate. A property assessed for tax purposes for \$250,000 will have an estimated 2016 municipal tax bill of about \$2,598, an increase of \$88 over the 2015 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 2015 City Budget concerns the Municipal Tax Rate only.

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

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

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

- **Landfill Fees:** No change in the fee for disposing solid waste at the landfill is planned for 2016. The estimated annual cost for an individual is \$36.60.
- **Water Service Fees:** The City Council approved a 4.0% water service rate increase on November 4, 2015, effective January 1, 2016. Since January 1, 2001, the rate has gone up six times for an average of 15.6%. The last three times on April 1, 2011, January 1, 2013 and January 1, 2015 the increases were 8%, 5% and 4%, respectively. The object of the increases are to moderate 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. The intent is not to overreach but to balance recognition of future potential financial obligations on the Water Treatment and Distribution Fund, and the ramifications those obligations have on future service rates, and on the fiscal integrity and soundness of the Water Treatment and Distribution Fund, by adopting meaningful interim rate adjustments. The cost of capital related to the Combined Sewer Overflow Separation and Utility Replacement Program has particularly impacted the General Fund, Water Treatment and Distribution Fund and Sewage Collection and Disposal Fund.

The 2016 water service rate is \$43.65 per 1,000 cubic feet of metered water consumption; estimated annualized metered water usage cost for an individual is \$158.58, an increase of \$6.07, for a household \$393.28, an increase of \$15.05; estimated annual household water service cost is 0.54% of the Statewide median household income (\$73,397/2014 US Census Bureau). The City Council also approved a 6.0% sewer service rate increase. As approved, the estimated annual household water and sewer service cost combined is 1.62% of the Statewide median household income.

- **Sewer Service Fees:** The City Council approved a 6.0% sewer service rate increase on November 4, 2015, effective January 1, 2016. Since January 1, 2002, the rate has gone up eight times for an average of 19.5%. The last four times on April 1, 2011, January 1, 2013, January 1, 2014 and January 1, 2015 the increases were 8%, 9%, 9%, and 6%, respectively. The object of the increases is to moderate 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. The intent is not to overreach but to balance recognition of future potential financial obligations on the Water Treatment and Distribution Fund, and the ramifications those obligations have on future service rates, and on the fiscal integrity and soundness of the Water Treatment and Distribution Fund, by adopting meaningful interim rate adjustments. The cost of capital related to the Combined Sewer Overflow Separation and Utility Replacement Program and the upgrade improvements to the wastewater treatment facility (\$13.9 million), both in progress, have both particularly impacted the Sewage Collection and Disposal Fund.

The 2016 sewer service rate is \$88.15 per \$1,000 cubic feet of metered water consumption; estimated annual sewage usage cost (based on metered water consumption) for an individual is \$320.24, an increase of \$18.12, for a household \$794.20, an increase of \$44.94; estimated annual household sewer service cost is 1.08% of the Statewide median household income (\$73,397/2014 US Census Bureau). The City Council also approved 4.0% water service rate increase. As approved, the estimated annual household water and sewer service cost combined is 1.62% of the Statewide median household income.

- **Labor Force Composition:** The 2016 City Budget has 174.38 active full-time equivalent (FTE) positions (167.00 full-time; 7.38 regular part-time positions excluding seasonal and occasional employees and call firefighters). 116.00 positions, or 66.5%, are represented by one of four unions. Positions may be occupied or vacant, funded or unfunded. Positions are required to have an approved budget before they can be filled.
- The 2016 City Budget provides expenditures in the amount of \$52,347,280 – an increase of \$1,395,155, or 2.7%, from 2015 -- for the cost of general City government, solid waste disposal, water treatment and distribution, sewage collection and disposal, municipal airport operations, emergency management, and the acquisition or construction of major, expensive and long-lived capital facilities and equipment. The original budget of \$50,647,280 was appropriated December 16, 2015; a supplemental appropriation of \$1,700,000 (NH120/Etna Road Sewer Improvements) was approved April 20, 2016.
- The general fund is 53.4% of the total 2016 City Budget; capital improvements fund 22.8%; sewage collection and disposal fund 9.0%; solid waste disposal fund 6.3%; water treatment and distribution fund 6.1%; municipal airport fund 2.4%; and emergency management fund 0.0%.
- The operations and maintenance budget – excluding capital improvements, debt service, and interfund transfers – is 58.8% of the total budget, or \$30,785,995, an increase of \$1,159,220, or 3.9%.
- Personnel services (wages and statutory and non-statutory employee benefits) are 67.4% of the operations and maintenance budget, contractual services 21.4%, materials and supplies 10.7%, and property 0.5%. The expenditure mix varies by fund.
- The non-operations and maintenance budget – capital improvements, debt service, and interfund transfers – is 41.2% of the total budget, or \$21,561,285, an increase of \$235,935, or 1.1%.
- Capital improvements are 55.3% of the non-operations and maintenance budget, debt service 27.8%, and interfund transfers 16.9%.

CITY BUDGETS					
Fund	2015	2016			Change
	Revised	Original	Supplemental	Revised	
General	\$27,166,140	\$27,924,630	\$0	\$27,924,630	\$758,490
Solid Waste Disposal	\$3,257,290	\$3,305,740	\$0	\$3,305,740	\$48,450
Water Treatment and Distribution	\$3,166,625	\$3,170,920	\$0	\$3,170,920	\$4,295
Sewage Collection and Disposal	\$4,607,080	\$4,718,460	\$0	\$4,718,460	\$111,380
Municipal Airport	\$1,134,990	\$1,279,210	\$0	\$1,279,210	\$144,220
Emergency Management	\$25,000	\$25,000	\$0	\$25,000	\$0
Capital	\$11,595,000	\$10,223,320	\$1,700,000	\$11,923,320	\$328,320
Total	\$50,952,125	\$50,647,280	\$1,700,000	\$52,347,280	\$1,395,155
<u>Expenditure Type</u>					
Personnel Services	\$20,067,645	\$20,694,180	\$63,300	\$20,757,480	\$689,835
Contractual Services	\$16,534,415	\$15,953,980	\$1,722,315	\$17,676,295	\$1,141,880
Materials and Supplies	\$3,267,955	\$3,379,780	(\$89,940)	\$3,289,840	\$21,885
Property	\$1,351,760	\$987,700	(\$2,000)	\$985,700	(\$386,060)
Debt Service	\$6,379,410	\$5,989,420	\$0	\$5,989,420	(\$389,990)
Interfund Transfers	\$3,350,940	\$3,642,220	\$6,325	\$3,648,545	\$297,605
Total	\$50,952,125	\$50,647,280	\$1,700,000	\$52,347,280	\$1,395,155
Operation and Maintenance	\$29,626,775	\$30,792,320	\$0	\$30,792,320	\$1,159,220
Debt Service	\$6,379,410	\$5,989,420	\$0	\$5,989,420	(\$389,990)
Interfund Transfers	\$3,350,940	\$3,642,220	\$0	\$3,642,220	\$297,605
Capital	\$11,595,000	\$10,223,320	\$1,700,000	\$11,923,320	\$328,320
Total	\$50,952,125	\$50,647,280	\$1,700,000	\$52,347,280	\$1,395,155

- The 2016 City Budget provides estimated revenues of \$51,158,530, an increase of \$2,041,190, or 4.2%, from 2015.
- The general fund makes up 53.9% of total revenues; capital improvements fund 23.3%; sewage collection and disposal 9.7%; water treatment and distribution fund 5.9%; solid waste disposal fund 5.5%; municipal airport fund 2.0%; and emergency management fund 0.0%.
- Total applied spendable fund balance is \$1,188,750, a decrease of <\$646,035>, or <35.2%>, from 2015
- The 2016 Capital Budget of \$11,923,320 is comprised of thirteen (13) projects – of which five (5) will be financed fully, or partially, through the issuance of long-term debt (general obligation or through the State Revolving Fund).

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, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 19,071,611	\$ 11,709,614	\$ 30,781,225
Investments	1,252,176	7,758,624	9,010,800
Receivables, net of allowance for uncollectible:			
Accounts	266,420	1,150,397	1,416,817
Taxes	2,026,409	-	2,026,409
Intergovernmental	512,874	3,251,606	3,764,480
Internal balances	919,175	(919,175)	-
Prepaid items	155,177	40,313	195,490
Tax deeded property, subject to resale	48,954	-	48,954
Restricted assets:			
Cash and cash equivalents	1,401,921	-	1,401,921
Investments	35,532	-	35,532
Intergovernmental receivable	15,618	-	15,618
Capital assets			
Land and construction in progress	19,836,922	20,887,369	40,724,291
Other capital assets, net of depreciation	67,628,801	62,398,266	130,027,067
Total assets	<u>113,171,590</u>	<u>106,277,014</u>	<u>219,448,604</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to pensions	<u>1,012,507</u>	<u>114,496</u>	<u>1,127,003</u>
LIABILITIES			
Accounts payable	767,084	625,057	1,392,141
Contracts payable	574,473	1,577,369	2,151,842
Retainage payable	124,788	895,115	1,019,903
Accrued interest payable	440,920	384,126	825,046
Intergovernmental payable	15,235,348	18,848,279	34,083,627
Escrow and performance deposits	77,250	9,100	86,350
Other	733,356	-	733,356
Long-term liabilities:			
Due within one year	2,556,659	1,739,008	4,295,667
Due in more than one year	25,209,514	29,137,947	54,347,461
Net pension liability	18,514,202	2,093,613	20,607,815
Total liabilities	<u>64,233,594</u>	<u>55,309,614</u>	<u>119,543,208</u>
DEFERRED INFLOWS OF RESOURCES			
Debt forgiveness	1,288,966	1,933,448	3,222,414
Amounts related to pensions	1,562,565	176,697	1,739,262
Total deferred inflows of resources	<u>2,851,531</u>	<u>2,110,145</u>	<u>4,961,676</u>
NET POSITION			
Net investment in capital assets	62,352,232	61,215,149	123,567,381
Restricted	1,263,311	2,100,337	3,363,648
Unrestricted	<u>(16,516,571)</u>	<u>(14,343,735)</u>	<u>(30,860,306)</u>
Total net position	<u>\$ 47,098,972</u>	<u>\$ 48,971,751</u>	<u>\$ 96,070,723</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, 2015

