
**CITY OF LEBANON
LEBANON, PENNSYLVANIA**

AUDIT REPORT

DECEMBER 31, 2013

CITY OF LEBANON
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INDEPENDENT AUDITOR'S REPORT

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August 26, 2014

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To the Honorable Mayor and City Council
City of Lebanon
Lebanon, Pennsylvania

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Lebanon, Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Honorable Mayor and City Council
City of Lebanon

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Lebanon, Pennsylvania, as of December 31, 2013, and the respective changes in its financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the City of Lebanon's 2012 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated September 26, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 21 and the schedule of funding progress - pension plans, schedule of employer contributions - pension plans, post-employment benefits - schedule of funding progress and post-employment benefits - schedule of annual employer cost, and notes to required supplementary information on pages 64 to 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 fiduciary fund financial statements 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.

To the Honorable Mayor and City Council
City of Lebanon

The combining fiduciary fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fiduciary fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2014 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 the 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.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
DECEMBER 31, 2013**

This section of the City of Lebanon's annual financial report presents a narrative overview and analysis of the City's performance for the year ended December 31, 2013. Please read it in conjunction with the City's accompanying financial statements, including the note disclosures that follow, in order to obtain a thorough understanding of the City's financial condition as of December 31, 2013.

FINANCIAL HIGHLIGHTS

- A county-wide reassessment was completed in 2012. The tax base was equalized and brought to current market value; the City's tax millage was subsequently lowered to 3.581 from 25 mills in 2013 in order to achieve a revenue neutral effect.
- The City created a Capital Reserve Fund in 2013 and transferred \$67,622 from the General Fund to reserve for public safety and public works equipment and/or vehicles.
- The construction commenced on the railroad overpass bridges on Ninth and Tenth Streets in May of 2011. As of December 31, 2013, the project was about 99 percent complete and the assets placed in service.
- The City Council authorized the issuance of a tax and revenue anticipation note in the amount of \$1,000,000 and drew down \$50,000 against the authorized amount. The note was paid off in December 2013 as required.
- The City's long- term debt decreased from \$260,000 to \$215,000 as of December 31, 2013.
- The City continues to monitor its tighter fiscal controls placed into effect in 2011. This can be substantiated by improved actual to budget numbers.
- Regarding our financial stability, in 2009 and 2010, the City experienced general fund deficits. The City would have experienced deficits in 2006, 2007, and 2008; however, one-time supplemental income was utilized to balance the budgets. In 2011, which represented the first budget that the Capello Administration created and administered, the City did not experience a General Fund deficit. The City also did not experience a deficit in 2012 and 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of the following four parts:

- Management's discussion and analysis (this section)
- Basic financial statements (including note disclosures)
- Required supplementary information
- Supplementary information

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

The management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the City's government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information includes data about the City's pension plans and other post-employment benefits. Supplementary information presents combining statements for the pension trust funds that support the basic financial statements.

The basic financial statements present two different views of the City.

- **Government-wide financial statements** - The first two statements provide information about the City as a whole using accounting methods similar to those used by private-sector companies.
- **Fund financial statements** - The remaining statements focus on individual parts of the City's government. They provide more detail on operations than the government-wide statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements include the following two statements:

- The statement of net position includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, except fiduciary funds, with the difference between them reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the City's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on local taxes for funding.

All changes to net position are reported using the accrual method of accounting, which requires that revenues be reported when they are earned and expenses be reported when the goods and/or services are received, regardless of when cash is received or paid.

Net position is one way to measure the City's financial position. Over time, increases or decreases in the City's net position indicate whether the City's financial position is improving or deteriorating. However, other non-financial factors such as changes in the City's real property tax base and general economic conditions must be considered to assess the overall position of the City.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. In governmental fund statements, capital assets are reported as expenditures when financial resources are expended to purchase or build assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. Principal and interest payments are both considered expenditures when paid. Depreciation is not calculated for the fund statements, as it does not provide or reduce current financial resources.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

Government-wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to compile the statement of net position:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocate the depreciation to the proper program/activities
- Calculate revenue and expenses using the economic resources measurement focus and the accrual basis of accounting
- Allocate net position balances as follows:
 - Net investment in capital assets
 - Restricted net position – assets with constraints placed on their use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
 - Unrestricted net position – resources that do not meet any of the above definitions

FUND FINANCIAL STATEMENTS

Fund financial statements provide more detailed information on the City's most significant funds, not the City as a whole. Funds are groups of related accounts that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using current financial resources and modified accrual accounting established by the Government Accounting Standards Board ("GASB") for governments.

There are three types of fund financial statements:

- Governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship between governmental activities and the governmental funds is described in a reconciliation that follows the fund financial statements.
- Proprietary fund statements offer short-term and long-term financial information about the activities the City operates as a business. The City utilizes an internal service fund to account for the financing of health and dental insurance costs which are being incurred by the City's departments.
- Fiduciary fund statements reflect activities involving resources that are held by the City as a trustee or agent for the benefit of others. The City's pension plans are included as fiduciary funds because the City acts as the fiduciary and is responsible for ensuring that the assets reported are used for their intended purposes. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the City's programs.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position provides a year-end summary of the City's asset, liability, deferred categories, and the net differences. As of December 31, 2013, the City's total assets exceeded total liabilities and deferred inflows of resources by \$53,283,903. Key components of this change are summarized in Table A-1.

Table A-1 Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
<u>Assets</u>			
Current and Other Assets	\$ 12,525,928	\$ 14,406,810	-13.06%
Capital Assets	55,056,055	50,255,379	9.55%
Total Assets	67,581,983	64,662,189	4.52%
<u>Liabilities</u>			
Long-term Liabilities	8,274,088	7,113,129	16.32%
Other Liabilities	2,379,551	3,853,455	-38.25%
Total Liabilities	10,653,639	10,966,584	-2.85%
Deferred Inflows of Resources	3,644,441	3,622,051	0.62%
<u>Net Position</u>			
Net Investment in Capital Assets	54,841,055	49,995,379	9.69%
Restricted	1,238,717	1,156,299	7.13%
Unrestricted (Deficit)	(2,795,869)	(1,078,124)	-159.33%
Total Net Position	\$ 53,283,903	\$ 50,073,554	6.41%

The City's assets totaled \$67,581,983 at December 31, 2013. Of this amount, capital assets, including infrastructure and construction-in-progress, totaled \$55,056,055, and current and other assets totaled \$12,525,928.

Capital assets increased \$4,800,676 over the balance at December 31, 2012. This increase is due to the placement in service of the City's bridge project, \$5,458,421; the addition of one new and two used police vehicles, \$71,116; the addition of construction-in-progress for projects at Coleman

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

Memorial Park and Stoever's Dam Park, \$666,043; the sale at auction of various vehicles and highway equipment, \$(201,568); the conversion of the boiler, from heating oil to natural gas, at two of the City's fire stations, \$14,131; offset by net change in accumulated depreciation, \$(1,207,467). The City placed the 10th Street Bridge in service on August 27, 2013; thereby moving the prior year construction cost for the bridge of \$9,819,823 from construction-in-progress to capital assets being depreciated. The City's net investment in capital assets totaled \$54,841,055 at December 31, 2013.

Current and other assets decreased \$(1,880,882) over the balance at December 31, 2012. This decrease is due to an increase in accounts receivable of \$643,404; decrease in current receivables for payments received for EIT, LST, and property taxes, \$(308,332); a decrease in grant receivables of \$(1,002,939) primarily related to the Partridge Street project, the bridge project, and the Safe Sidewalks project; a decrease in cash and cash equivalents of \$(1,151,310); a decrease in prepaid expenses of \$(68,145); and an increase in other miscellaneous assets such as loans and inventory of \$6,440.

Liabilities and deferred inflows of resources totaled \$14,298,080 as of December 31, 2013. The long-term liabilities line item includes the long-term portion of a note payable, \$170,000; compensated absences, \$47,406; and other post-employment liabilities, \$8,056,682. The other liabilities line item includes accounts payable, \$1,287,631; the short-term portion of a note payable, \$45,000; accrued expenses, customer deposits, and accrued health benefits, \$1,046,920.

Other liabilities and deferred inflows of resources decreased \$(1,451,514) which represents a decrease in accounts payable of \$(1,786,105) primarily related to the bridge project; an increase in other liabilities, \$237,371 primarily related to the internal service fund; an increase in deferred inflows \$22,390; and an increase in other deposits and accrued expenses of \$74,830.

Long-term liabilities increased \$1,160,959, which represents an increase in other post-employment benefits of \$1,202,335; a decrease in long-term notes payable of \$(45,000); and an increase in compensated absences of \$3,624.

In 2008, the City adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (OPEB)" and recorded an initial OPEB liability of \$1,330,983. OPEB liabilities of \$1,273,002, \$1,551,398, \$1,469,541, \$1,229,423, and \$1,202,335 were added in 2009, 2010, 2011, 2012, and 2013, respectively.

Restricted net position is reported to the extent that it is subject to a legally enforceable restriction on its use. As a result of recording the OPEB non-operating liability detailed in the preceding paragraph, unrestricted net position was \$(2,795,869) as of December 31, 2013. This unrestricted net position deficit was created because the City has long-term liabilities that are funded on a pay-as-you-go basis, appropriating resources each year as payments come due, rather than accumulating assets in advance.

The following statement of activities represents changes in net position for the year ended December 31, 2013. It shows revenues by source and expenses by function for governmental activities.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

Table A-2 Change In Net Position

	Governmental Activities		Percentage Change
	2013	2012	
Revenues			
Program Revenues:			
Charges for Services	\$ 616,007	\$ 1,089,076	-43.44%
Operating Grants and Contributions	3,866,210	4,040,494	-4.31%
Capital Grants and Contributions	5,451,091	11,812,188	-53.85%
General Revenues:			
Real Estate Taxes - General Levy	3,067,867	3,016,506	1.70%
Real Estate Transfer Taxes	125,298	239,973	-47.79%
Earned Income Tax	4,090,817	5,776,669	-29.18%
Local Services Tax	414,806	390,144	6.32%
Franchise Taxes	286,052	270,270	5.84%
Fines and Forfeitures	504,320	529,068	-4.68%
Mechanical Device Tax	5,916	7,845	-24.59%
Intergovernmental Revenues - not program restricted	154,978	140,898	9.99%
Interest, Investment Earnings, and Royalties			
Royalties	121,435	144,859	-16.17%
Gain from Asset Disposal	17,503	-	100.00%
Miscellaneous	99,935	84,973	17.61%
Total Revenues	<u>18,822,235</u>	<u>27,542,963</u>	-31.66%
Expenses			
General Governmental	2,017,066	1,620,444	24.48%
Public Safety	9,699,294	9,378,648	3.42%
Public Works	1,952,360	2,706,876	-27.87%
Culture and Recreation	449,332	485,212	-7.39%
Economic Development	1,477,028	1,337,719	10.41%
Debt Service	16,806	18,315	-8.24%
Total Expenses	<u>15,611,886</u>	<u>15,547,214</u>	0.42%
Increase in Net Position	3,210,349	11,995,749	-73.24%
Net Position - Beginning of Year	50,073,554	38,077,805	31.50%
Net Position - End of Year	<u>\$ 53,283,903</u>	<u>\$ 50,073,554</u>	6.41%

REVENUES

In 2013, government-wide revenues of \$18,822,235 came primarily from tax revenue totaling \$7,990,756, and capital grants and contributions of \$5,451,091. Tax revenues were 17.63 percent, or \$1,710,651, lower than in 2012 primarily due to the decrease in earned income tax, \$(1,685,852), of which \$(1,252,639) is related to the recognition of a receivable, in 2012, for payment of underpaid earned income tax revenues from the period of 2004 - 2007; decreases in real estate transfer and mechanical device taxes, \$(116,604); offset by increases in franchise tax, \$15,782; and property and local service taxes, \$76,023. Capital grants and contributions decreased \$6,361,097 from 2012 due to the completion of construction of the bridges on Ninth and Tenth streets.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

Charges for services decreased in 2013, as compared to 2012, by \$(473,069) from a decrease in net income from the Internal Service Fund, \$(475,067); an increase in rental property licenses of \$8,408; a decrease in traffic and meter fines of \$(24,828); a decrease in building permits of \$(16,632); and an net increase in all other licenses, permits, and charges for services of \$35,050.