	Program Revenues			Net (Expense) Revenue and Change in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
General government	\$ 5,596,324	\$ 169,389	\$ 4,107	\$ -	\$ (5,422,828)	\$ (5,422,828)
Public safety	9,938,684	1,126,643	183,921	-	(8,628,120)	(8,628,120)
Highways and streets	2,061,933	1,670	297,039	-	(1,763,224)	(1,763,224)
Water distribution and treatment	6,916	-	6,916	-	-	-
Health	-	-	19,223	-	19,223	19,223
Welfare	431,641	-	-	-	(431,641)	(431,641)
Culture and recreation	2,308,466	181,558	67,302	-	(2,059,606)	(2,059,606)
Conservation	29,820	-	-	-	(29,820)	(29,820)
Interest on long-term debt	1,166,930	-	-	-	(1,166,930)	(1,166,930)
Capital outlay	-	-	1,781,473	241,067	2,022,540	2,022,540
Total governmental activities	<u>21,540,714</u>	<u>1,479,260</u>	<u>2,359,981</u>	<u>241,067</u>	<u>(17,460,406)</u>	<u>(17,460,406)</u>
Business-type activities:						
Sewage collection and disposal	4,035,393	4,747,581	62,963	-	775,151	775,151
Solid waste disposal	2,221,844	3,098,625	-	-	876,781	876,781
Water treatment and distribution	4,114,149	2,719,763	54,474	-	(1,339,912)	(1,339,912)
Municipal airport	2,047,108	532,341	1,181,658	-	(333,109)	(333,109)
Total business-type activities	<u>12,418,494</u>	<u>11,098,310</u>	<u>1,299,095</u>	<u>-</u>	<u>(21,089)</u>	<u>(21,089)</u>
Total	<u>\$ 33,959,208</u>	<u>\$ 12,577,570</u>	<u>\$ 3,659,076</u>	<u>\$ 241,067</u>	<u>(17,460,406)</u>	<u>(17,481,495)</u>
General revenues:						
Taxes:						
Property					17,950,092	17,950,092
Other					1,399,629	1,399,629
Motor vehicle permit fees					2,398,743	2,398,743
Licenses and other fees					353,360	353,360
Grants and contributions not restricted to specific programs					737,817	737,817
Miscellaneous					724,740	1,445,876
Total general revenues not including transfers					<u>23,560,777</u>	<u>24,285,517</u>
Transfers					716,435	-
Total general revenues and transfers					<u>24,277,212</u>	<u>24,285,517</u>
Change in net position					6,816,806	6,804,022
Net position, beginning, as restated (see Note 20)					40,282,166	89,266,701
Net position, ending					<u>\$ 47,098,972</u>	<u>\$ 96,070,723</u>

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

EXHIBIT C-1
CITY OF LEBANON, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2015

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 17,914,344	\$ 109,193	\$ 1,048,074	\$ 19,071,611
Investments	-	-	1,252,176	1,252,176
Receivables, net of allowances for uncollectable:				
Accounts	254,756	-	11,664	266,420
Taxes	2,224,313	-	-	2,224,313
Intergovernmental	-	308,466	-	308,466
Interfund receivable	963,053	-	8,459	971,512
Voluntary tax liens	33,150	-	-	33,150
Voluntary tax liens reserved until collected	(33,150)	-	-	(33,150)
Prepaid items	155,177	-	-	155,177
Tax dedeed property, subject to resale	48,954	-	-	48,954
Restricted assets:				
Cash and cash equivalents	1,401,921	-	-	1,401,921
Investments	35,532	-	-	35,532
Intergovernmental receivable	15,618	-	-	15,618
Total assets	\$ 23,013,668	\$ 417,659	\$ 2,320,373	\$ 25,751,700
LIABILITIES				
Accounts payable	\$ 766,662	\$ -	\$ 422	\$ 767,084
Contracts payable	-	574,473	-	574,473
Intergovernmental	12,838,306	2,397,042	-	15,235,348
Interfund payable	7,743	-	44,594	52,337
Retainage payable	-	124,788	-	124,788
Escrow and performance deposits	77,250	-	-	77,250
Unearned revenue	733,356	-	-	733,356
Total liabilities	14,423,317	3,096,303	45,016	17,564,636
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - Property taxes	585,630	-	-	585,630
FUND BALANCES (DEFICIT)				
Nonspendable	204,131	-	1,263,311	1,467,442
Restricted	-	-	140,132	140,132
Committed	275,715	-	869,635	1,145,350
Assigned	1,411,403	-	2,279	1,413,682
Unassigned	6,113,472	(2,678,644)	-	3,434,828
Total fund balances (deficit)	8,004,721	(2,678,644)	2,275,357	7,601,434
Total liabilities, deferred inflows of resources, and fund balances	\$ 23,013,668	\$ 417,659	\$ 2,320,373	\$ 25,751,700

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, 2015

Total fund balances of governmental funds (Exhibit C-1)		\$ 7,601,434
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	\$ 118,424,113	
Less accumulated depreciation	<u>(30,958,390)</u>	87,465,723
Long term revenue (taxes) is not available to pay current-period expenditures and, therefore, is deferred in the governmental funds.		585,630
Allowance for uncollectible property taxes that is recognized on a full accrual basis, but not on the modified accrual basis.		(197,904)
Long term assets (State aid receivable) are not available to pay for current-period expenditures and therefore, are not reported in the governmental funds.		204,408
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	\$ 1,012,507	
Deferred inflows of resources related to pensions	<u>(1,562,565)</u>	(550,058)
Deferred inflows of resources related to debt forgiveness that will be recognized annually in equal amounts for the duration of the bond issuance repayment.		(1,288,966)
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(440,920)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds	\$ 24,148,280	
Unamortized bond premiums	644,716	
Capital leases	320,495	
Compensated absences	1,372,574	
Other postemployment benefits	1,280,108	
Net pension liability	<u>18,514,202</u>	(46,280,375)
Net position of governmental activities (Exhibit A)		<u>\$ 47,098,972</u>

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

EXHIBIT C-3
CITY OF LEBANON, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2015

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 19,336,103	\$ -	\$ 22,838	\$ 19,358,941
Licenses and permits	2,752,103	-	-	2,752,103
Intergovernmental	1,399,933	1,776,369	-	3,176,302
Charges for services	1,247,323	-	231,937	1,479,260
Miscellaneous	637,069	5,104	106,047	748,220
Total revenues	<u>25,372,531</u>	<u>1,781,473</u>	<u>360,822</u>	<u>27,514,826</u>
EXPENDITURES				
Current:				
General government	5,436,699	-	20,999	5,457,698
Public safety	10,400,458	-	267,730	10,668,188
Highways and streets	3,227,131	-	-	3,227,131
Water distribution and treatment	6,916	-	-	6,916
Welfare	432,536	-	-	432,536
Culture and recreation	2,234,685	-	87,436	2,322,121
Conservation	8,193	-	65,226	73,419
Debt service:				
Principal	2,411,483	-	-	2,411,483
Interest	1,173,606	-	-	1,173,606
Capital outlay	241,067	7,173,408	-	7,414,475
Total expenditures	<u>25,572,774</u>	<u>7,173,408</u>	<u>441,391</u>	<u>33,187,573</u>
Deficiency of revenues under expenditures	<u>(200,243)</u>	<u>(5,391,935)</u>	<u>(80,569)</u>	<u>(5,672,747)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,497,382	923,384	8,459	2,429,225
Transfers out	(659,450)	(1,036,709)	(16,631)	(1,712,790)
Capital leases	389,215	-	-	389,215
Total other financing sources (uses)	<u>1,227,147</u>	<u>(113,325)</u>	<u>(8,172)</u>	<u>1,105,650</u>
Net change in fund balances	1,026,904	(5,505,260)	(88,741)	(4,567,097)
Fund balances, beginning	6,977,817	2,826,616	2,364,098	12,168,531
Fund balances (deficit), ending	<u>\$ 8,004,721</u>	<u>\$ (2,678,644)</u>	<u>\$ 2,275,357</u>	<u>\$ 7,601,434</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, 2015

Net change in fund balances of governmental funds (Exhibit C-3)		\$ (4,567,097)
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	\$ 14,197,331	
Capital asset disposals	(3,304,386)	
Depreciation expense	<u>(2,091,631)</u>	8,801,314
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.		
Increase in contributions subsequent to the measurement date	\$ 82,930	
Decrease in changes in proportion	332,505	
Increase in differences between projected and actual experience	(406,276)	
Decrease in net difference between projected and actual investment earnings on pension plan investments	1,728,981	
Increase in net pension liability	<u>(1,134,136)</u>	604,004
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	\$ (10,935)	
Change in allowance for uncollectible property taxes	1,715	
Decrease in deferred aid revenue	<u>57,479</u>	48,259
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.		
Capital lease inception	\$ (389,215)	
Repayment of bond principal	2,411,483	
Repayment of capital leases	132,913	
Amortization of bond premium	<u>56,012</u>	2,211,193
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Increase in accrued interest expense	\$ (49,336)	
Increase in compensated absences payable	(148,737)	
Increase in postemployment benefits payable	<u>(82,794)</u>	(280,867)
Change in net position of governmental activities (Exhibit B)		<u>\$ 6,816,806</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, 2015

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 19,872,139	\$ 19,872,139	\$ 19,326,883	\$ (545,256)
Licenses and permits	2,474,060	2,474,060	2,752,103	278,043
Intergovernmental	1,044,530	1,044,530	1,050,672	6,142
Charges for services	1,076,140	1,076,140	1,247,323	171,183
Miscellaneous	149,500	149,500	380,157	230,657
Total revenues	<u>24,616,369</u>	<u>24,616,369</u>	<u>24,757,138</u>	<u>140,769</u>
EXPENDITURES				
Current:				
General government	5,957,140	5,975,870	5,375,738	600,132
Public safety	10,673,590	10,676,600	9,939,137	737,463
Highways and streets	3,574,700	3,552,960	3,207,124	345,836
Welfare	445,150	445,150	432,536	12,614
Culture and recreation	2,197,900	2,197,900	2,128,976	68,924
Conservation	9,280	9,280	8,193	1,087
Debt service:				
Principal	2,411,500	2,411,500	2,411,483	17
Interest	1,173,690	1,173,690	1,173,606	84
Total expenditures	<u>26,442,950</u>	<u>26,442,950</u>	<u>24,676,793</u>	<u>1,766,157</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,826,581)</u>	<u>(1,826,581)</u>	<u>80,345</u>	<u>1,906,926</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,500,220	1,500,220	1,497,382	(2,838)
Transfers out	(723,190)	(723,190)	(729,450)	(6,260)
Total other financing sources (uses)	<u>777,030</u>	<u>777,030</u>	<u>767,932</u>	<u>(9,098)</u>
Net change in fund balance	<u>\$ (1,049,551)</u>	<u>\$ (1,049,551)</u>	848,277	<u>\$ 1,897,828</u>
Increase in nonspendable fund balance			(31,177)	
Decrease in assigned for abatement contingency			2,156	
Unassigned fund balance, beginning			5,681,942	
Unassigned fund balance, ending			<u>\$ 6,501,198</u>	

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

EXHIBIT E-1
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Net Position
December 31, 2015

	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	\$ 3,799,286	\$ 4,789,025	\$ 2,946,484	\$ 174,819	\$ 11,709,614
Investments	74,942	7,583,736	99,946	-	7,758,624
Receivables:					
Accounts	230,664	450,697	64,294	404,742	1,150,397
Intergovernmental	2,123,353	89,792	199,685	838,776	3,251,606
Prepaid items	10,031	5,902	11,626	12,754	40,313
Capital assets					
Land and construction in progress	18,129,707	9,254	1,268,204	1,480,204	20,887,369
Other capital assets, net of depreciation	29,370,323	11,044,522	15,567,096	6,416,325	62,398,266
Total assets	<u>53,738,306</u>	<u>23,972,928</u>	<u>20,157,335</u>	<u>9,327,620</u>	<u>107,196,189</u>
DEFERRED OUTFLOWS OF RESOURCES					
Amounts related to pensions	<u>40,394</u>	<u>28,081</u>	<u>31,161</u>	<u>14,860</u>	<u>114,496</u>
LIABILITIES					
Current liabilities:					
Accounts payable	56,942	69,584	21,486	477,045	625,057
Contract payable	1,277,214	-	300,155	-	1,577,369
Retainage payable	741,306	-	128,801	25,008	895,115
Internal balances	-	-	-	919,175	919,175
Accrued interest payable	188,163	49,621	132,548	13,794	384,126
Intergovernmental payable	16,973,669	-	1,874,610	-	18,848,279
Escrow and performance deposits	-	-	-	9,100	9,100
Long-term liabilities:					
Due within one year	785,699	329,585	556,046	67,678	1,739,008
Due in more than one year	10,402,751	10,850,345	7,083,768	801,083	29,137,947
Net pension liability	738,632	513,468	569,790	271,723	2,093,613
Total liabilities	<u>31,164,376</u>	<u>11,812,603</u>	<u>10,667,204</u>	<u>2,584,606</u>	<u>56,228,789</u>
DEFERRED INFLOWS OF RESOURCES					
Debt forgiveness	966,724	-	966,724	-	1,933,448
Amounts related to pensions	62,339	43,336	48,089	22,933	176,697
Total deferred inflows of resources	<u>1,029,063</u>	<u>43,336</u>	<u>1,014,813</u>	<u>22,933</u>	<u>2,110,145</u>
NET POSITION					
Net investment in capital assets	36,501,464	8,199,816	9,392,736	7,121,133	61,215,149
Restricted	-	542,503	1,443,253	114,581	2,100,337
Unrestricted	(14,916,203)	3,402,751	(2,329,510)	(500,773)	(14,343,735)
Total net position	<u>\$ 21,585,261</u>	<u>\$ 12,145,070</u>	<u>\$ 8,506,479</u>	<u>\$ 6,734,941</u>	<u>\$ 48,971,751</u>

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

EXHIBIT E-2
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended December 31, 2015

	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	\$ 4,747,581	\$ 3,098,625	\$ 2,719,763	\$ 532,341	\$ 11,098,310
Miscellaneous	110,336	143,739	19,744	345,564	619,383
Total operating revenues	<u>4,857,917</u>	<u>3,242,364</u>	<u>2,739,507</u>	<u>877,905</u>	<u>11,717,693</u>
Operating expenses:					
Salaries and wages	957,777	751,615	740,030	446,930	2,896,352
Operation and maintenance	1,862,086	825,561	2,481,699	988,489	6,157,835
Depreciation and amortization	739,633	546,679	567,360	571,485	2,425,157
Total operating expenses	<u>3,559,496</u>	<u>2,123,855</u>	<u>3,789,089</u>	<u>2,006,904</u>	<u>11,479,344</u>
Operating gain (loss)	<u>1,298,421</u>	<u>1,118,509</u>	<u>(1,049,582)</u>	<u>(1,128,999)</u>	<u>238,349</u>
Nonoperating revenue (expense):					
Interest income	3,618	40,625	5,763	101	50,107
Intergovernmental revenues	62,963	-	54,474	1,165,408	1,282,845
Sale of City owned property	2,500	69,000	-	-	71,500
Interest expense	(475,897)	(97,989)	(325,060)	(40,204)	(939,150)
Total nonoperating revenues	<u>(406,816)</u>	<u>11,636</u>	<u>(264,823)</u>	<u>1,125,305</u>	<u>465,302</u>
Other financing sources (uses):					
Transfers in	152,201	921,696	315,920	440,929	1,830,746
Transfers out	(430,148)	(1,668,496)	(398,627)	(49,910)	(2,547,181)
Total other financing sources (uses)	<u>(277,947)</u>	<u>(746,800)</u>	<u>(82,707)</u>	<u>391,019</u>	<u>(716,435)</u>
Change in net position	613,658	383,345	(1,397,112)	387,325	(12,784)
Net position, beginning, as restated (see Note 20)	20,971,603	11,761,725	9,903,591	6,347,616	48,984,535
Net position, ending	<u>\$ 21,585,261</u>	<u>\$ 12,145,070</u>	<u>\$ 8,506,479</u>	<u>\$ 6,734,941</u>	<u>\$ 48,971,751</u>

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

EXHIBIT E-3
CITY OF LEBANON, NEW HAMPSHIRE
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2015

	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	\$ 4,653,821	\$ 3,089,483	\$ 2,489,795	\$ (274,179)	\$ 9,958,920
Payments to employees and suppliers	4,759,866	(1,701,757)	(1,035,776)	(213,947)	1,808,386
Net cash provided (used) by operating activities	<u>9,413,687</u>	<u>1,387,726</u>	<u>1,454,019</u>	<u>(488,126)</u>	<u>11,767,306</u>
Cash flows from capital and related financing activities:					
Principal paid on bonds	(753,190)	(320,000)	(703,772)	(66,579)	(1,843,541)
Sale of City owned property	2,500	69,000	-	-	71,500
Acquisition and construction of fixed assets	(8,090,560)	(720,657)	(715,156)	(1,103,178)	(10,629,551)
Payments from the state	62,963	-	54,474	1,165,408	1,282,845
Interest paid	(475,897)	(97,989)	(325,060)	(40,204)	(939,150)
Net cash used by capital and related financing activities	<u>(9,254,184)</u>	<u>(1,069,646)</u>	<u>(1,689,514)</u>	<u>(44,553)</u>	<u>(12,057,897)</u>
Cash flows from non-capital financing activities:					
Operating transfers in (out)	(277,947)	(746,800)	(82,707)	391,019	(716,435)
Cash flows from investing activities:					
Sale of investments	1,057,283	646,953	8,245	-	1,712,481
Interest received	3,618	40,625	5,763	101	50,107
Net cash used by investing activities	<u>1,060,901</u>	<u>687,578</u>	<u>14,008</u>	<u>101</u>	<u>1,762,588</u>
Net increase (decrease) in cash	942,457	258,858	(304,194)	(141,559)	755,562
Cash, beginning	2,856,829	4,530,167	3,250,678	316,378	10,954,052
Cash, ending	<u>\$ 3,799,286</u>	<u>\$ 4,789,025</u>	<u>\$ 2,946,484</u>	<u>\$ 174,819</u>	<u>\$ 11,709,614</u>

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

Operating gain (loss)	\$ 1,298,421	\$ 1,118,509	\$ (1,049,582)	\$ (1,128,999)	\$ 238,349
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:					
Depreciation expense	739,633	546,679	567,360	571,485	2,425,157
(Increase) / Decrease in other receivables	(318,979)	(172,794)	(263,979)	(1,151,537)	(1,907,289)
(Increase) / Decrease in prepaid expenses	114,883	19,913	14,267	(1,447)	147,616
(Increase) / Decrease in deferred outflows of resources	(9,258)	(6,437)	(7,143)	(3,406)	(26,244)
Increase / (Decrease) in accounts payable	16,338	19,716	(7,168)	457,157	486,043
Increase / (Decrease) in contract payable	(106,001)	(278,133)	123,021	-	(261,113)
Increase / (Decrease) in retainage payable	(177)	-	47,831	25,008	72,662
Increase / (Decrease) in internal balances	-	-	-	736,791	736,791
Decrease in accrued interest payable	21,551	5,464	14,871	1,546	43,432
Increase in intergovernmental payables	6,695,374	-	1,054,169	-	7,749,543
Increase in escrow deposits	-	-	-	900	900
Increase / (Decrease) in compensated absences	2,777	(10,866)	(5,676)	4,147	(9,618)
Increase in landfill liability	-	152,673	-	-	152,673
Increase in other postemployment benefits payable	7,239	3,318	10,770	5,688	27,015
Increase in net pension liability	45,247	31,453	34,904	16,645	128,249
Increase / (Decrease) in deferred inflows of resources	906,639	(41,769)	920,374	(22,104)	1,763,140
Total adjustments	<u>8,115,266</u>	<u>269,217</u>	<u>2,503,601</u>	<u>640,873</u>	<u>11,528,957</u>
Net cash provided by (used in) operating activities	<u>\$ 9,413,687</u>	<u>\$ 1,387,726</u>	<u>\$ 1,454,019</u>	<u>\$ (488,126)</u>	<u>\$ 11,767,306</u>

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

EXHIBIT F
CITY OF LEBANON, NEW HAMPSHIRE
Fiduciary Fund
Statement of Net Position
December 31, 2015

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 910,260
Investments	3,791,632
Total assets	<u>\$ 4,701,892</u>
LIABILITIES	
Due to others	\$ 3,156
Intergovernmental payable	4,698,736
Total liabilities	<u>\$ 4,701,892</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, 2015

	<u>NOTE</u>
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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.

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

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

The Statement of Net Position presents the financial position of the governmental activities and business-type activities of the City at year-end. This statement includes all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, deferred inflows/outflows, and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The City reports the following major governmental funds:

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

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

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

The City reports the following major enterprise 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.

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

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

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

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1-D Cash and Cash Equivalents

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

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

1-E Statement of Cash Flows

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

1-F Restricted Assets

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

1-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.

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

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.

1-I Interfund Balances

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

1-J Prepaid Items

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

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1-K Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

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

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

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

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

1-L Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then.