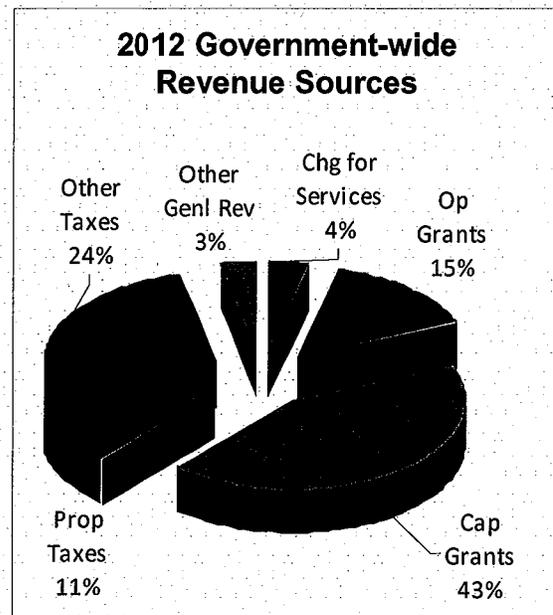
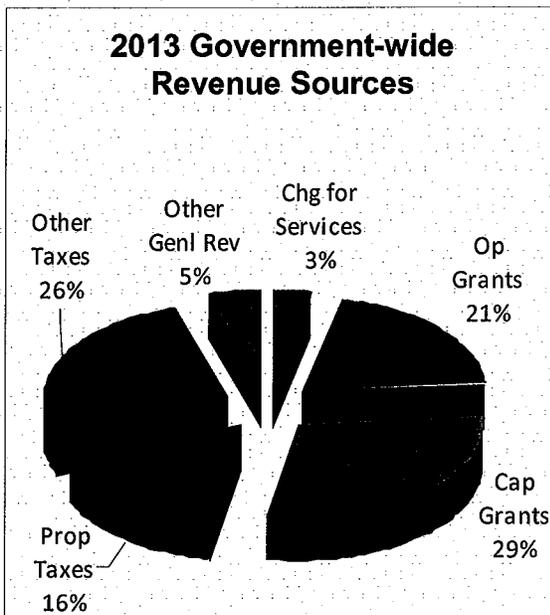
Operating grants and contributions decreased \$(174,284) in 2013, as compared to 2012. Increases in grant receipts; such as the Coleman Memorial Park renovation, \$601,980; and the Partridge Street Project, \$277,013 were offset by decreases in the CDBG grant program of \$(162,226); the Neighborhood Stabilization Program of \$(197,774); the Safe Sidewalks program, \$(644,319); and all other grant programs of \$(48,958).

Intergovernmental revenues - not program restricted now represents law enforcement grant reimbursements as well as payments to the City in lieu of taxes from tax exempt property holders and other miscellaneous reimbursements. The state pension aid was reclassified to operating grants in 2012.

Miscellaneous revenue increased \$14,962 in 2013, as compared to 2012, due to a reduction in refund of prior year expenditures of \$(22,500); an increase from the fundraising efforts to purchase a new police dog, \$55,684; and a net reduction in other miscellaneous revenues of \$(18,222).

Interest and rent revenue decreased \$(23,424) in 2013, as compared to 2012, due to a decrease in income from program loans, \$(3,100); a decrease in rental revenue due to the expiration of the lease of office space to County Reassessment, \$(12,128); and the decrease in other revenue of \$(8,196).

The following chart graphically depicts the government-wide revenue sources for the fiscal years ended December 31, 2013 and December 31, 2012:



**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

EXPENSES

Total expenses for all programs in 2013 were \$15,611,886. The expenses cover a range of services, with the largest being public safety at \$9,699,294 or 62.13 percent. The second largest program area was general government at \$2,017,066 or 12.92 percent. Public works, culture and recreation, economic development, and debt service made up the remaining 24.95 percent of total expenses.

General government expenses increased \$396,622 in 2013, as compared to 2012, due to an increase in depreciation expense, \$398,067, primarily from the addition of the Tenth Street Bridge to capital assets; a decrease in contracted services, mainly due to an expense in 2012 for an early intervention plan, \$(25,450); and a net increase in other general expenses of \$24,005.

Economic development expenses increased \$139,309 in 2013, as compared to 2012, due to additional projects of the Neighborhood Stabilization Program, \$26,349; a reduction in the expenses of the CDBG program, \$(192,842); additional expenses of the Partridge Street Project, \$297,497; and other development projects of \$8,305.

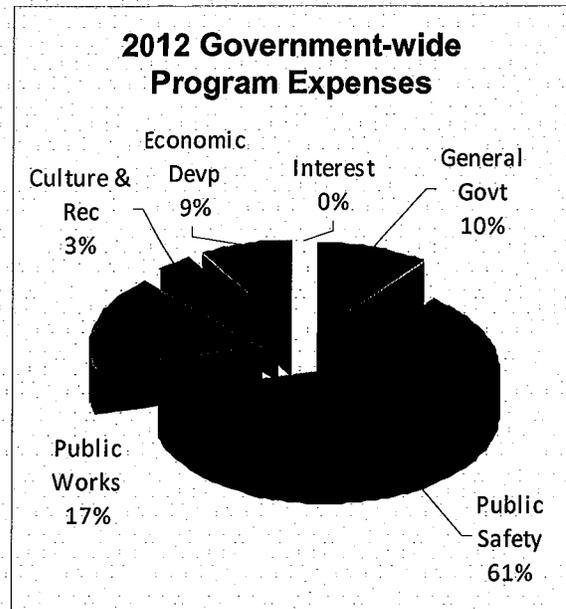
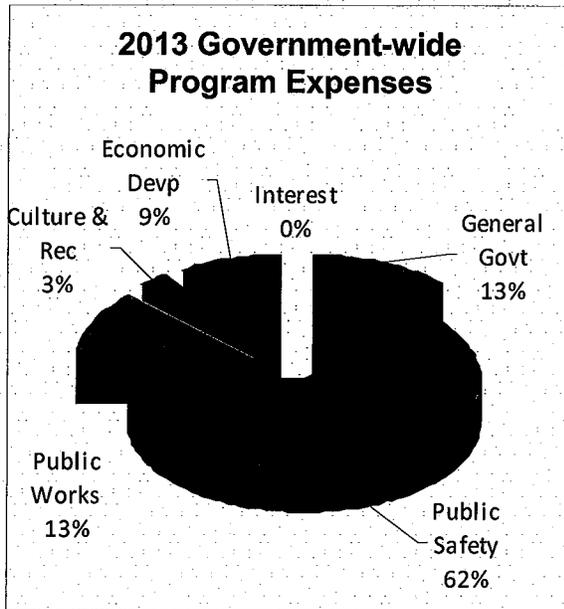
Public Safety expenses increased \$320,646 in 2013, as compared to 2012, due to the increase in overall police expenses due primarily to an increase in salaries and benefits, \$191,648; an increase in overall fire expenses due primarily to an increase in salaries and benefits, as well as building maintenance, \$51,888; an increase in the pension funding for police and fire, \$152,219; an increase in expenses related to zoning, \$17,863; a net decrease in capital improvements for the acquisition and disposal of police vehicles, \$(39,609); a decrease in net depreciation, \$(47,363); and a decrease in other expenses of \$(6,000).

Culture and recreation expenses decreased \$(35,880) in 2013, as compared to 2012, due to the capitalization of a renovation project at Coleman Memorial Park, \$(58,941); and an increase in various other improvements at the parks throughout the City, \$23,061.

Public works expenses decreased \$(754,516) in 2013, as compared to 2012, due to the completion of the Safe Sidewalk Program in 2012, \$(644,319); the increase in expenses related to projects from the CDBG program, \$43,962; the capitalization of the Tenth Street Bridge, \$92,412; a decrease in Liquid Fuels projects, \$(64,501); a decrease in general services, mainly due to an expense in 2012 for EPA fines of \$21,600, \$(27,958); a decrease in contracted services for traffic control, \$(22,101); a decrease in highway maintenance due to both an expense in 2012 for flood control costs and a vacant maintenance position, \$(78,450); and a net decrease in other expenses of \$(53,561).

The following chart graphically depicts the government-wide program expenses for the fiscal years ended December 31, 2013 and December 31, 2012:

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**



Net Program Expenses

Net program expenses indicate the amount of support required from taxes and other general revenues for programs of the government. The following table depicts the net program expenses for the year ended December 31, 2013.

Net Cost of Governmental Activities

Program:	Total Cost of Services	Charges for Services	Operating Grants and Contributions	Net Operating Cost of Services	Capital Grants	Net Cost of Services
General Government	\$ 2,017,066	\$ (15,090)	\$ (19,995)	\$ 1,981,981	\$ -	\$ 1,981,981
Public Safety	9,699,294	(370,803)	(731,901)	8,596,590	-	8,596,590
Public Works	1,952,360	(202,721)	(1,024,931)	724,708	(5,451,091)	(4,726,383)
Culture and Recreation	449,332	(27,393)	(806,723)	(384,784)	-	(384,784)
Economic Development	1,477,028	-	(1,282,660)	194,368	-	194,368
Debt Service	16,806	-	-	16,806	-	16,806
Total Expenses	\$ 15,611,886	\$ (616,007)	\$ (3,866,210)	\$ 11,129,669	\$ (5,451,091)	\$ 5,678,578

The City relied on real estate taxes, earned income taxes, and other general revenues, or \$8,888,927 to fund almost 56.9 percent of its governmental activities in 2013. Taxes of \$7,990,756 accounted for 89.9 percent of general revenues in 2013.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

FUND FINANCIAL STATEMENTS

As discussed above, the fund financial statements provide more detailed information about the City's most significant funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds include the general fund, special revenue funds, a permanent fund, and the debt service fund. The general fund is the main operating fund of the City. Special revenue funds are established around one or more revenue sources that are restricted or committed to purposes other than capital projects or debt service. The permanent fund is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs. The debt service fund accounts for the City's payments of its obligations related to general long-term debt.

The City's major funds are shown on the statement of revenues, expenditures, and changes in fund balances in the financial statements. Major funds are established by specific criteria contained in GASB Statement No. 34 or they can be selected as major at management's request. Non-major funds are combined into one column and presented in total.

Governmental Fund Revenues

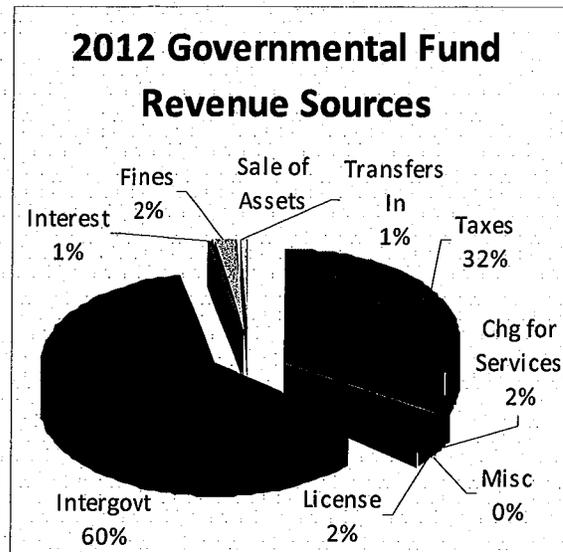
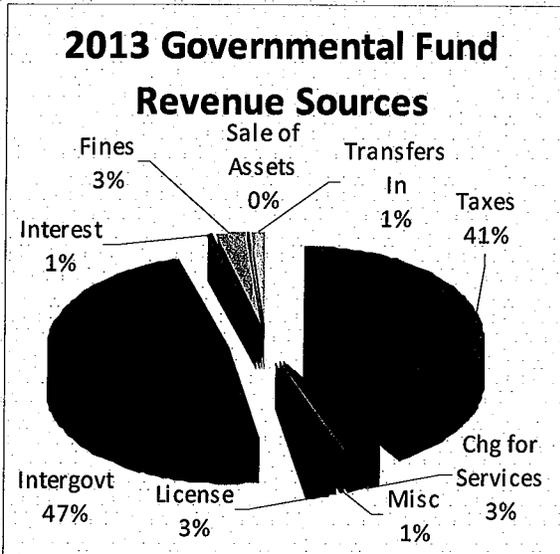
Governmental fund revenues and other financing sources at December 31, 2013 and December 31, 2012 were as follows:

	<u>2013</u>	<u>2012</u>	<u>Changes from 2012 to 2013</u>
Revenues:			
Taxes	\$ 8,056,104	\$ 8,311,872	\$ (255,768)
Intergovernmental	9,472,280	15,993,580	(6,521,300)
Charges for Services	595,278	605,371	(10,093)
Licenses and Permits	534,503	506,631	27,872
Fines and Forfeitures	504,320	529,068	(24,748)
Interest and Rents	121,435	144,859	(23,424)
Miscellaneous	99,935	84,973	14,962
Sale of Capital Assets	18,128	-	18,128
Proceeds of Long-term Debt	50,000	50,000	-
Transfers In	187,332	142,510	44,822
Total Revenues	<u><u>\$ 19,639,315</u></u>	<u><u>\$ 26,368,864</u></u>	<u><u>\$ (6,729,549)</u></u>

The variances in the fund financial statements are materially the same as the variances in the government-wide financial statements. Please see page 10 for the variance analysis for government-wide financial statements.

The variance in the fund tax revenue, \$(255,768) differs from the variance in the government tax revenue, \$(1,710,651) primarily due to the recognition of a receivable in 2012 (\$1,252,639) for underpaid EIT in the government statements.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**



The variance in the charges for services differs due to the inclusion in the government statements of the net income from the Health Benefit Fund, which is not included in the fund statement.

The variance in the transfers in category is due to the funding, in 2013, of the Capital Reserve Fund in the amount of \$40,622. The Capital Reserve Fund has been created to allow the City to reserve funds for the purchase of public works and public safety vehicles and equipment.

The chart above graphically depicts the governmental funds revenue sources for the fiscal years ended December 31, 2013 and December 31, 2012.

Governmental Fund Expenditures

Governmental fund expenditures and other financing uses at December 31, 2013 and December 31, 2012 were as follows:

	2013	2012	Changes from 2012 to 2013
Expenditures:			
General Government	\$ 833,279	\$ 846,509	\$ (13,230)
Public Safety	8,370,179	7,956,857	413,322
Public Works	7,155,764	14,263,777	(7,108,013)
Culture and Recreation	1,036,682	427,147	609,535
Economic Development	1,450,554	1,316,884	133,670
Debt Service	111,315	107,226	4,089
Miscellaneous	343,964	392,554	(48,590)
Transfers Out	187,332	142,510	44,822
Total Expenditures	<u>\$ 19,489,069</u>	<u>\$ 25,453,464</u>	<u>\$ (5,964,395)</u>

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

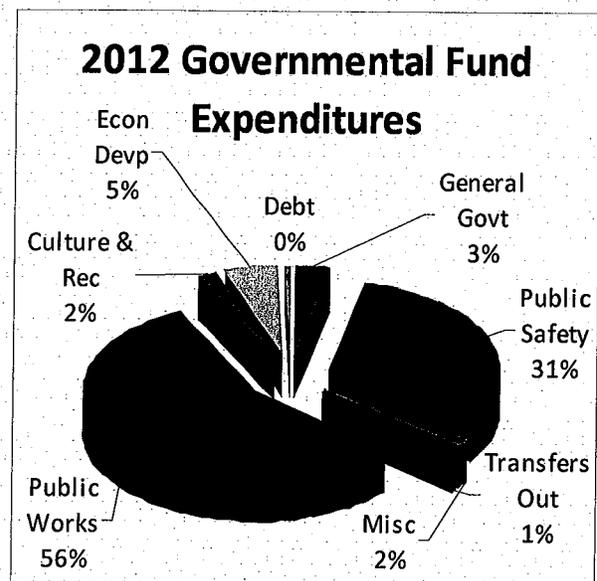
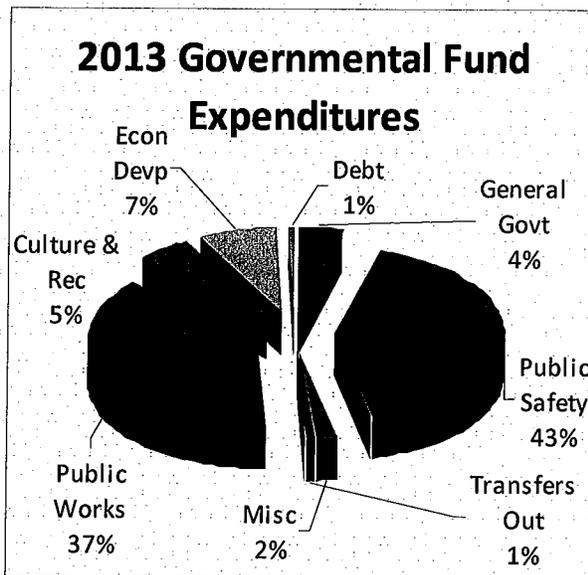
The variances in the expenditures in fund financial statements differ from the variances in the government-wide financial statements due to elimination of depreciation and other non-cash accrual items. Please see page 12 for the variance analysis for government-wide financial statements.

The variance in Public Works is primarily due to the decrease in construction costs for the bridge on Ninth and Tenth Streets, \$(6,358,578); a decrease due to the completion of the Safe Sidewalks program, \$(644,319); an increase in CDBG program improvements, \$43,962; a decrease in the expenditures of the Liquid Fuels Fund, \$(64,501); and a decrease in general public works expenditures, \$(84,577).

The variance in economic development is due to the development of the Partridge Street Project, \$297,497; a decrease in the CDBG program expenses, \$(192,842); an increase in the Neighborhood Stabilization Program, \$26,349; an increase in the HOME program expenses, \$30,688; and a decrease in the Elm Street program expenses, \$(28,022).

The variance in culture and recreation is due to the renovation project at Coleman Memorial Park, \$598,631; and an increase in other expenses of \$10,904.

The following chart graphically depicts the governmental funds expenditures for the fiscal years ended December 31, 2013 and December 31, 2012:



**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

**General Fund Revenues and Expenditures
Budget to Actual Comparison**

	2013 <u>Actual</u>	2013 <u>Budget</u>	2013 <u>Variance</u>	<u>% Variance</u>
REVENUES				
Taxes	\$ 8,056,104	\$ 7,720,169	\$ 335,935	4.35%
Intergovernmental	970,404	861,270	109,134	12.67%
Other Revenue	1,693,130	1,561,508	131,622	8.43%
Total Revenues	<u>\$ 10,719,638</u>	<u>\$ 10,142,947</u>	<u>\$ 576,691</u>	<u>5.69%</u>
EXPENDITURES				
General Government	\$ 833,279	\$ 869,998	\$ 36,719	4.22%
Public Safety	8,303,527	8,485,903	182,376	2.15%
Public Works	839,367	943,747	104,380	11.06%
Other Expenditures	742,483	766,689	24,206	3.16%
Total Expenditures	<u>\$ 10,718,656</u>	<u>\$ 11,066,337</u>	<u>\$ 347,681</u>	<u>3.14%</u>

Tax revenues were better than budget due to an increase in real estate property tax collections, \$64,391; an increase in earned income tax collections, \$290,218; and a decrease in other tax collections, \$(18,674).

Intergovernmental revenues were better than budget due to state aid for the Early Intervention Program, \$37,500; a state recycling grant, \$35,100; a state fire services grant, \$13,116; and a net increase in all other intergovernmental revenues, \$23,418.

Other revenues were better than budget due to an increase in license and permit collections, \$72,328; an increase in rental property fees, \$12,054; and increase in building permit fees, \$14,059; an increase in insurance reimbursements, \$9,210; and a net increase in other revenues, \$23,971.

Public safety expenditures were lower than budget due to a decrease in the cost of the City's policing efforts, \$189,320; a decrease in the cost of operating the City's fire department, \$16,183; the expenditure of a state fire services grant, \$(13,116); and a net increase in other expenditures, \$(10,011).

Public works expenditures were lower than budget due to a decrease in overall highway department expenditures, \$82,815; a decrease in traffic control expenditures, \$30,992; a decrease in street cleaning expenditures, \$15,727; and an increase in recycling expenditures, \$(25,154).