In addition to liabilities, the Statement of Net Position and Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

1-M Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Warrants for the year were issued on May 13 and October 30, and due on July 1 and December 3, respectively. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

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

The City net assessed valuation as of April 1, 2015 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 1,792,711,074
For all other taxes	\$ 1,876,001,874

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The tax rates and amounts assessed for the year ended December 31, 2015 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$10.04	\$ 18,825,782
School portion:		
State of New Hampshire	\$2.53	4,543,496
Local	\$13.31	24,970,510
County portion	\$1.73	3,245,898
Total	\$27.61	\$ 51,585,686

1-N Compensated Absences

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

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

1-O Long-term Obligations

In the government-wide financial statements and proprietary fund types, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium.

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

1-P Claims and Judgments

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

1-Q Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business activities are reported in the government-wide financial statements as "internal balances." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

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

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1-R Net Position/Fund Balance Reporting

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

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

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

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; 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 residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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.

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 Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred

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inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the City's operations. Annually, the City Council, as the City's legislative body, adopts a budget for the current year for the general, capital improvements, sewage collection and disposal, solid waste disposal, water treatment and distribution, and municipal airport 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 2015, \$1,049,551 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.

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

Revenues and other financing sources:	<u>General</u>	
Per Exhibit D (budgetary basis)		\$ 26,254,520
Adjustment:		
Basis difference:		
Inception of capital leases		389,215
GASB Statement No. 54		
To record revenue of the blended funds (expendable trusts, grants, emergency management, heritage, restricted, and CDBG funds)		606,173
Change in allowance for uncollectible property taxes, not recognized on GAAP basis		(1,715)
Change in deferred tax revenue relating to 60-day revenue recognition		10,935
Per Exhibit C-3 (GAAP basis)		<u>\$ 27,259,128</u>
		<i>(Continued)</i>

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

Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 25,406,243
Adjustment:	
Basis differences:	
Encumbrances, beginning	409,061
Encumbrances, ending	(457,357)
Inception of capital leases	389,215
GASB Statement No. 54:	
To record expenditures of the blended funds (expendable trusts, grants, emergency management, heritage, restricted, and CDBG funds)	555,062
Net effect of eliminated and recognized transfers of the blended funds	(70,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 26,232,224</u>

2-C Change in Accounting Principle

Effective January 1, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this Statement change the way the City calculates and reports the costs and obligations associated with pensions. As a result of implementing GASB Statement No. 68 the City has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of January 1, 2015 by \$21,892,382 (see Note 20). The reduction accounts for the associated net position liability, deferred inflows of resources, and deferred outflows of resources related to pensions.

Also, the City adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement addresses and issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employer and nonemployer contributing entities.

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

At December 31, 2015, the reported amount of the City's deposits was \$33,093,406 and the bank balance was \$35,087,687. Of the bank balance \$31,730,525 was covered by federal depository insurance or by collateral held by the City's agent in the City's name, and \$3,357,162 was uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 32,183,146
Cash per Statement of Net Position-Fiduciary Funds (Exhibit F)	910,260
Total cash and cash equivalents	<u>\$ 33,093,406</u>

NOTE 4 – INVESTMENTS

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

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At December 31, 2015, this City had the following investments and maturities:

Investment type:	Fair Value	Less Than 1	
		Year	1-5 Years
Exchange-traded funds	\$ 2,487,790	\$ 2,487,790	\$ -
US Government obligations	10,350,174	3,499,415	6,850,759
Total fair value	<u>\$ 12,837,964</u>	<u>\$ 5,987,205</u>	<u>\$ 6,850,759</u>

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

Credit Risk - State law limits investments as explained in Note 1-G. As of December 31, 2015, the City's investments in US Agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association) are rated AA+ by Standard and Poor's and Aaa by Moody's Investor's Services.

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

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one issuer. More than 5% of the City's investments are in Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Bank. These investments are 35.76%, 26.81%, and 14.36%, respectively, of the City's total investments.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 9,046,332
Investments per Statement of Net Position-Fiduciary Funds (Exhibit F)	<u>3,791,632</u>
Total investments	<u>\$ 12,837,964</u>

NOTE 5 – RESTRICTED ASSETS

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

Cash and cash equivalents:	
General:	
Expendable trust	\$ 207,514
Grants	727,292
Emergency management	45,411
Heritage	4,706
Other restricted	416,998
Total general fund	<u>1,401,921</u>
Investments:	
Expendable trust:	<u>35,532</u>
Intergovernmental receivable:	
General:	
Grants	15,618
Total restricted assets	<u>\$ 1,453,071</u>

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NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of December 31, 2015. The amount has been reduced by an allowance for an estimated uncollectible amount of \$197,904, which is removed on Exhibit C-1 due to the deferral of taxes receivable not collected within 60 days of fiscal year-end. Taxes receivable by year are as follows:

	As reported on:	
	<u>(Exhibit A)</u>	<u>(Exhibit C-1)</u>
Property:		
Levy of 2015	\$ 1,277,456	\$ 1,277,456
Unredeemed (under tax lien):		
Levy of 2014	301,239	301,239
Levy of 2013	191,780	191,780
Levy of 2012	90,428	90,428
Levies of 2011 and prior	363,410	363,410
Less: allowance for estimated uncollectible taxes	(197,904) *	-
Net taxes receivable	<u>\$ 2,026,409</u>	<u>\$ 2,224,313</u>

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

NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2015, consisted of accounts (billings for water, sewer, ambulance, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2015 for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

Governmental funds:

	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Accounts	\$ 345,600	\$ -	\$ 11,664	\$ 359,445
Intergovernmental	-	308,466	-	308,466
Liens	33,150	-	-	33,150
Gross receivables	378,750	308,466	11,664	701,061
Less: allowances for uncollectibles	(123,994)	-	-	(123,994)
Net total receivables	<u>\$ 254,756</u>	<u>\$ 308,466</u>	<u>\$ 11,664</u>	<u>\$ 577,067</u>

Proprietary funds:

	<u>Sewage Collection and Disposal</u>	<u>Solid Waste Disposal</u>	<u>Water Treatment and Distribution</u>	<u>Municipal Airport</u>	<u>Total</u>
Receivables:					
Accounts	\$ 230,664	\$ 450,697	\$ 64,294	\$ 404,742	\$ 1,150,397
Intergovernmental	2,123,353	89,792	199,685	838,776	3,251,606
Total receivables	<u>\$ 2,354,017</u>	<u>\$ 540,489</u>	<u>\$ 263,979</u>	<u>\$ 1,243,518</u>	<u>\$ 4,402,003</u>

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NOTE 8 – PREPAID ITEMS

Prepaid items at December 31, 2015 consisted of the following:

Governmental activities:			
Major fund:			
General:			
Insurance	\$ 118,612		
Other	36,565		
Total governmental activities		\$ 155,177	
Business-type activities:			
Major funds:			
Sewage collection and disposal:			
Insurance	\$ 10,031		
Solid waste disposal:			
Insurance	5,902		
Water treatment and distribution:			
Insurance	11,626		
Municipal airport:			
Insurance	12,754		
Total business-type activities		40,313	
Total prepaid items		<u>\$ 195,490</u>	

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 consisted of the following:

	Balance, beginning (as restated)	Additions	Disposals	Balance, ending
Governmental activities:				
At cost:				
Not being depreciated:				
Land	\$ 7,216,472	\$ 62,793	\$ -	\$ 7,279,265
Intangible assets	82,197	-	-	82,197
Construction in progress	9,297,581	6,453,504	(3,275,625)	12,475,460
Total capital assets not being depreciated	16,596,250	6,516,297	(3,275,625)	19,836,922
Being depreciated:				
Land improvements	2,945,655	361,313	-	3,306,968
Buildings and building improvements	21,144,159	-	-	21,144,159
Machinery and equipment	8,554,369	998,728	(286,134)	9,266,963
Infrastructure	58,548,108	6,320,993	-	64,869,101
Total capital assets being depreciated	91,192,291	7,681,034	(286,134)	98,587,191
Total all capital assets	107,788,541	14,197,331	(3,561,759)	118,424,113
Less accumulated depreciation:				
Land improvements	(1,646,062)	(122,819)	-	(1,768,881)
Buildings and building improvements	(6,292,232)	(451,590)	-	(6,743,822)
Machinery and equipment	(4,792,094)	(394,108)	257,373	(4,928,829)
Infrastructure	(16,393,744)	(1,123,114)	-	(17,516,858)
Total accumulated depreciation	(29,124,132)	(2,091,631)	257,373	(30,958,390)
Net book value, capital assets being depreciated	62,068,159	5,589,403	(28,761)	67,628,801
Net book value, all governmental activities capital assets	\$ 78,664,409	\$ 12,105,700	\$ (3,304,386)	\$ 87,465,723

(Continued)

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Capital assets continued

	Balance, beginning (as restated)	Additions	Disposals	Balance, ending
Business-type activities:				
At cost:				
Not being depreciated:				
Land	\$ 616,500	\$ -	\$ -	\$ 616,500
Construction in progress	19,318,536	5,984,233	(5,031,900)	20,270,869
Total capital assets not being depreciated	<u>19,935,036</u>	<u>5,984,233</u>	<u>(5,031,900)</u>	<u>20,887,369</u>
Being depreciated:				
Land improvements	36,444,420	5,367,393	-	41,811,813
Buildings and building improvements	23,636,666	1,429,965	-	25,066,631
Machinery and equipment	6,348,793	720,088	(390,813)	6,678,068
Infrastructure	52,626,614	-	-	52,626,614
Total capital assets being depreciated	<u>119,056,493</u>	<u>7,517,446</u>	<u>(390,813)</u>	<u>126,183,126</u>
Total all capital assets	<u>138,991,529</u>	<u>13,501,679</u>	<u>(5,422,713)</u>	<u>147,070,495</u>
Less accumulated depreciation:				
Land improvements	(27,600,719)	(837,058)	-	(28,437,777)
Buildings and building improvements	(12,785,798)	(266,858)	-	(13,052,656)
Machinery and equipment	(3,991,385)	(355,479)	325,803	(4,021,061)
Infrastructure	(17,307,604)	(965,762)	-	(18,273,366)
Total accumulated depreciation	<u>(61,685,506)</u>	<u>(2,425,157)</u>	<u>325,803</u>	<u>(63,784,860)</u>
Net book value, capital assets being depreciated	<u>57,370,987</u>	<u>5,092,289</u>	<u>(65,010)</u>	<u>62,398,266</u>
Net book value, all business-type activities capital assets	<u>\$ 77,306,023</u>	<u>\$ 11,076,522</u>	<u>\$ (5,096,910)</u>	<u>\$ 83,285,635</u>

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

Governmental activities:	
General government	\$ 1,783,908
Public safety	288,529
Conservation	19,194
Total governmental activities depreciation expense	<u>\$ 2,091,631</u>
Business-type activities:	
Sewage collection and disposal	\$ 739,633
Solid waste disposal	546,679
Water treatment and distribution	567,360
Municipal airport	571,485
Total business-type activities depreciation expense	<u>\$ 2,425,157</u>

NOTE 10 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of December 31, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 43,878
Nonmajor governmental	General	7,743
Nonmajor governmental	Nonmajor governmental	716
General	Major proprietary - Municipal airport	919,175
		<u>\$ 971,512</u>

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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, 2015 is as follows:

	Transfers from Other Funds	Transfers to Other Funds	Cumulative Transfers
Major governmental funds:			
General	\$ 1,497,382	\$ 659,450	837,932
Capital improvements	923,384	1,036,709	(113,325)
Nonmajor governmental funds:			
Permanent	-	16,631	(16,631)
Public library	8,459	-	8,459
Total governmental funds	<u>2,429,225</u>	<u>1,712,790</u>	<u>716,435</u>
Major enterprise funds:			
Municipal airport	440,929	49,910	391,019
Sewage collection and disposal	152,201	430,148	(277,947)
Solid waste disposal	921,696	1,668,496	(746,800)
Water treatment and distribution	315,920	398,627	(82,707)
Total enterprise funds	<u>1,830,746</u>	<u>2,547,181</u>	<u>(716,435)</u>
Total	<u>\$ 4,259,971</u>	<u>\$ 4,259,971</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.