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

CAPITAL ASSETS

The City's capital assets, net of accumulated depreciation, included land, building, equipment, construction-in-progress, and infrastructure, and totaled \$55,056,055 at December 31, 2013. The following is a summary of capital assets at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Governmental Activities:		
Land	\$ 951,802	\$ 951,802
Infrastructure	65,047,882	49,769,638
Buildings and Improvements	7,283,828	7,269,697
Machinery and Equipment	815,663	814,882
Vehicles	2,160,396	2,277,726
Construction-in-progress	<u>753,280</u>	<u>9,920,963</u>
 Total Capital Assets	 77,012,851	 71,004,708
 Less: Accumulated Depreciation	 <u>(21,956,796)</u>	 <u>(20,749,329)</u>
 Cost Less Accumulated Depreciation	 <u>\$ 55,056,055</u>	 <u>\$ 50,255,379</u>

Capital assets increased \$4,800,676 over the balance at December 31, 2012. This increase is due to the placement in service of the City's bridge project, \$5,458,421; the addition of construction-in-progress for projects at Coleman Memorial Park and Stoever's Dam Park, \$666,043; the addition of one new and two used police vehicles, \$71,116; the sale at auction of various vehicles and highway equipment, \$(201,568); the conversion of the boiler, from heating oil to natural gas, at two of the City's fire stations, \$14,131; offset by net accumulated depreciation, \$(1,207,467). The City's net investment in capital assets totaled \$54,841,055 at December 31, 2013.

Depreciation expense for 2013 and 2012 totaled \$1,408,410, and \$1,058,010, respectively.

Detailed information about the City's capital assets can be found in Note 7 of the notes to the financial statements.

DEBT ADMINISTRATION

The City has a subsidy agreement with the County for the repayment of the County's General Obligation Bonds, Series of 2009 and 2004. The amount of principal paid on the bonds by the City during 2013 was \$45,000.

In January 2013, the City Council authorized the issuance of a tax and revenue anticipation note in the amount of \$1,000,000. The note was secured by a lien on the revenues of the City and incurred interest at an annual rate of 1.25 percent. The amount of \$50,000 which had been drawn down against the note was paid off in December 2013 as required.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

At December 31, 2013, the City had \$215,000 of debt outstanding. The following is a summary of long-term debt for the 2013 year:

Beginning balance, January 1, 2013	\$ 260,000
Less: Principal Payments	<u>(45,000)</u>
Balance Outstanding, December 31, 2013	<u>\$ 215,000</u>

Detailed information about the City's long-term liabilities is presented in Note 8 of the financial statements.

ECONOMIC CONDITIONS AND SUBSEQUENT EVENTS

The City continues to face fiscal challenges common to many third class cities and other urban communities across Pennsylvania and the nation: a stagnant tax base due to land-locked boundaries and the need for development, inflationary pressures on labor costs, and benefits; and a high number of tax-exempt properties which reduces the revenue available to support City services. More than 33 percent of the assessed land value within the City is tax-exempt. If these properties were taxable, the City would receive an additional \$1 million in taxes. The City does promote a Payment in Lieu of Taxes Program; however, only about a dozen organizations participate.

The costs of unfunded mandates, soaring personnel costs combined with an outdated local tax structure, have generated an unprecedented fiscal crisis at the local governmental level. All levels of government continue to be faced with increasing property taxes and user fees, cutting services, and decreasing their workforce to make ends meet.

A county-wide reassessment was completed in 2012. The tax base was equalized and brought to current market value. In 2013, the City's tax millage was subsequently lowered to 3.581 from 25 mills in order to achieve a revenue neutral effect, as required by law. The City is now able to increase its real estate tax millage rate since it is no longer at the maximum rate allowed by state statute for a third class city.

Earned Income Tax is limited by the Home Rule Charter to 1.4 percent.

On January 8, 2014, City Council authorized the issuance of a tax and revenue anticipation note in the amount of \$1 million. The note is to be used for current expenses and is secured by a security interest in the taxes and other revenues of the City. Interest accrues at an annual floating "Bank Qualified Tax Free Rate of 66.3 percent of Wall Street Journal Prime" (at time of issuance was 2.15 percent). As of July of 2014, the City has not had to use the note to meet its liabilities.

Like other cities, Lebanon has challenges in meeting the demands of housing for its special needs and low and moderate income population. Approximately 63 percent of all residents in the City of Lebanon are considered low- to moderate-income, and the 2010 Census reported that 22.9 percent of City residents are below poverty level. This number increased from the 2000 Census, which

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

reported that 14.6 percent of the City's population was below poverty level. The average in Pennsylvania is 12.4 percent of the population. However, the City does have programs in place to address those issues. Programs include the first-time home buyer and home rehabilitation programs, both of which are funded as part of the Community Development Block Grant from the U.S. Department of Housing and Urban Development. It should be noted though that over the last several years, funding has dramatically decreased.

The City's current commitments also include a dual bridge project over the Norfolk Southern Railroad at a total project cost of about \$50 million. Funding of the project originally was split 80 percent Federal, 15 percent State, and five percent City. The City initially entered into an agreement with the Pennsylvania Department of Transportation for an infrastructure bank loan in the amount of \$1.2 million to go towards the construction of the bridges. However, in 2010, the City was able to secure additional state funding to adequately fund the portion of the construction originally covered by the bank loan. In all, 61 buildings were razed with eight businesses and 95 residents relocated. Construction on the Ninth Street Bridge commenced in May of 2011 and was completed in September of 2012. Construction of the Tenth Street Bridge commenced in September of 2012 and was opened in August of 2013. The construction project was 100 percent completed on January 17, 2014. The bridge project's design contract was extended to September 27, 2014 in order to complete administrative work on the archeological finds and to further study traffic impacts on existing traffic signals in the area of the new bridges.

The City was awarded a Redevelopment Assistance Capital Program grant by Governor Corbett in the amount of \$3 million to demolish more than 30 additional properties in the 300 block of North Partridge Street for future redevelopment. Those homes were not included in the original bridge project plan, but rather, left residents with the prospect of living in the shadow of the bridge spans. The City is partnering with the Lebanon County Redevelopment Authority, and the Authority handled the acquisition phase of the project. The Authority started the appraisal and negotiating phase in the summer of 2012. In all, there were 40 properties to be acquired with nine of them being land only (residual from the bridge project). Appraisals were completed and all properties were negotiated with successful outcomes for acquisition. Demolition started in June of 2014. The City will issue a "Highest and Best Use" Request for Proposal in the fall of 2014. The City will seek proposals from developers who will purchase the land and improve the site with a use that will improve the economic strength of the City and provide quality jobs for our residents.

Other city projects, which are currently underway include:

- Continuing the Elm Street revitalization program to connect members of the Northside neighborhood and help empower the residents to take collective ownership in caring for their neighborhood.
- A Branding and Marketing campaign commenced in 2011. The City adopted a Vision Statement, City Tag Line, and established committees to carry out the vision. One of the goals set was to implement a Business Improvement District. The City applied for a 50/50 matching grant in 2014 to have a BID Study performed. A Request for Proposal has been prepared in anticipation of receiving the grant monies. It is projected that the RFP will be issued in the fall of 2014.

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

- Revisions have been drafted to the Shade Tree Ordinance, and the City will continue to work towards reactivating the Shade Tree Commission. An active Commission will assist with maintaining and improving the City's green infrastructure, which provides numerous benefits to the City, including environmental, biodiversity, and air pollution mitigation; climate modification; and storm water mitigation, social and economic.
- In 2011, the City finalized the master site plan for future improvements to Coleman Memorial Park located in the northwest corner of the City and applied to the Pennsylvania Infrastructure and Development Authority ("PENNVEST"), the Department of Conservation and Natural Resources ("DCNR") and the Lebanon County Commissioners for funding. The City was approved for funding in 2012 from PENNVEST, in the amount of \$576,450 for a redesigned park entrance that will permit two-way traffic and encourage infiltration of stormwater runoff, greening of the amphitheater area, and other infrastructure improvements. The City also was approved for \$15,000 from the Lebanon County Commissioners and for \$475,000 from DCNR for a playground, a new pervious parking lot, and other above-ground improvements. With the exception of the playground, all improvements have been completed by July of 2014. The playground project is expected to be completed by late fall of 2014 or spring of 2015.
- Litigation over the erroneous distribution of Earned Income Taxes continues. The City is attempting to regain its \$1.48 million mistakenly paid by the Lebanon County Earned Income Tax Bureau to other municipalities and school districts.

The current administration is committed to providing efficient and cost effective services to the residents, businesses, and taxpayers of the City and has a renewed focus on city living and investment. Priorities continue to include searching for permanent revenue sources to maintain city services, continuing the City's property maintenance program, increasing street maintenance programs, pursuing inter-governmental cost-sharing strategies, and increasing community policing principals.

The state has an Early Intervention Program aimed at aiding municipalities to hopefully fend off the need for an Act 47 declaration. Out of 55 communities that have been involved in the early intervention program, all but four were helped to the point where they did not need to enter into Act 47. This program is a monitoring and planning approach for financially distressed municipalities seeking to address problems before they become severe. The most important point to note with the Early Intervention Program is that the municipality can decide which recommendations to implement. An Act 47 Recovery Plan is prepared by a Recovery Team and must be adopted and followed by the municipality or the state can sanction the municipality and withhold state monies. An Act 47 Plan may contain recommendations that City officials, residents, and business owners may not believe to be in the community's best interest.

The City of Lebanon had an Early Intervention Plan I ("EIP") prepared during 2005-2007. The City's landscape changed since the first EIP was completed. The City split from the City of Lebanon Authority (sewer and water) in 2006 and the City received one-time supplemental income from the sale of excess sewer capacity for a few years afterwards. Now the City operates completely

**CITY OF LEBANON
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
DECEMBER 31, 2013**

independent from the Authority. It is not abnormal for host municipalities and authorities to share costs and for authorities to even subsidize operations somewhat. When the City and the Authority split, the City lost the cost-sharing, as well as, subsidization. We believe this monetary loss represents approximately \$1 million a year.

The City implemented numerous recommendations from the EIP Plan I, but the City needed an updated plan in order to continue to avoid filing for an Act 47 determination. In 2012, the City was approved by the Department of Community and Economic Development for a 75/25 financial match to update its plan. The EIP II was completed in April of 2013. One of the plan's priorities was to create an Economic Development Strategy for the City ("EIP III"). The City received approval in 2013 for a 75/25 matching grant. A Request for Proposal was sent to several consultants in June 2014. The proposals are due August 1, 2014. Developing an Economic Development Strategy is expected to take about one year to complete.

Regarding other economic development approaches, with the assistance of the Lebanon Valley Economic Development Corporation, in 2012, two city-owned properties on Schneider Drive were listed for sale. In the spring of 2014, a 120 Day Due Diligence Agreement was signed on one of the lots. A sales agreement is anticipated to be signed at the end of the Due Diligence time period. In 2012/2013, a Local Economic Revitalization Tax Assistance ("LERTA") program (five-year tax abatement program) was established in the School District, County, and City to encourage commercial or industrial developers to locate on the City's north side. Additionally, the City received approval to establish a Keystone Opportunity Zone (KOZ-10 year tax abatement program) for the two Schneider Drive properties and received approval to extend the existing KOZ for the Aspens Business Park in December of 2013.