NOTE 11 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$39,486,497 at December 31, 2015 consist of the following:

Governmental funds:	
General:	
Balance of 2015-2016 district assessment due to the Lebanon School District	\$ 12,836,792
Fees due to the State of New Hampshire	1,514
Total general fund	<u>12,838,306</u>
Capital improvements:	
State of New Hampshire - drawdown requests	2,397,042
Total governmental funds	<u>15,235,348</u>
Proprietary funds:	
Sewage collection and disposal:	
State of New Hampshire - drawdown requests	16,973,669
Water treatment and distribution:	
State of New Hampshire - drawdown requests	1,874,610
Total proprietary fund	<u>18,848,279</u>
Agency funds:	
Impact fees held for other governments	130,176
Trust funds held for the Lebanon School District	4,568,560
Total agency funds	<u>4,698,736</u>
Total intergovernmental payables	<u>\$ 38,782,363</u>

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NOTE 12 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources consist of the following:

Governmental activities:	
Amounts related to pensions	<u>\$ 1,012,507</u>
Proprietary funds:	
Sewage collection and disposal:	
Amounts related to pensions	40,394
Solid waste disposal:	
Amounts related to pensions	28,081
Water treatment and distribution:	
Amounts related to pensions	31,161
Municipal airport:	
Amounts related to pensions	<u>14,860</u>
Total proprietary funds	<u>114,496</u>
Total deferred outflows of resources	<u><u>\$ 1,127,003</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	\$ -	\$ 585,630
Future debt forgiveness on loans outstanding	1,288,966	-
Amounts related to pensions	<u>1,562,565</u>	-
Total governmental activities	<u>2,851,531</u>	<u><u>\$ 585,630</u></u>
Proprietary funds:		
Sewage collection and disposal:		
Future debt forgiveness on loans outstanding	966,724	
Amounts related to pensions	62,339	
Solid waste disposal:		
Amounts related to pensions	43,336	
Water treatment and distribution:		
Future debt forgiveness on loans outstanding	966,724	
Amounts related to pensions	48,089	
Municipal airport:		
Amounts related to pensions	<u>22,933</u>	
Total proprietary funds	<u>2,110,145</u>	
Total deferred inflows of resources	<u><u>\$ 4,961,676</u></u>	

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NOTE 13 – CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2015. 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	Remaining Commitment
Governmental activities:					
Capital improvements	\$ -	\$ 2,397,042	\$ 574,473	\$ 124,788	\$ 1,853,842
Business-type activities:					
Capital improvements	\$ -	\$ 18,848,279	\$ 1,577,369	\$ 870,107	\$ 2,625,678
Airport improvements	459,057	-	-	25,008	607,628
Total	<u>\$ 459,057</u>	<u>\$ 18,848,279</u>	<u>\$ 1,577,369</u>	<u>\$ 895,115</u>	<u>\$ 3,233,306</u>

NOTE 14 – LONG-TERM LIABILITIES

Changes in the City's long-term liabilities consisted of the following for the year ended December 31, 2015:

Governmental activities:

	Balance January 1, 2015 (as restated)	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 26,559,763	\$ -	\$ (2,411,483)	\$ 24,148,280	\$ 2,366,483
Premiums	700,728	-	(56,012)	644,716	56,012
Total bonds payable	27,260,491	-	(2,467,495)	24,792,996	2,422,495
Capital leases	64,193	389,215	(132,913)	320,495	109,341
Compensated absences	1,223,837	158,666	(9,929)	1,372,574	24,823
Net other postemployment benefits	1,197,314	82,794	-	1,280,108	-
Total long-term liabilities	<u>\$ 29,745,835</u>	<u>\$ 630,675</u>	<u>\$ (2,610,337)</u>	<u>\$ 27,766,173</u>	<u>\$ 2,556,659</u>

Business-type activities:

	Balance January 1, 2015 (as restated)	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Bonds payable					
General obligation bonds	\$ 23,107,976	\$ -	\$ (1,843,541)	\$ 21,264,435	\$ 1,665,831
Premiums	860,828	-	(54,777)	806,051	54,777
Total bonds payable	23,968,804	-	(1,898,318)	22,070,486	1,720,608
Compensated absences	321,526	6,924	(16,542)	311,908	-
Accrued landfill closure and postclosure care costs	8,091,798	152,673	-	8,244,471	18,400
Net other postemployment benefits	223,075	27,015	-	250,090	-
Total long-term liabilities	<u>\$ 32,605,203</u>	<u>\$ 186,612</u>	<u>\$ (1,914,860)</u>	<u>\$ 30,876,955</u>	<u>\$ 1,739,008</u>

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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, 2015	Current Portion
General obligation bonds payable:						
(Majority multi purpose)	\$ 5,273,904	2000	2020	5.125-5.50	\$ 1,200,000	\$ 240,000
	\$ 2,490,682	2001	2021	4.125-5.00	715,200	119,200
	\$ 2,490,682	2002	2022	3.00-5.00	660,000	100,000
	\$ 1,118,620	2003	2023	4.00-6.00	445,280	55,660
	\$ 3,506,098	2004	2024	3.00-5.00	1,549,287	172,143
	\$ 4,583,082	2005	2025	4.00-4.50	2,250,000	225,000
	\$ 4,441,665	2006	2026	4.50-5.00	2,445,000	225,000
	\$ 6,584,511	2007	2027	4.00-4.75	3,798,200	338,600
	\$ 2,396,404	2008	2028	4.00-4.125	1,193,826	159,525
	\$ 3,797,000	2009	2029	3.02-5.02	1,828,000	156,000
	\$ 3,948,393	2010	2030	3.823	2,940,550	202,370
	\$ 3,651,784	2011	2031	3.55	2,850,000	205,000
	\$ 428,374	2012	2032	2.57-3.18	355,300	23,950
	\$ 2,912,891	2014	2034	3.392	1,332,637	74,035
	\$ 655,000	2014	2024	5.10	585,000	70,000
					24,148,280	2,366,483
Bond premium					644,716	56,012
					24,792,996	2,422,495
Capital leases payable:						
Ford Interceptor	\$ 20,335	2013	2017	5.45	8,332	4,056
Ford Interceptor	\$ 29,168	2014	2018	6.45	17,456	5,459
Ford Fusion	\$ 19,730	2014	2018	6.45	11,807	3,692
Ford Fusion	\$ 20,289	2015	2019	5.95	15,749	3,603
Ford SUV and 5 Ford sedans	\$ 179,380	2015	2017	4.75	116,791	57,041
Ford Interceptor	\$ 36,159	2015	2017	6.50	12,044	5,832
Ford Interceptor	\$ 42,115	2015	2019	6.45	32,608	7,404
Servers and related equipment	\$ 111,272	2015	2020	4.29	105,708	22,254
					320,495	109,341
Compensated absences payable:						
Accrued vacation leave					1,372,574	24,823
Other postemployment benefit					1,280,108	-
Total					\$ 27,766,173	\$ 2,556,659

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Business-type activities:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2015	Current Portion
General obligation bonds payable: (Majority multi purpose)	\$ 886,223	1996	2016	5.125-5.750	\$ 15,000	\$ 15,000
	\$ 3,297,982	2001	2021	4.125-5.00	154,800	25,800
	\$ 609,188	2002	2022	3.00-5.00	120,000	60,000
	\$ 1,769,210	2003	2023	4.00-6.00	154,720	19,340
	\$ 1,281,902	2004	2024	3.00-5.00	250,713	27,857
	\$ 1,254,393	2005	2025	4.00-4.50	600,000	60,000
	\$ 2,070,164	2006	2026	4.50-5.00	1,145,000	105,000
	\$ 1,901,689	2007	2027	4.00-4.75	1,521,800	111,400
	\$ 1,574,416	2008	2028	2.352	1,024,670	78,821
	\$ 2,030,611	2008	2028	4.00-4.125	1,371,174	105,475
	\$ 1,410,000	2009	2029	3.02-5.02	957,000	69,000
	\$ 3,152,607	2010	2030	3.823	2,364,450	157,630
	\$ 4,720,716	2011	2031	3.55	3,760,000	235,000
	\$ 1,294,062	2011	2031	3.55	566,453	28,405
	\$ 4,306,526	2012	2032	2.57-3.18	3,279,700	341,050
	\$ 2,207,000	2013	2033	4.10-5.60	1,980,000	115,000
	\$ 4,369,336	2014	2034	3.392	1,998,955	111,053
					21,264,435	1,665,831
Bond premium					806,051	54,777
Accrued landfill closure and postclosure care costs payable					22,070,486	1,720,608
Compensated absences payable:					8,244,471	18,400
Accrued vacation leave					311,908	-
Other postemployment benefit					250,090	-
Total					\$ 30,876,955	\$ 1,739,008

The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2015, including interest payments, are as follows:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2016	\$ 2,366,483	\$ 1,076,560	\$ 3,443,043
2017	2,341,483	950,431	3,291,914
2018	2,324,893	827,485	3,152,378
2019	2,232,893	690,136	2,923,029
2020	2,192,893	598,066	2,790,959
2021-2025	8,469,205	1,634,366	10,103,571
2026-2030	3,787,603	486,431	4,274,034
2031-2034	432,827	23,980	456,807
Totals	\$ 24,148,280	\$ 6,287,455	\$ 30,435,735

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Business-type activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2016	\$ 1,665,831	\$ 880,255	\$ 2,546,086
2017	1,651,645	813,560	2,672,719
2018	1,589,071	749,666	2,374,269
2019	1,596,932	683,654	2,280,586
2020	1,592,818	621,380	2,214,198
2021-2025	7,538,544	2,109,048	9,647,592
2026-2030	4,633,771	732,712	5,366,483
2031-2034	995,823	68,968	1,064,791
Totals	<u>\$ 21,264,435</u>	<u>\$ 6,659,243</u>	<u>\$ 28,166,724</u>

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

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

Accrued Landfill Closure and Postclosure Care Costs – Federal and State laws and regulations require that the City place a final cover on its landfills when closed and perform certain maintenance and monitoring functions at the landfill sites 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 \$8,244,471 as of December 31, 2015, 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 Phases I and 11A, and 44% usage of the secured (lined) landfill Phases 11B and 11C. 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, 2015. 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, 2015 were as follows:

Per City Meeting Vote of	Purpose	Unissued Amount	Responsible Fund
2001	Wastewater treatment facility improvements	\$ 1,102,184	Sewage collection and disposal
2002	Wastewater treatment facility improvements	922,816	Sewage collection and disposal
2002	Wastewater treatment facility improvements	792,184	Sewage collection and disposal
2003	Wastewater treatment facility improvements	687,000	Sewage collection and disposal
2004	Wastewater treatment facility improvements	720,000	Sewage collection and disposal
2005	Wastewater treatment facility improvements	1,350,000	Sewage collection and disposal
2007	Wastewater treatment facility improvements	5,300,000	Sewage collection and disposal
2011	Combined sewer overflow separation and utility replacement	300,000	General/water treatment and distribution/sewage collection and disposal
2011	Combined sewer overflow separation and utility replacement	3,450,000	General/water treatment and distribution/sewage collection and disposal
2011	Mechanic Street bridge	126,000	General
2012	Combined sewer overflow separation and utility replacement	3,500,000	General/water treatment and distribution/sewage collection and disposal
2012	NH 120 and Etna Road sewer improvements	700,000	Sewage collection and disposal
2012	Route 4/4A sewer force main realignment/replacement	510,000	Sewage collection and disposal
2014	CSO Separation and Utility Replacement	4,570,000	General/water treatment and distribution/sewage collection and disposal
2014	NH 120 and Etna Road sewer improvements	1,870,000	Sewage collection and disposal
2014	Wastewater Pump Station and Infrastructure	260,000	Sewage collection and disposal
2014	Phase II Wastewater treatment facility improvements	3,100,000	Sewage collection and disposal
2014	Slayton Hill Road Reconstruction	1,976,738	General
2014	Dulac Street Reconstruction	1,490,000	General
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	Downtown visioning and tunnel improvements	410,000	General
2015	NH 120 and Etna Road sewer improvements	750,000	Sewage collection and disposal
		<u>\$ 39,572,842</u>	

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NOTE 15 – LEASE OBLIGATIONS

The City has entered into certain capital lease agreements under which the related equipment will become the property of the City when all the terms of the lease agreements are met. The annual requirements to amortize capital leases payable as of December 31, 2015, including interest payments, are as follows:

Governmental activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2016	\$ 109,341	\$ 16,497	\$ 125,838
2017	113,933	11,905	125,838
2018	46,913	7,463	54,376
2019	35,471	5,615	41,086
2020	14,837	3,189	18,026
Totals	<u>\$ 320,495</u>	<u>\$ 44,669</u>	<u>\$ 365,164</u>

NOTE 16 – ENCUMBRANCES

Encumbrances outstanding at December 31, 2015 are as follows:

General fund:	
General government:	
Executive	\$ 70,871
Election and registration	1,741
Financial administration	260,003
Planning and zoning	60,674
Public safety:	
Police	3,749
Fire	3,000
Highways and streets:	
Public works garage	12,943
Highways and streets	43,376
Other	1,000
Total encumbrances	<u>\$ 457,357</u>

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NOTE 17 – 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	\$ 253,249	\$ 59,423	\$ 312,672	\$ -	\$ -	\$ -	\$ 253,249	\$ 59,423	\$ 312,672
C-844 Wastewater SAG (CSO)	306,612	106,928	413,540	204,408	71,286	275,694	511,020	178,214	689,234
L-145 Landfill SAG	89,792	-	89,792	-	-	-	89,792	-	89,792
	<u>\$ 649,653</u>	<u>\$ 166,351</u>	<u>\$ 816,004</u>	<u>\$ 204,408</u>	<u>\$ 71,286</u>	<u>\$ 275,694</u>	<u>\$ 854,061</u>	<u>\$ 237,637</u>	<u>\$ 1,091,698</u>

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As of December 31, 2015, 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
2016	\$ 14,571	\$ 1,588	\$ 16,159
2017	15,390	2,538	17,928
2018	4,890	3,706	8,596
2019	6,362	4,586	10,948
2020	7,145	5,560	12,705
2021-2025	43,713	26,016	69,729
2026-2030	43,289	17,068	60,357
2031-2035	41,333	8,471	49,804
2036-2040	26,440	1,752	28,192
2041	1,275	-	1,275
Totals	\$ 204,408	\$ 71,285	\$ 275,693

Business-type activities:

Fiscal Year Ending December 31,	Principal	Interest	Total
2016	\$ 75,248	\$ 18,707	\$ 93,955
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
2021-2025	185,957	55,349	241,306
2026-2030	103,895	27,561	131,456
2031-2035	61,999	12,706	74,705
2036-2040	39,661	2,629	42,290
2041	1,913	-	1,913
Totals	\$ 649,653	\$ 166,351	\$ 816,004

NOTE 18 – GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES NET POSITION

Governmental and business-type activities net position reported on the government-wide Statement of Net Position at December 31, 2015 include the following:

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets:			
Netbook value of all capital assets	\$ 87,465,723	\$ 83,285,635	\$ 170,751,358
Less:			
General obligation bonds payable	(24,148,280)	(21,264,435)	(45,412,715)
Unamortized bond premiums	(644,716)	(806,051)	(1,450,767)
Capital leases payable	(320,495)	-	(320,495)
Total net investment in capital assets	<u>62,352,232</u>	<u>61,215,149</u>	<u>123,567,381</u>
Restricted net position:			
Permanent funds	1,263,311	-	\$ 1,263,311
Capital projects	-	2,100,337	2,100,337
Total restricted net position	<u>1,263,311</u>	<u>2,100,337</u>	<u>3,363,648</u>
Unrestricted	<u>(16,516,571)</u>	<u>(14,343,735)</u>	<u>(30,860,306)</u>
Total net position	<u>\$ 47,098,972</u>	<u>\$ 48,971,751</u>	<u>\$ 96,070,723</u>

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NOTE 19 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2015 include the following:

	General Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepaid items	\$ 155,177	\$ -	\$ -	\$ 155,177
Tax deeded property, subject to resale	48,954	-	-	48,954
Nonexpendable portion of permanent trust funds	-	-	1,263,311	1,263,311
Total nonspendable	<u>204,131</u>	<u>-</u>	<u>1,263,311</u>	<u>1,467,442</u>
Restricted:				
Library	-	-	140,132	140,132
Committed:				
Expendable trust funds	271,009	-	-	271,009
Heritage Fund	4,706	-	-	4,706
Police outside detail	-	-	114,892	114,892
LOST Account	-	-	751,821	751,821
Public safety revolving	-	-	2,922	2,922
Total committed	<u>275,715</u>	<u>-</u>	<u>869,635</u>	<u>1,145,350</u>
Assigned:				
Encumbrances	457,357	-	-	457,357
Abatements	475,629	-	-	475,629
Grants	15,909	-	-	15,909
Restricted funds	417,097	-	-	417,097
Emergency management	45,411	-	-	45,411
Farmers market	-	-	2,279	2,279
Total assigned	<u>1,411,403</u>	<u>-</u>	<u>2,279</u>	<u>1,413,682</u>
Unassigned (deficit):				
General fund	6,113,472	-	-	6,113,472
Capital improvements fund	-	(2,678,644)	-	(2,678,644)
Total unassigned	<u>6,113,472</u>	<u>(2,678,644)</u>	<u>-</u>	<u>3,434,828</u>
Total fund balance (deficit)	<u>\$ 8,004,721</u>	<u>\$ (2,678,644)</u>	<u>\$ 2,275,357</u>	<u>\$ 7,601,434</u>

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NOTE 20 – PRIOR PERIOD ADJUSTMENTS

Net position at January 1, 2015 was restated to give retroactive effect to the following prior period adjustments:

	Proprietary Funds					Total Proprietary Funds	Total Proprietary Funds
	Governmental Activities	Sewage Collection and Disposal	Solid Waste Disposal	Water Treatment and Distribution	Municipal Airport		
To record the Town's share of the net pension liability	\$ (17,380,066)	\$ (693,385)	\$ (482,015)	\$ (534,886)	\$ (255,078)	\$ (1,965,364)	\$ (19,345,430)
To record prior year changes in proportion of the Town's share of the net pension liability	(844,832)	(33,705)	(23,430)	(26,001)	(12,399)	(95,535)	(940,367)
To record the net difference between projected and actual investments on pension plan investments	(2,223,794)	(88,719)	(61,675)	(68,439)	(32,638)	(251,471)	(2,475,265)
To record contributions subsequent to the measurement date	780,428	31,136	21,644	24,018	11,454	88,252	868,680
To break out the OPEB liability among the various proprietary funds which was previously all under governmental activities	223,075	(76,789)	(53,266)	(57,165)	(35,855)	(223,075)	-
To adjust for unrecorded and misclassified capital assets	(2,347,865)	1,251,206	9,926	(825,679)	-	435,453	(1,912,412)
Net position, as previously reported	62,075,220	20,581,859	12,350,541	11,391,743	6,672,132	50,996,275	113,071,495
Net position, as restated	\$ 40,282,166	\$ 20,971,603	\$ 11,761,725	\$ 9,903,591	\$ 6,347,616	\$ 48,984,535	\$ 89,266,701

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NOTE 21 – DEFICIT FUND BALANCE/UNRESTRICTED NET POSITION

The following funds had a deficit fund balance/unrestricted net position at December 31, 2015 caused by current and prior year operations, and will be made up as follows:

	Amount	Made up by:
Major fund:		
Capital improvements	\$ (2,678,644)	Future issuance of bonds or notes
Proprietary funds:		
Major funds:		
Sewage collection and disposal	\$ (14,916,203)	Future issuance of bonds or notes
Water treatment and distribution	\$ (2,329,510)	Future issuance of bonds or notes
Municipal Airport	\$ (500,773)	Future operations and/or future tax revenue

NOTE 22 – 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 with in the State are eligible and required to participate in the Pension Plan. The System issues a publically 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 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. For fiscal year 2015, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters.