The City will look to implement long-term community and economic development strategies for tax base stabilization, adopt best management practices to achieve operating efficiencies, and will continue with other marketing and beautification efforts, in order to change the perception of the City of Lebanon.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sherry Capello, Mayor, City of Lebanon, Municipal Building, 400 South Eighth Street, Lebanon, PA 17042 (Telephone: 717-228-4401).

CITY OF LEBANON
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,217,685	\$ 3,368,995
Receivables		
Accounts	1,110,551	467,147
Taxes	2,716,785	3,025,117
Grants	2,355,758	3,358,697
Inventory	11,883	53,154
Prepaid expenses	114,740	182,885
Restricted Assets:		
Cash and cash equivalents	105,032	76,896
Total Current Assets	8,632,434	10,532,891
Noncurrent Assets:		
Conditional grants	30,056	35,956
Loans receivable	3,562,086	3,555,513
Program loans	301,352	282,450
Capital assets, not being depreciated	1,705,082	10,872,765
Capital assets, being depreciated, net	53,350,973	39,382,614
Total Noncurrent Assets	58,949,549	54,129,298
TOTAL ASSETS	\$ 67,581,983	\$ 64,662,189
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,287,631	\$ 3,073,736
Customer deposits	120,740	108,449
Accrued expenses and withholdings	365,973	314,262
Other liabilities	483,350	245,979
Accrued health benefits	75,277	64,940
Accrued interest	1,580	1,089
Bonds payable	45,000	45,000
Total Current Liabilities	2,379,551	3,853,455
Noncurrent Liabilities:		
Bonds payable	170,000	215,000
Accrued compensated absences	47,406	43,782
Other post-employment benefits	8,056,682	6,854,347
Total Noncurrent Liabilities	8,274,088	7,113,129
TOTAL LIABILITIES	10,653,639	10,966,584
DEFERRED INFLOWS OF RESOURCES		
Long-term receivables - revolving loan funds	3,644,441	3,622,051
NET POSITION		
Net investment in capital assets	54,841,055	49,995,379
Restricted	1,243,327	1,156,299
Unrestricted (Deficit)	(2,800,479)	(1,078,124)
TOTAL NET POSITION	53,283,903	50,073,554
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 67,581,983	\$ 64,662,189

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Summarized Comparative Data for the Year Ended December 31, 2012)

	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
	Charges for Services	Operating Grants and Contributions		2013	2012
GOVERNMENTAL ACTIVITIES:					
General governmental	\$ 2,017,066	\$ 19,995	\$ -	\$ (1,981,981)	\$ (1,548,196)
Public safety	9,699,294	731,901	-	(8,596,590)	(7,969,580)
Public works	1,952,360	1,024,931	5,451,091	4,726,383	10,688,997
Culture and recreation	449,332	806,723	-	384,784	(231,018)
Economic development	1,477,028	1,282,660	-	(194,368)	472,656
Debt service	16,806	-	-	(16,806)	(18,315)
TOTAL GOVERNMENTAL ACTIVITIES	<u>15,611,886</u>	<u>3,866,210</u>	<u>5,451,091</u>	<u>(5,678,578)</u>	<u>1,394,544</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 15,611,886</u>	<u>\$ 3,866,210</u>	<u>\$ 5,451,091</u>	<u>(5,678,578)</u>	<u>1,394,544</u>

GENERAL REVENUES:	3,067,867	3,016,506
Property taxes levied for general purposes	125,298	239,973
Real estate transfer taxes	4,090,817	5,776,669
Earned income taxes	414,806	390,144
Local services taxes	5,916	7,845
Mechanical device taxes	286,052	270,270
Franchise fees	504,320	529,068
Fines and forfeitures	121,435	144,859
Interest and rents	154,978	140,898
Intergovernmental revenues - not restricted	17,503	-
Gain on sale of fixed assets	99,935	84,973
Miscellaneous	<u>8,888,927</u>	<u>10,601,205</u>
TOTAL GENERAL REVENUES	<u>3,210,349</u>	<u>11,995,749</u>

CHANGE IN NET POSITION	<u>50,073,554</u>	<u>38,077,805</u>
NET POSITION, BEGINNING OF YEAR	<u>\$ 53,283,903</u>	<u>\$ 50,073,554</u>
NET POSITION, END OF YEAR		

The accompanying notes are an integral part of these financial statements.

**CITY OF LEBANON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

(With Summarized Comparative Data for December 31, 2012)

	General	Community Development Block Grant	HOME	Bridge Over Norfolk South	Redevelopment	Non-major	Totals	
							2013	2012
ASSETS								
Cash and cash equivalents	\$ 987,963	\$ 140,414	\$ 23,425	\$ 203	\$ 4,096	\$ 967,871	\$ 2,123,972	\$ 2,544,422
Receivables								
Accounts	317,667	1,311	-	-	1,605	3,408	323,991	466,806
Taxes	2,716,785	-	-	-	-	-	2,716,785	3,025,117
Grants	41,672	144,786	4,575	320,895	1,417,864	425,966	2,355,758	3,358,697
Conditional grants	-	-	-	-	14,241	15,815	30,056	35,956
Loans	1,196	1,090,370	1,833,999	-	33,660	636,521	3,562,086	3,555,513
Program loans	-	58,362	37,809	-	-	171,521	301,352	282,450
Inventory	11,883	-	-	-	-	-	11,883	53,154
Due from other funds	1,735,896	-	580	-	-	40,622	1,777,098	720,481
Prepaid expenditures	92,802	1,025	-	-	-	1,025	94,852	162,997
Restricted Assets:								
Cash and cash equivalents	105,032	-	-	-	-	-	105,032	76,896
TOTAL ASSETS	6,010,896	1,436,268	1,900,388	321,098	1,471,466	2,262,749	13,402,865	14,282,489
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
LIABILITIES								
Accounts payable	649,997	140,221	4,620	320,895	61,025	110,873	1,287,631	3,073,736
Customer deposits	118,659	985	96	-	-	1,000	120,740	108,449
Accrued expenses and withholdings	357,733	4,771	-	-	-	3,469	365,973	314,262
Due to other funds	95,938	240	-	-	1,362,540	371,511	1,830,229	773,612
TOTAL LIABILITIES	1,222,327	146,217	4,716	320,895	1,423,565	486,853	3,604,573	4,270,059
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue - property taxes	1,819,619	-	-	-	-	-	1,819,619	2,171,019
Unavailable revenue - other	-	-	-	-	-	124,515	124,515	159,889
Unavailable revenue - receivables	-	1,091,692	1,848,469	-	14,241	690,039	3,644,441	3,622,051
TOTAL DEFERRED INFLOWS OF RESOURCES	1,819,619	1,091,692	1,848,469	-	14,241	814,554	5,588,575	5,952,959
FUND BALANCES								
Nonspendable	104,685	1,025	-	-	-	1,025	106,735	216,151
Restricted	-	197,334	47,203	203	33,660	964,927	1,243,327	1,156,299
Assigned	991,094	-	-	-	-	-	991,094	871,012
Unassigned (Deficit)	1,873,171	-	-	-	-	(4,610)	1,868,561	1,816,009
TOTAL FUND BALANCES	\$ 2,968,950	\$ 198,359	\$ 47,203	\$ 203	\$ 33,660	\$ 961,342	\$ 4,209,717	\$ 4,059,471

The accompanying notes are an integral part of these financial statements.

**CITY OF LEBANON
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

TOTAL GOVERNMENTAL FUND BALANCES \$ 4,209,717

Amounts reported for government activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 55,056,055

An Internal Service Fund is used by the City to charge the costs of medical benefits to the individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net position. 519,180

Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds. 1,819,619

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Accrued interest	\$	(1,580)	
Bonds payable		(215,000)	
Compensated absences		(47,406)	
Other post-employment benefits		<u>(8,056,682)</u>	<u>(8,320,668)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 53,283,903

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Summarized Comparative Data for the Year Ended December 31, 2012)

	General	Community Development Block Grant	HOME	Bridge Over		Redevelopment	Non-major	Totals	
				Norfolk	South			2013	2012
REVENUES									
Taxes	\$ 8,056,104	-	\$ -	\$ -	-	\$ -	-	\$ 8,056,104	\$ 8,311,872
Licenses and permits	534,503	-	-	-	-	-	-	534,503	506,631
Fines and forfeitures	504,320	-	-	-	-	-	-	504,320	529,068
Interest and rents	42,010	17,378	55,345	110	1,493	5,099	-	121,435	144,859
Intergovernmental	970,404	689,069	117,554	5,451,091	847,439	1,396,723	-	9,472,280	15,993,580
Charges for services	595,278	-	-	-	-	-	-	595,278	605,371
Miscellaneous income	17,019	240	183	-	7,797	74,696	-	99,935	84,973
TOTAL REVENUES	10,719,638	706,687	173,082	5,451,201	856,729	1,476,518	-	19,383,855	26,176,354
EXPENDITURES									
Current:									
General governmental	833,279	-	-	-	-	-	-	833,279	846,509
Public safety	8,303,527	-	-	-	-	66,652	-	8,370,179	7,956,857
Public works	839,367	408,486	-	5,451,091	-	456,820	-	7,155,764	14,263,777
Culture and recreation	340,914	9,900	-	-	-	685,868	-	1,036,682	427,147
Economic development	-	202,744	173,082	-	920,104	154,624	-	1,450,554	1,316,884
Miscellaneous	343,964	-	-	-	-	-	-	343,964	392,554
Debt service:									
Principal	50,000	-	-	-	-	45,000	-	95,000	90,000
Interest	7,605	-	-	-	-	8,710	-	16,315	17,226
TOTAL EXPENDITURES	10,718,656	621,130	173,082	5,451,091	920,104	1,417,674	-	19,301,737	25,310,954
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	982	85,557	-	110	(63,375)	58,844	-	82,118	865,400
OTHER FINANCING SOURCES (USES)									
Proceeds from sale of fixed assets	18,128	-	-	-	-	-	-	18,128	-
Proceeds from tax anticipation notes	50,000	-	-	-	-	-	-	50,000	50,000
Transfers in	93,000	-	-	-	-	94,332	-	187,332	142,510
Transfers out	(94,332)	(93,000)	-	-	-	-	-	(187,332)	(142,510)
TOTAL OTHER FINANCING SOURCES (USES)	66,796	(93,000)	-	-	-	94,332	-	68,128	50,000
NET CHANGE IN FUND BALANCES	67,778	(7,443)	-	110	(63,375)	153,176	-	150,246	915,400
FUND BALANCES, BEGINNING OF YEAR	2,901,172	205,802	47,203	93	97,035	808,166	-	4,059,471	3,144,071
FUND BALANCES, END OF YEAR	\$ 2,968,950	\$ 198,359	\$ 47,203	\$ 203	\$ 33,660	\$ 961,342	\$ -	\$ 4,209,717	\$ 4,059,471