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The City's contribution rates for 2015 for pension and medical subsidy were as follows:

Period	Police	Fire	All Other Employees
January 1, 2015 thru June 30, 2015	25.30%	27.74%	10.77%
July 1, 2015 thru December 31, 2015	26.38%	29.16%	11.17%

The contribution requirements for the fiscal years 2013, 2014, and 2015 were \$1,703,858, \$1,899,756, and \$2,048,022, 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, 2015 the City reported a liability of \$20,607,815 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the City's proportion was 0.52019880% which was an increase of 0.00481347% from its proportion measured as of June 30, 2014.

At December 31, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental activities		Business-type activities		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 149,149	\$ 661,475	\$ 16,866	\$ 74,801	\$ 166,015	\$ 736,276
Differences between expected and actual experience	-	406,276	-	45,942	-	452,218
Net difference between projected and actual investment earnings on pension plan investments	-	494,814	-	55,954	-	550,768
Contributions subsequent to the measurement date	863,358	-	97,630	-	960,988	-
Total	<u>\$ 1,012,507</u>	<u>\$ 1,562,565</u>	<u>\$ 114,496</u>	<u>\$ 176,697</u>	<u>\$ 1,127,003</u>	<u>\$ 1,739,262</u>

The \$863,358 and \$97,630 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 December 31, 2016. 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
2016	\$ (505,862)	\$ (57,204)	\$ (563,066)
2017	(505,862)	(57,204)	(563,066)
2018	(505,862)	(57,204)	(563,066)
2019	127,231	14,387	141,618
2020	(23,059)	(2,608)	(25,667)
Totals	<u>\$ (1,413,414)</u>	<u>\$ (159,833)</u>	<u>\$ (1,573,247)</u>

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Actuarial Assumptions: The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions which, accordingly apply to both 2015 and 2014 measurements:

Inflation:	3.0%
Salary increases:	3.75- 5.8% average, including inflation
Investment rate of return:	7.75% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

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. Following is a table presenting target allocations and long-term rates of return for 2015 and 2014:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return	
		2015	2014
Large Cap Equities	22.50%	3.00%	3.25%
Small/Mid Cap Equities	7.50%	3.00%	3.25%
Total domestic equity	30.00%		
Int'l Equities (unhedged)	13.00%	4.00%	4.25%
Emerging Int'l Equities	7.00%	6.00%	6.75%
Total international equity	20.00%		
Core Bonds	4.50%	(0.70%)	(0.47%)
Short Duration	2.50%	(1.00)	0.00%
Global Multi-Sector Fixed Income	11.00%	(0.28%)	0.00%
Unconstrained Fixed Income	7.00%	(0.16%)	0.00%
High-Yield Bonds	0.00%	0.00%	1.50%
Global Bonds (unhedged)	0.00%	0.00%	(1.75%)
Emerging Market Debt (external)	0.00%	0.00%	2.00%
Total fixed income	25.00%		
Private equity	5.00%	5.50%	5.75%
Private debt	5.00%	4.50%	5.00%
Real estate	10.00%	3.50%	3.25%
Opportunistic	5.00%	2.75%	2.50%
Total alternative investments	25.00%		
Total	100.00%		

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Discount Rate: The discount rate used to measure the collective total pension liability was 7.75%. 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 7.75% 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 (6.75%) or 1-percentage point higher (8.75%) than the current rate:

Governmental activities:

Actuarial Valuation Date	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
June 30, 2015	\$ 24,371,542	\$ 20,145,430	\$ 13,520,787
June 30, 2014	\$ 22,892,377	\$ 18,911,370	\$ 12,729,610
June 30, 2013	\$ 26,865,800	\$ 22,802,169	\$ 15,987,924

Business-type activities:

Actuarial Valuation Date	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
June 30, 2015	\$ 2,755,967	\$ 462,385	\$ 1,528,949
June 30, 2014	\$ 2,588,701	\$ 434,060	\$ 1,439,482
June 30, 2013	\$ 3,038,021	\$ 523,363	\$ 1,807,936

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 23 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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.

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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 2015:

Annual required contribution/OPEB cost	\$ 244,395
Contributions made (pay-as-you-go)	<u>(134,586)</u>
Increase in net OPEB obligation	109,809
Net OPEB obligation, beginning	<u>1,420,389</u>
Net OPEB obligation, ending	<u><u>\$ 1,530,198</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the five 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, 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, 2014, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$2,555,229, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,555,229. The covered payroll (annual payroll of active employees covered by the plan) was \$9,474,293 during fiscal year 2015, and the ratio of the UAAL to the covered payroll was 26.97%.

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

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

In the January 1, 2014 actuarial valuation, the Entry Age Actuarial Cost Method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 9% initially, reduced by decrements to an ultimate rate of 5.0% for years 2018 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2015 was 30 years.

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NOTE 24 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2015, the City was a member of the Local Government Center Property-Liability Trust, LLC Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance programs for its members.

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

Contributions paid in fiscal year ending December 31, 2015, to be recorded as an insurance expenditure totaled \$309,100. The City also paid \$397,125 for workers' compensation insurance during 2015. There were no unpaid contributions for the year ended December 31, 2015.

NOTE 25 – CAFETERIA BENEFIT PLAN

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

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

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

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

NOTE 26 – CONTINGENCIES

There are various legal claims and suits pending against the City which arose in the normal course of the 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 27 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through September 12, 2016, the date the December 31, 2015 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, 2015

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, 2015	\$ -	\$ 2,555,229	\$ 2,555,229	0.00%	\$ 9,474,293	26.97%
December 31, 2014	\$ -	\$ 2,454,840	\$ 2,454,840	0.00%	\$ 9,243,213	26.56%
December 31, 2013	\$ -	\$ 2,572,422	\$ 2,572,422	0.00%	\$ 9,988,780	25.75%
December 31, 2012	\$ -	\$ 2,446,659	\$ 2,446,659	0.00%	\$ 9,745,151	25.11%
December 31, 2011	\$ -	\$ 3,606,104	\$ 3,606,104	0.00%	\$ 9,903,108	36.40%
December 31, 2010	\$ -	\$ 3,606,104	\$ 3,606,104	0.00%	\$ 9,661,569	37.30%

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, 2015

<u>Fiscal Year</u>	<u>Valuation Date</u>	<u>Town's Proportion of Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Town 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, 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, 2015

Fiscal Year	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
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, 2015

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, 2015, and the preceding five years.

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

A brief description of the retiree medical insurance plan:

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

b. Eligibility: Group 1
 Hired prior to 7/1/11: Members may retire at age 60; or once their age plus service equals 70.
 Hired on or after 7/1/11: Members may retire at age 65

Group 2
 Vested prior to 1/1/12: Members may retire at age 60; or at age 45 with 20 years of service.
 Not vested prior to 1/1/12, but hired prior to 7/1/11: Members may retire at age 60; or upon attainment of the minimum age and service requirements according to the following table:

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

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

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

d. Spouse Benefit Yes

e. Surviving Spouse Benefit Yes

f. Annual Medical Premiums 1/1/2014:

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

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015

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, 2015.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2015:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	25 Years beginning July 1, 2014
Asset Valuation Method	5-Year smooth market for funding purposes
Price Inflation	3.0% per year
Wage Inflation	3.75% per year
Salary Increases	5.8% Average, including inflation
Municipal Bond Rate	4.29% per year
Investment Rate of Return	7.75% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study of the period 2005-2010.
Mortality	RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

Other Information:

Notes Contribution rates for Fiscal Year 2015 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, 2015

	Estimated	Actual	Variance Positive (Negative)
Taxes.			
Property	\$ 18,217,779	\$ 17,950,092	\$ (267,687)
Yield	3,000	11,447	8,447
Excavation	5,630	5,529	(101)
Payment in lieu of taxes	1,465,730	1,211,101	(254,629)
Interest and penalties on taxes	180,000	148,711	(31,286)
Total from taxes	<u>19,872,139</u>	<u>19,326,883</u>	<u>(545,256)</u>
Licenses, permits, and fees:			
Motor vehicle permit fees	2,306,460	2,460,339	153,879
Building permits	120,000	234,061	114,061
Other	47,600	57,703	10,103
Total from licenses, permits, and fees	<u>2,474,060</u>	<u>2,752,103</u>	<u>278,043</u>
Intergovernmental:			
State:			
Meals and rooms distribution	651,942	651,942	-
Highway block grant	294,435	296,971	2,536
Other	33,000	33,328	328
Federal:			
FEMA	65,153	68,431	3,278
Total from intergovernmental	<u>1,044,530</u>	<u>1,050,672</u>	<u>6,142</u>
Charges for services:			
Income from departments	1,076,140	1,247,323	171,183
Miscellaneous			
Sale of municipal property	1,000	24,096	23,096
Interest on investments	7,500	8,338	838
Rent of property	16,500	22,992	6,492
Fines and forfeits	24,500	40,100	15,600
Other	100,000	284,631	184,631
Total from miscellaneous	<u>149,500</u>	<u>380,157</u>	<u>230,657</u>
Other financing sources:			
Transfers in	1,500,220	1,497,382	(2,838)
Total revenues and other financing sources	26,116,589	<u>\$ 26,254,520</u>	<u>\$ 137,931</u>
Unassigned fund balance used to reduce tax rate	1,049,551		
Total revenues, other financing sources, and use of fund balance	<u>\$ 27,166,140</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, 2015