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$150,246

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, 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 capital outlays (\$6,209,711) exceeded depreciation expense (\$1,408,410).		4,801,301
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred inflows of resources increased by this amount this year.		(351,400)
The issuance of long-term debt (e.g. loans payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		45,000
An Internal Service Fund is used by the City to charge the costs of medical benefits to the individual funds. The net income of the Internal Service Fund is reported with the governmental activities.		(227,723)
Gain or loss on capital asset disposals are reported at the fund level only to the extent of any proceeds received from the sale, while governmental activities reflect the economic impact of a gain or loss.		(625)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for the transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, assets are not recognized in governmental funds unless they represent current financial resources but are recognized in the statement of activities as they accrue. The following differences, therefore, occurred between the statement of activities and the governmental funds.		
Accrued interest	\$ (491)	
Compensated absences	(3,624)	
Other post-employment benefits	<u>(1,202,335)</u>	<u>(1,206,450)</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ 3,210,349</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEBANON
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original and Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
REVENUES			
Taxes	\$ 7,720,169	\$ 8,056,104	\$ 335,935
Licenses and permits	462,175	534,503	72,328
Fines and forfeitures	494,650	504,320	9,670
Interest and rents	28,623	42,010	13,387
Intergovernmental	861,270	970,404	109,134
Charges for services	572,460	595,278	22,818
Miscellaneous income	3,600	17,019	13,419
TOTAL REVENUE	<u>10,142,947</u>	<u>10,719,638</u>	<u>576,691</u>
EXPENDITURES			
Current:			
General governmental	869,998	833,279	36,719
Public safety	8,485,903	8,303,527	182,376
Public works	943,747	839,367	104,380
Culture and recreation	357,916	340,914	17,002
Miscellaneous	345,213	343,964	1,249
Debt service:			
Principal	53,710	50,000	3,710
Interest	9,850	7,605	2,245
TOTAL EXPENDITURES	<u>11,066,337</u>	<u>10,718,656</u>	<u>347,681</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(923,390)</u>	<u>982</u>	<u>924,372</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of fixed assets	1,000	18,128	17,128
Proceeds from tax anticipation notes	-	50,000	50,000
Transfers in	92,000	93,000	1,000
Transfers out	(40,622)	(94,332)	(53,710)
TOTAL OTHER FINANCING SOURCES	<u>52,378</u>	<u>66,796</u>	<u>14,418</u>
NET CHANGE IN FUND BALANCE	(871,012)	67,778	938,790
FUND BALANCE, BEGINNING OF YEAR	<u>2,901,172</u>	<u>2,901,172</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,030,160</u>	<u>\$ 2,968,950</u>	<u>\$ 938,790</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LEBANON
STATEMENTS OF NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2013 AND 2012**

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 93,713	\$ 824,573
Accounts receivable	786,560	341
Due from other funds	53,131	53,131
Prepaid expenses	19,888	19,888
TOTAL ASSETS	\$ 953,292	\$ 897,933
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accrued health benefits	\$ 75,277	\$ 64,940
Unearned revenue	358,835	86,090
TOTAL LIABILITIES	434,112	151,030
NET POSITION		
Unrestricted	519,180	746,903
TOTAL LIABILITIES AND NET POSITION	\$ 953,292	\$ 897,933

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Charges for services	\$ 1,557,176	\$ 1,746,968
Interest income	<u>1,897</u>	<u>2,425</u>
TOTAL OPERATING REVENUES	<u>1,559,073</u>	<u>1,749,393</u>
OPERATING EXPENSES		
Employee benefits	1,779,720	1,502,049
Professional services	<u>7,076</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>1,786,796</u>	<u>1,502,049</u>
OPERATING INCOME (LOSS)	(227,723)	247,344
NET POSITION, BEGINNING OF YEAR	<u>746,903</u>	<u>499,559</u>
NET POSITION, END OF YEAR	<u>\$ 519,180</u>	<u>\$ 746,903</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from users	\$ 1,043,702	\$ 1,746,912
Payments to suppliers	(1,776,459)	(1,484,066)
Interest income	1,897	2,425
	<u>(730,860)</u>	<u>265,271</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
	<u>(730,860)</u>	<u>265,271</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(730,860)</u>	<u>265,271</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>824,573</u>	<u>559,302</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 93,713</u>	<u>\$ 824,573</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (227,723)	\$ 247,344
Adjustment to reconcile operating income (loss) to net cash (used) provided by operating activities:		
Increase in assets:		
Accounts receivable	(786,219)	(56)
Increase in liabilities:		
Accounts payable	10,337	17,983
Unearned revenue	272,745	-
	<u>(730,860)</u>	<u>265,271</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (730,860)</u>	<u>\$ 265,271</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON
STATEMENTS OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 920,833	\$ 606,589
Investments	20,507,434	17,962,366
Accounts receivable	<u>25,049</u>	<u>21,816</u>
TOTAL ASSETS	<u><u>\$ 21,453,316</u></u>	<u><u>\$ 18,590,771</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	<u>\$ -</u>	<u>\$ 882</u>
TOTAL LIABILITIES	<u>-</u>	<u>882</u>
NET POSITION		
Assets held in trust for pension benefits	<u>21,453,316</u>	<u>18,589,889</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 21,453,316</u></u>	<u><u>\$ 18,590,771</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON
STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ADDITIONS		
Contributions:		
Employee	\$ 190,320	\$ 178,104
Employer	444,810	302,115
Commonwealth	<u>632,273</u>	<u>614,146</u>
Total Contributions	<u>1,267,403</u>	<u>1,094,365</u>
INVESTMENT INCOME		
Interest and dividends	340,920	346,213
Net appreciation in fair value of investments	<u>2,659,008</u>	<u>1,672,945</u>
Total Investment Income	2,999,928	2,019,158
Less investment expenses	<u>112,372</u>	<u>144,798</u>
Net Investment Income	<u>2,887,556</u>	<u>1,874,360</u>
TOTAL ADDITIONS	<u>4,154,959</u>	<u>2,968,725</u>
DEDUCTIONS		
Administrative costs	2,772	2,667
Refunded contributions	-	69,420
Retirement benefits	<u>1,288,760</u>	<u>1,297,673</u>
TOTAL DEDUCTIONS	<u>1,291,532</u>	<u>1,369,760</u>
CHANGE IN NET POSITION	2,863,427	1,598,965
NET POSITION, BEGINNING OF YEAR	<u>18,589,889</u>	<u>16,990,924</u>
NET POSITION END OF YEAR	<u><u>\$ 21,453,316</u></u>	<u><u>\$ 18,589,889</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lebanon (the "City") have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Financial Reporting Entity

The City was incorporated in 1868 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. The City is a third-class city as defined by state statutes and operates under a Home Rule Charter form of government, which consists of an elected Mayor and the City Council (the "Council"). The City provides various services to its residents including public safety, public works, culture and recreation, economic development, and general administrative services.

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus," established the criteria for determining the activities, organizations, and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the City's financial reporting entity are financial interdependencies, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service, and special financing relationships.

The City has determined that no other outside agency meets the above criteria and; therefore, no other agency has been included as a component unit in the City's financial statements. In addition, the City is not aware of any entity which would exercise such oversight which would result in the City being considered a component unit of the entity.

Entity-wide and Fund Financial Statements

The entity-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 City.

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the last are excluded from the entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds. In addition, the fund financial statements present fiduciary funds by fund type.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The entity-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on their use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital projects funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

The 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 become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific City expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other revenues, including charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Long-term debt issues and acquisitions under capital leases are reported as other financing sources.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses. The funds are grouped into three types. The following is a description of the fund types used by the City in the accompanying basic financial statements.

Governmental Fund Types

Governmental funds are used to account for the City's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the City's major governmental fund types:

General Fund – This fund is used to account for the general operating activities of the City. General government, public safety, public works, culture and recreation, and economic development are financed through this fund with receipts from general property taxes, transfer taxes, licenses and permits, investment interest, fines, charges for current services, intergovernmental, and other revenue.

Community Development Block Grant Fund – This fund is used to report financial resources that are restricted for community development service expenditures.

HOME Fund – This fund is used to account for grants and contributions that are restricted for the low-income housing development service expenditures.

Bridge Over Norfolk South Fund – This fund is used to account for state and federal funding awarded for a bridge project. The purpose of the funding is restricted to the design and construction of the bridge.

Redevelopment Fund – This fund is used to report financial resources that are restricted for redevelopment within the City.

Non-major Governmental Funds – In addition to the above major governmental funds, the City includes the Special Revenue Funds, Debt Service Fund, and Permanent Fund in its financial statements.

Special Revenue Funds – Special Revenue Funds are used to account for specific revenues that are legally restricted or internally committed to expenditures for particular purposes. The following special revenue funds are included in the governmental fund financial statements as non-major funds: Police Contribution Fund, Public Works Contribution Fund, Recreation Contribution Fund, Main Street Contribution Fund, Police Special Revenue Fund, Capital Reserve Fund, Liquid Fuels Fund, Rental Rehab Fund, Enterprise Zone Fund, Downtown Rehab Fund, Bridge Over Norfolk South Right of Way Fund, Act 137 Fund, Hazel Dyke Fund, Schropp Estate Fund, Lauther Trust Fund, Economic Development Fund, and the State Housing and Redevelopment Assistance Fund.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Debt Service Fund – The Debt Service Fund accounts for the resources accumulated and payments made for the principal and interest on long-term general obligation debt of governmental funds.

Permanent Fund – This fund is used to report the resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. The Louser Memorial Fund is included in the governmental fund financial statements as a permanent fund.

Other Fund Type

Internal Service Fund – This fund is used to account for the financing of dental and health insurance costs for the City's departments.

Fiduciary Fund Type

Trust Fund – Trust funds are used to account for the assets held by the pension plan for the police and paid firemen's pension plans. The pension plans, which are part of the City's legal entity, are single-employer defined benefit pension plans that provide benefits to City employees.

Interfund Transactions

With limited exceptions, the effects of interfund activity have been eliminated from the entity-wide financial statements. Exceptions include charges by one government function to another where services have been provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

Deposits and Investments

For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments for the City are reported at fair value.

Inventories and Prepaid Items

Inventories of the governmental activities are valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both entity-wide and fund financial statements.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, including property, plant, and equipment, are reported in the entity-wide financial statements. The City has defined capital assets as assets with an initial, individual cost of more than \$5,000; capital projects, inclusive of ancillary costs, in excess of \$100,000; and an estimated useful life in excess of one year. Capital assets may be purchased or constructed and are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

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

Buildings and improvements	20 - 40 years
Infrastructure	30 - 50 years
Machinery and equipment	2 - 15 years
Automotive equipment	2 - 8 years

Compensated Absences

Compensated absences consist of sick leave to the extent that payments to the employee for the absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee. The liability is based on the sick leave accumulated at December 31 by all employees and is calculated using pay rates in effect at the statement of net position date reduced to the maximum payment allowed by policy or agreement.