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ 82,709	\$ 530,640	\$ 511,004	\$ 70,871	\$ 31,474
Election and registration	-	542,060	519,571	1,741	20,748
Financial administration	154,934	2,627,520	2,370,531	260,003	151,920
Legal	-	300,000	212,141	-	87,859
Personnel administration	754	367,720	301,326	-	67,148
Planning and zoning	80,186	776,850	615,735	60,674	180,627
General government buildings	-	319,440	269,445	-	49,995
Cemeteries	-	10,750	6,875	-	3,875
Insurance, not otherwise allocated	-	252,080	247,853	-	4,227
Advertising and regional associations	-	23,430	21,171	-	2,259
Other	-	225,380	225,380	-	-
Total general government	<u>318,583</u>	<u>5,975,870</u>	<u>5,301,032</u>	<u>393,289</u>	<u>600,132</u>
Public safety:					
Police	33,943	5,188,580	4,731,300	3,749	487,474
Fire	10,490	4,116,770	3,946,790	3,000	177,470
Building inspection	-	432,480	424,922	-	7,558
Other	-	938,770	873,809	-	64,961
Total public safety	<u>44,433</u>	<u>10,676,600</u>	<u>9,976,821</u>	<u>6,749</u>	<u>737,463</u>
Highways and streets:					
Public works garage	9,943	843,700	816,260	12,943	24,440
Highways and streets	36,102	2,431,160	2,112,166	43,376	311,720
Bridges	-	2,000	599	-	1,401
Street lighting	-	141,000	153,447	-	(12,447)
Other	-	135,100	113,378	1,000	20,722
Total highways and streets	<u>46,045</u>	<u>3,552,960</u>	<u>3,195,850</u>	<u>57,319</u>	<u>345,836</u>
Welfare:					
Administration	-	207,820	195,206	-	12,614
Vendor payments	-	237,330	237,330	-	-
Total welfare	<u>-</u>	<u>445,150</u>	<u>432,536</u>	<u>-</u>	<u>12,614</u>
Culture and recreation:					
Parks and recreation	-	951,630	884,667	-	66,963
Library	-	1,240,270	1,238,309	-	1,961
Patriotic purposes	-	6,000	6,000	-	-
Total culture and recreation	<u>-</u>	<u>2,197,900</u>	<u>2,128,976</u>	<u>-</u>	<u>68,924</u>
Conservation	-	9,280	8,193	-	1,087
Debt service:					
Principal of long-term debt	-	2,411,500	2,411,483	-	17
Interest on long-term debt	-	1,173,690	1,173,606	-	84
Total debt service	<u>-</u>	<u>3,585,190</u>	<u>3,585,089</u>	<u>-</u>	<u>101</u>
Other financing uses:					
Transfers out	-	723,190	729,450	-	(6,260)
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 409,061</u>	<u>\$ 27,166,140</u>	<u>\$ 25,357,947</u>	<u>\$ 457,357</u>	<u>\$ 1,759,897</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, 2015*

Unassigned fund balance, beginning, non-GAAP budgetary basis		\$ 5,681,942
Changes:		
Unassigned fund balance used to reduce 2015 tax rate		(1,049,551)
2015 Budget summary:		
Revenue surplus (Schedule 1)	\$ 137,931	
Unexpended balance of appropriations (Schedule 2)	<u>1,759,897</u>	
2015 Budget surplus		1,897,828
Increase in nonspendable fund balance		(31,177)
Decrease in assigned for abatement contingency		<u>2,156</u>
Unassigned fund balance, ending, non-GAAP budgetary basis (Exhibit D)		6,501,198
<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		(585,630)
Elimination of the allowance for uncollectible taxes		<u>197,904</u>
Unassigned fund balance, ending, GAAP basis (Exhibit C-1)		<u>\$ 6,113,472</u>

SCHEDULE 4
CITY OF LEBANON, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2015

	Special Revenue Funds						Total
	Public Library	Police Outside Detail	L.O.S.T. Account	Public Safety Revolving	Farmers Market	Permanent Fund	
ASSETS							
Cash and cash equivalents	\$ 131,673	\$ 103,228	\$ 752,243	\$ 2,922	\$ 2,279	\$ 55,729	\$ 1,048,074
Investments	-	-	-	-	-	1,252,176	1,252,176
Accounts receivable	-	11,664	-	-	-	-	11,664
Interfund receivable	8,459	-	-	-	-	-	8,459
Total assets	\$ 140,132	\$ 114,892	\$ 752,243	\$ 2,922	\$ 2,279	\$ 1,307,905	\$ 2,320,373
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ 422	\$ -	\$ -	\$ -	\$ 422
Interfund payable	-	-	-	-	-	44,594	44,594
Total liabilities	-	-	422	-	-	44,594	45,016
Fund balances:							
Nonspendable	-	-	-	-	-	1,263,311	1,263,311
Restricted	140,132	-	-	-	-	-	140,132
Committed	-	114,892	751,821	2,922	-	-	869,635
Assigned	-	-	-	-	2,279	-	2,279
Total fund balances	140,132	114,892	751,821	2,922	2,279	1,263,311	2,275,357
Total liabilities and fund balances	\$ 140,132	\$ 114,892	\$ 752,243	\$ 2,922	\$ 2,279	\$ 1,307,905	\$ 2,320,373

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, 2015

	Special Revenue Funds						Total
	Public Library	Police Outside Detail	LOST Account	Public Safety Revolving	Farmers Market	Permanent Fund	
Revenues:							
Taxes	\$ -	\$ -	\$ 22,838	\$ -	\$ -	\$ -	\$ 22,838
Charges for services	-	223,190	-	8,747	-	-	231,937
Miscellaneous	67,302	-	786	-	12,251	25,708	106,047
Total revenues	<u>67,302</u>	<u>223,190</u>	<u>23,624</u>	<u>8,747</u>	<u>12,251</u>	<u>25,708</u>	<u>360,822</u>
Expenditures:							
Current:							
General government	-	-	-	-	-	20,999	20,999
Public safety	-	250,820	-	16,910	-	-	267,730
Culture and recreation	76,694	-	-	-	10,742	-	87,436
Conservation	-	-	65,226	-	-	-	65,226
Total expenditures	<u>76,694</u>	<u>250,820</u>	<u>65,226</u>	<u>16,910</u>	<u>10,742</u>	<u>20,999</u>	<u>441,391</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,392)</u>	<u>(27,630)</u>	<u>(41,602)</u>	<u>(8,163)</u>	<u>1,509</u>	<u>4,709</u>	<u>(80,569)</u>
Other financing sources (uses):							
Transfers in	8,459	-	-	-	-	-	8,459
Transfers out	-	-	-	-	-	(16,631)	(16,631)
Total other financing sources (uses)	<u>8,459</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,631)</u>	<u>(8,172)</u>
Net change in fund balances	(933)	(27,630)	(41,602)	(8,163)	1,509	(11,922)	(88,741)
Fund balances, beginning	141,065	142,522	793,423	11,085	770	1,275,233	2,364,098
Fund balances, ending	<u>\$ 140,132</u>	<u>\$ 114,892</u>	<u>\$ 751,821</u>	<u>\$ 2,922</u>	<u>\$ 2,279</u>	<u>\$ 1,263,311</u>	<u>\$ 2,275,357</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 aggregate remaining fund information of the City of Lebanon, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Lebanon's basic financial statements, and have issued our report thereon dated September 12, 2016.

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*.

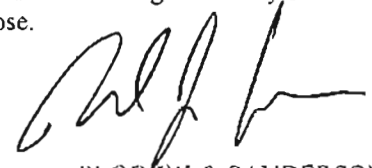
City of Lebanon

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

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.

September 12, 2016



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Lebanon's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Lebanon's major federal program for the year ended December 31, 2015. The City of Lebanon's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Lebanon's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lebanon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Lebanon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control over Compliance

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

City of Lebanon

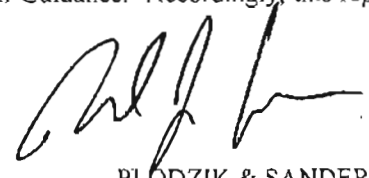
*Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance*

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.

September 12, 2016



PLODZIK & SANDERSON
Professional Association

SCHEDULE I
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

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:

_____ CFDA Number(s) _____	_____ Name of Federal Program or Cluster _____
_____ 20.106 _____	_____ Airport Improvement Program _____

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

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

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Federal Grantor Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total 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-CDFD	\$ -	\$ 151,281
Rodgers House Energy Improvements	14.228	15-094-CIHS	-	181
River Valley Community College/NVCC Business and Industry Training Center Program: Total	14.228	15-094-CDED	-	89,604
			-	241,066
U.S. DEPARTMENT OF THE INTERIOR				
Passed Through the New Hampshire Department of Cultural Resources:				
Historic Preservation Fund Grants-In-Aid	15.904	33-CI.G-14-02	-	4,107
U.S. DEPARTMENT OF JUSTICE				
Direct Program				
Bullet Proof Vest Partnership Program	16.607	N/A	-	1,985
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through the New Hampshire Department of Transportation:				
Airport Improvement Program:				
Update Airport Layout Plan Exhibit A Property Map	20.106	AIP #3-33-0010-44-2010	-	43,777
Phase II Design of Obstruction Removal; and Replace Existing Obstruction Lights with Hazard Beacons	20.106	AIP #3-33-0010-47-2012	-	329,000
Environmental Assessment, Permitting and Mitigation for Obstruction Removal	20.106	AIP #3-33-0010-49-2013	-	253,355
Environmental Mitigation - Design and Construct Stormwater Controls for Runway 25 End Program Total	20.106	AIP #3-33-0010-51-2015	-	177,739
			-	803,871
Highway Planning and Construction:				
Mechanic Street Reconstruction	20.205	10034B	-	68,500
South Main Street Bridge	20.205	13558A	-	39,371
Safe Routes to Schools	20.205	16007	-	68
NH Route 120 Pedestrian Improvements Program Total	20.205	16046	-	18,935
			-	126,874
			-	930,745
TOTAL DEPARTMENT OF TRANSPORTATION				

(Continued)

SCHEDULE II (Continued)
CITY OF LEBANON, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed Through the New Hampshire Department of Environmental Services			
Capitalization Grants for Clean Water State Revolving Funds: (note 3)			
Energy Efficiency	66,458	CS-330092-06	611,266
Combined Sewer Separation and Utility Replacement	66,458	CS-330092-07	81,434
Program Total	-		692,700
Capitalization Grants for Drinking Water State Revolving Funds	66,468	SWP-245	6,916
Program Total	-		699,616
TOTAL ENVIRONMENTAL PROTECTION AGENCY			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through the National Association of County and City Health Officials:			
Medical Reserve Corps Small Grant Program	93,008	MRC 12 1776	1,047
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	1,957,781
Homeland Security Grant Program			
Pre-Hospital Trauma Life Support Training	97,067	N/A	50,540
Fire Training	97,067	N/A	33,616
Program Total	-		84,156
TOTAL DEPARTMENT OF HOMELAND SECURITY			
<i>Total Expenditures of Federal Awards</i>			
	\$ -		\$ 3,920,503

The accompanying notes are an integral part of this schedule.

CITY OF LEBANON, NEW HAMPSHIRE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015. 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. The City of Lebanon has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Loans Outstanding

The City of Lebanon had the following loan balances outstanding at December 31, 2015. The loans made during the year are included in the federal expenditures presented in the Schedule.

<i>CFDA Number</i>	<i>Program Name</i>	<i>Outstanding Balances at December 31, 2015</i>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$4,133,000