The City's non-uniformed non-bargaining employees earn sick leave according to the provisions of their personnel policy manual. Full-time employees receive a lump sum payment for unused, accumulated sick leave upon retirement if they have completed at least 10 years of service. Maximum limits for the lump sum payment depend on the years of service accumulated by the employee.

The City's non-uniformed, union employees earn sick leave according to requirements outlined in their master agreement. Permanent, full-time hourly wage employees receive a lump sum payment for unused, accumulated sick leave upon retirement if they have completed at least 10 years of service. Maximum limits for the lump sum payment depend on the years of service accumulated by the employee.

According to their master agreements, police officers receive \$2 per day of unused sick leave upon retirement, up to a maximum accumulation of 300 days and firefighters receive \$5 per day for unused sick leave upon retirement, up to a maximum of 180 days.

The compensated absence liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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.

At the government-wide level, the City currently has one type of item that qualifies for reporting in this category. The item is reported in the statement of net position as long-term receivables for the revolving loan funds.

The governmental funds report three items that qualify for reporting in this category. The City has property taxes and certain long-term receivables. The items are reported as unavailable revenue and are recognized as an inflow of resources in the period the amounts become available.

Fund Equity

The City has implemented the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds.

Fund balance will be displayed in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – amounts that cannot be spent because they are in nonspendable form (e.g., inventory), or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

Restricted – amounts limited by external parties or legislation (e.g., grants or donations and constraints imposed through a debt covenant).

Committed – amounts limited by Council policy (e.g., future anticipated costs). These constraints can be removed or changed by equal levels of action. Action or constraint resources should occur prior to fiscal year end. To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned – amounts that are intended for a particular purpose such as future benefits funding or segregation of an amount intended to be used at some time in the future. This intent can be expressed by the Council or through the Council delegating this responsibility to the City Manager through the budgetary process.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Unassigned – amounts available for consumption or not restricted in any manner.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted as they are needed. When committed, assigned, and unassigned funds are available for expenditure, it is the City's policy to use committed funds first, assigned funds second, and unassigned funds last, unless the City Council has provided otherwise in its commitment or assignment actions.

Property Taxes

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on March 1 and are payable on or before July 1. Taxes paid before May 31 are given a two percent discount. Taxes paid after the payable date are assessed a 10 percent penalty. Taxes not received on a timely basis are directed to the County of Lebanon for collection. The City bills and collects its own property taxes. City property tax revenues are recognized on a *pro rata* basis. The assessed value at January 1, 2013, upon which the 2013 levy was based, was \$864,678,092 with a real estate tax assessment of \$3,161,615. The property tax rate for 2013 was \$3.58 per \$1,000 of assessed value.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted Assets

Certain assets are classified as restricted at the entity-wide level because they are maintained in separate bank accounts, and their use is limited.

Budgetary Information

Commonwealth of Pennsylvania statutes require that city governments establish budgetary systems and adopt annual operating budgets. The City's annual budget is based on estimates of revenues and expenditures approved by Council. The City prepares formal budgets for the General Fund and the Liquid Fuels Fund, and follows the following procedures as outlined in the City's Home Rule Charter in establishing the budgetary data reflected in the financial statements:

- a. At least 60 days prior to the beginning of the fiscal year, the Mayor prepares and submits a budget to the Council presenting the financial plan for conducting the affairs of the City for the ensuing year. The budget submitted by the Mayor to the Council must be balanced so that anticipated revenues and funds available are at least equal to estimated expenditures.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

- b. After submission to the Council, prior to and after adoption, the budget is deemed to be a public record available for inspection during regular business hours.
- c. Within 15 days after submission of the annual budget to the Council, the City Clerk gives public notice regarding the time and place of public hearings on the annual budget. The public hearings take place at a time and place designated by the City Council.
- d. After the public hearings are held, the Council or Committee(s) of the Council reviews the budget. The financial staff of the City assists the Council in formatting any proposed modifications so that they are appropriate to the budget format submitted and recommended by the Mayor.
- e. By December 1, the City Council adopts a budget by ordinance for each of the funds of the City Government, which will be balanced so that estimates of revenues and funds available are at least equal to estimated expenditures.
- f. By December 5, the City Clerk submits the budget adopted by the Council to the Mayor, specifying separately and distinctly any modifications, additions, increases, or decreases made to the Mayor's recommended budget by the Council. If the Mayor approves all such modifications, changes, increases, or decreases, he or she signs the budget and the statement of all individual changes and returns them to the City Clerk. The budget, including all such changes, is then deemed to be adopted.
- g. If the Mayor objects to the budget as a whole, or to any of the individual modification, changes, increases, or decreases, he or she may veto the entire budget or any of the individual changes by submitting a written statement of his or her objections and an indication of veto by no later than December 12.
- h. Council is required to meet no later than December 15 to consider the Mayor's veto on the budget or any individual changes. If after consideration, a majority plus one of the members of the Council in office votes to override the Mayor's veto if the budget or the proposed changes, the adopted budget, together with any changes not objected to by the Mayor, and any changes objected to by the Mayor and overruled by the Council, shall be deemed to be the adopted budget of the City for the ensuing year.
- i. If the Council fails to take action by no later than December 1, then the budget submitted by the Mayor to Council shall be the budget for the ensuing fiscal year.
- j. If the Council takes action by December 1 and the Mayor refuses to exercise approval or veto power on the budget and any changes made by the Council, then the budget adopted by the Council is deemed to be the budget for the ensuing fiscal year.
- k. If Council has adopted a budget by December 1, and the Mayor has indicated his or her veto of the budget as a whole or of various changes, and the Council has not taken action to consider the Mayor's veto, then the Mayor's veto will be deemed to have been sustained; and the budget for the ensuing year is deemed to be the budget adopted by Council with the changed vetoed by the Mayor.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

I. The budget lapses at year end.

The formal budgetary process is employed as a planning device. The adopted budget is on a basis consistent with GAAP. For 2013, there were no revisions to the legally adopted budget.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the City's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

For the year ended December 31, 2013, the General Fund incurred no expenditures in excess of appropriations.

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Third Class City Code authorizes the City's Council to invest the City's funds consistent with sound business practice and as authorized by the Local Government Unit Debt Act. Authorized types of investments for the City's funds are as follows:

- United States Treasury bills.
- Short-term obligations of the United States Government or its agencies or instrumentalities.
- Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Trust, National Credit Union Share Insurance Fund, Pennsylvania Deposit Insurance Corporation, or Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that appropriate collateral as provided by law is pledged by the depository.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

- Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America; (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth; or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for city funds listed in the items above.
- Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Trust, National Credit Union Share Insurance Fund, Pennsylvania Deposit Insurance Corporation, or Pennsylvania Savings Association Insurance Corporation to the extent that such amounts are so insured. For amounts exceeding the insured maximum, such certificates of deposit are to be collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks are limited to an amount equal to twenty per centum of a bank's total capital surplus. Certificates of deposit purchased from savings and loan associations or savings banks are limited to an amount equal to twenty per centum of an institution's assets minus liabilities.
- Any investment authorized by 20 Pa.C.S. Ch. 73 (relating to fiduciary investments) is an authorized investment for any pension or retirement fund.

In making investments of City funds, the Council has the authority to permit assets pledged as collateral to be pooled to secure deposits of the public funds. In addition, Council is permitted to combine money from more than one fund under City control for the purchase of a single investment, provided that each of the funds combined is accounted for separately, and the earnings are separately computed and recorded.

A reconciliation of the financial statement presentation to the cash and cash equivalents and investment totals is detailed below.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Governmental activities	\$ 2,217,685	\$ -	\$ 2,217,685
Governmental activities, restricted	105,032	-	105,032
Fiduciary funds	920,833	20,507,434	21,428,266
Totals	<u>\$ 3,243,550</u>	<u>\$ 20,507,434</u>	<u>\$ 23,750,983</u>

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2013, the carrying amount of the City's deposits was \$3,243,550 and the bank balance was \$3,612,536. Of the bank balance, \$548,124 was covered by federal depository insurance and \$2,805,781 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the City's name. The remaining balance cash deposits totaling \$258,631 are in PLGIT. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like money market mutual funds in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization (Standard and Poor's rating of AAA as of December 31, 2013), and is subject to an independent annual audit.

Investments

As of December 31, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Percentage of Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Government Treasuries	7.58%	< 5 Years	\$ 1,554,914
U.S. Government Agency Obligations	1.44%	< 5 Years	294,841
Bond Mutual Funds	16.24%	< 5 Years	3,330,106
Equities and Equity Mutual Funds	74.74%	N/A	15,327,573
Total Investments			<u>\$ 20,507,434</u>

U.S. Treasury bills are securities of agencies of the U.S. Government that have an implied but not explicit guarantee. Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Police Pension Plan and the City do not have formal investment policies that would limit the investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The Paid Firemen's Pension Fund limits individual fixed income securities to maturities of 30 years or less.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no formal investment policy pertaining to credit risk. The Police Pension Plan requires that fixed income securities, other than U.S. Treasury and U.S.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

Government Agency investments have a Moody's, Standard & Poor's, and/or Fitch's credit quality rating of not less than "BBB." The Paid Firemen's Pension Plan limits the purchase of corporate or tax-exempt debt issues that meet or exceed a credit rating of "A" from Moody's and/or Standard & Poor's at the time of purchase. At December 31, 2013, the City's investments included only unrated bond mutual funds.

The Police Pension Plan provides that domestic equities holdings in any one company shall not exceed more than 10 percent of the fair value of the portfolio. Additionally, the policy provides that not more than 35 percent of the fair value of the portfolio shall be invested in any one economic sector. For domestic fixed income securities, no one issuer, other than securities of the U.S. Government or agencies, shall exceed 10 percent of the fair value of the fixed income portfolio. For international equities, equity holdings in any one company is not to exceed more than 10 percent of the international equity portfolio and no more than 35 percent of the portfolio is to be invested in one industry category.

The Paid Firemen's Pension Plan limits equities to five percent of the account's fair value for an individual security and 20 percent for a particular industry. For fixed income funds, investments in securities of single issues, with the exception of the U.S. Government and its agencies, must not exceed five percent of the fund's fair value.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investments subject to custodial credit risk.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable as of the year end for the City's individual major funds and non-major funds in the aggregate are as follows:

	General Fund	Community Development Block Grant Fund	HOME Fund	Bridge Over Norfolk South Fund	Redevelopment	Non-major Funds	Total
Taxes:							
Real estate	\$ 377,585	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 377,585
Earned income	2,229,176	-	-	-	-	-	2,229,176
Local services	110,024	-	-	-	-	-	110,024
Total Taxes	2,716,785	-	-	-	-	-	2,716,785
Accounts	317,667	1,311	-	-	1,605	3,408	323,991
Grants	41,672	144,786	4,575	320,895	1,417,864	425,966	2,355,758
Total Receivables	\$ 3,076,124	\$ 146,097	\$ 4,575	\$ 320,895	\$ 1,419,469	\$ 429,374	\$ 5,396,534

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 4 ACCOUNTS RECEIVABLE (cont'd)

Council adopted Bill No. 21, Sessions 2010-2011, on April 25, 2011, approving an intermunicipal agreement with other Lebanon County municipalities and school districts to provide for a compromise of disputes relating to the collection and distribution of earned income taxes by the Lebanon County Earned Income Tax Bureau ("Bureau"). According to an independent report conducted by a local accounting firm, the Bureau's actual allocation of earned income tax revenues within Lebanon County from 2004 through 2007 either over-compensated or under-compensated each Lebanon taxing jurisdiction. As a result, the report estimates that revenues of \$1,447,958 are due to the City. The Agreement provides for the City to be repaid for those underpayments over a 10-year period. The affected municipalities and school districts had not all adopted the agreement as of the date of this report. However, the City intends to take legal action in order to recover the \$1.4 million. As of December 31, 2013, \$1,158,454 is recorded as a receivable and unearned revenue.

NOTE 5 LOAN PROGRAMS

Conditional grants, deferred loans, and program loans totaling \$30,056, \$3,562,086, and \$301,352, respectively, have been recorded as receivables at December 31, 2013. Unavailable revenues totaling \$124,515 and unavailable receivables totaling \$3,664,441 have been recorded to offset the conditional grants, deferred loans, and program loans. As these loans are repaid, the City will use the funds to enter into another loan agreement based on the loan programs' criteria.

Community Development Block Grant Program

The Community Development Block Grant Program provided funds to the City for the purpose of making loans to individuals within the City to finance rehabilitation of residential property. At December 31, 2013, loans outstanding from the rehabilitation project totaled \$58,362. The loan agreements require repayment of principal and interest, ranging from three percent to five percent, over terms of one to fifteen years.

The Community Development Block Grant Program also disburses funds in the forms of conditional grants and deferred loans for homeowners, and conditional grants for investors for rehabilitation of rental units for lower-income tenants. Conditional grants for eligible low-income homeowners are available for up to \$5,000 to make repairs to homes in the City. The grants are forgiven at the rate of 20 percent each year for five years, unless the forgiveness is frozen by the Rehab Committee. Of the property sold, transferred, or vacated before the end of the five years, the unforgiven portion of the grant must be repaid. Conditional grants are secured with a judgment note. There were no principal balances outstanding at December 31, 2013 for these conditional grants.

Deferred loans are secured by a mortgage on the property. Repayment of the loan is deferred until the property is sold or until the original occupant moves out. The principal balance outstanding at December 31, 2013 for these loans totaled \$1,090,370 and the deferred balance, including finance charges and penalties, was \$1,091,692.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LOAN PROGRAMS (cont'd)

Home Grant and Homebuyer Program

The Home Grant Program also disburses funds in the form of loans. The principal balances outstanding at December 31, 2013 for the loans amounted to \$37,809.

In addition, the Home Grant Program and the Homebuyer Program also disburse funds in the form of deferred payment loans for low and modest-income households. The deferred payment loans are secured by a mortgage on the property. Repayment of the loan is deferred. The principal balances outstanding at December 31, 2013 for these loans totaled \$1,833,999 in the HOME Fund and \$3,949 in the ACT 137 (non-major) Fund. Deferred inflows of resources, including finance charges and penalties, were \$1,857,134.

Downtown Revitalization Program

State funds received through a Downtown Revitalization Program Grant and funds received through the General Fund were matched with Community Development Block Grants Funds to finance rehabilitation of rental units located in the City's downtown "Enterprise Zone." The loan agreements require repayment of principal and interest, ranging from three to five percent, over terms of one to fifteen years. The December 31, 2013 principal balance outstanding totaled \$137,572 in the Enterprise Zone (non-major) fund and \$1,196 in the General Fund.

The Downtown Revitalization Program also disburses funds in the form of conditional grants and deferred loans. The principal balance outstanding at December 31, 2013 for the conditional grants amounted to \$15,815 in the Enterprise Zone (non-major) Fund and \$14,241 in the Redevelopment Assistance Fund. The principal balance for the deferred loans amounted to \$90,000 in the Enterprise Zone (non-major) Fund, \$81,521 in the State Housing and Redevelopment (non-major) Fund, and \$33,660 in the Redevelopment Assistance Fund. Deferred inflows of resources for the deferred loans totaled \$201,577.

The grant contract for the Downtown Revitalization Program does not stipulate how the principal and interest payments for these loans may be used. An interest-bearing account has been established where the principal and interest payments will be held until future eligible projects are requested and approved. Funds will then be put back into the program.

Housing and Redevelopment Assistance Program

State funds received through the Housing and Redevelopment Assistance Grant were disbursed in the form of deferred loans for community revitalization projects. The loan agreements require repayment of principal and interest at rates ranging from two to three percent over a 30-year term. The principal balances outstanding at December 31, 2013 for these loans totaled \$495,000 in the State Housing and Redevelopment (non-major) Fund. Deferred inflows of resources, including finance charges and penalties, totaled \$498,754.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2013 is as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 1,735,896	\$ 95,938
Community Development Block Grant Fund	-	240
HOME Fund	580	-
Redevelopment	-	1,362,540
Non-major Funds	40,622	371,511
Internal Service Fund	53,131	-
Totals	<u>\$ 1,830,229</u>	<u>\$ 1,830,229</u>

These interfund receivables and payables represent planned transfers between funds to reimburse operating expenditures for which cash was not moved prior to year end.

The City made the following interfund operating transfers during the year ended December 31, 2013. The transfers were made to make debt payments and reimburse the General Fund for indirect costs.

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 93,000	\$ 94,332
Community Development Block Grant Fund	-	93,000
Non-major Funds	94,332	-
Totals	<u>\$ 187,332</u>	<u>\$ 187,332</u>

NOTE 7 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 951,802	\$ -	\$ -	\$ 951,802
Construction-in-progress	9,920,963	666,043	9,833,726	753,280
Total Capital Assets Not Being Depreciated	<u>10,872,765</u>	<u>666,043</u>	<u>9,833,726</u>	<u>1,705,082</u>
Capital assets being depreciated:				
Buildings and improvements	7,269,697	14,131	-	7,283,828
Infrastructure	49,769,638	15,278,244	-	65,047,882
Machinery and equipment	814,882	13,903	13,122	815,663
Automotive equipment	2,277,726	71,116	188,446	2,160,396
Total Capital Assets Being Depreciated	<u>60,131,943</u>	<u>15,377,394</u>	<u>201,568</u>	<u>75,307,769</u>

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 7 CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation	20,749,329	1,408,410	200,943	21,956,796
Total Capital Assets Being Depreciated, Net	39,382,614	13,968,984	625	53,350,973
Governmental Activities, Net	<u>\$50,255,379</u>	<u>\$14,635,027</u>	<u>\$ 9,834,351</u>	<u>\$55,056,055</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 1,156,992
Public safety	75,698
Public works	124,418
Culture and recreation	<u>51,302</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,408,410</u>

NOTE 8 BONDS AND NOTES PAYABLE

Tax Anticipation Note

The City issued a tax revenue anticipation note in advance of property tax collections, depositing the proceeds in its General Fund. This note was necessary because the City's operating expenditures must be made in advance of the tax collections, which are received shortly before their July due dates.

Total interest and fees paid on the tax revenue anticipation note during the year ended December 31, 2013 totaled \$7,605 and were paid for by the General Fund.

General Obligation Bonds

In 1999 the County of Lebanon (the "County") issued General Obligation Bonds, Series of 1999, to pay for improvements to the municipal building jointly owned by the City and County. That same year, the City entered into a subsidy agreement with the County to assist in the repayment of a portion of the Bonds that was directly related to the City's obligations. The principal and interest payments on the obligations of the City and the note subsidy agreement with the City were secured in full faith, credit, and taxing power of the City.

In 2004, the General Obligation Bonds, Series of 1999, were refinanced by the County issued General Obligation Bonds, Series of 2004; however, the 1999 subsidy agreement between the City and the County remained in place. The principal amount of the 2004 Bonds attributable to the City under the subsidy agreement totaled \$515,000. Principal payments

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 8 BONDS AND NOTES PAYABLE (cont'd)

were due annually on October 15 until 2018. Interest on the unpaid principal balance ranged from 1.65 percent to 4.45 percent and was payable on April 15 and October 15 until the bonds matured. The 2004 Bonds were currently refunded in 2009.

On August 12, 2009, the County refunded the General Obligation Bonds, Series of 2004. The principal amount of the 2009 Bonds attributable to the City under the original subsidy agreement totaled \$380,000. Principal payments were due annually on October 15 from 2010 through 2015, and 2019 through 2021. Interest on the unpaid principal balance ranged from 2.0 percent to 3.75 percent and was payable on April 15 and October 15 until the bonds matured. At December 31, 2013, the City's outstanding principal balance on the 2009 Bonds was \$215,000.

A schedule of changes in short and long-term obligations is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Short-term obligations:					
Tax Revenue Anticipation Note	\$ -	\$ 50,000	\$ 50,000	\$ -	\$ -
Long-term obligations:					
General Obligation Bonds, Series of 2009	260,000	-	45,000	215,000	45,000
Compensated absences	43,782	3,624	-	47,406	-
Total Long-term Obligations	<u>303,782</u>	<u>3,624</u>	<u>45,000</u>	<u>262,406</u>	<u>45,000</u>
Total Obligations	<u>\$ 303,782</u>	<u>\$ 53,624</u>	<u>\$ 95,000</u>	<u>\$ 262,406</u>	<u>\$ 45,000</u>

An analysis of debt service requirements to maturity on the loans is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Maturities</u>
2014	\$ 45,000	\$ 7,585	\$ 52,585
2015	15,000	6,235	21,235
2016	-	5,785	5,785
2017	-	5,785	5,785
2018	-	5,785	5,785
2019-2021	<u>155,000</u>	<u>10,598</u>	<u>165,598</u>
Total	<u>\$ 215,000</u>	<u>\$ 41,773</u>	<u>\$ 256,773</u>

Bond payments are generally liquidated by the Debt Service Fund. Compensated absences are generally liquidated by the General Fund.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 9 FUND BALANCE

As of December 31, 2013, fund balances are composed of the following:

	General Fund	Community Development Block Grant Fund	HOME Fund	Bridge Over Norfolk South Fund	Re devel- opment	Non- major Fund	Govern- mental Funds
Nonspendable:							
Prepaid Items	\$ 92,802	\$ 1,025	\$ -	\$ -	\$ -	\$ 1,025	\$ 94,852
Inventory	11,883	-	-	-	-	-	11,883
Total Nonspendable	104,685	1,025	-	-	-	1,025	106,735
Restricted:							
Public safety	-	-	-	-	-	66,743	66,743
Public works	-	-	-	203	-	175,127	175,330
Culture and recreation	-	-	-	-	-	379,174	379,174
Economic development	-	197,334	47,203	-	33,660	297,736	575,933
Permanent	-	-	-	-	-	46,147	46,147
Total Restricted	-	197,334	47,203	203	33,660	964,927	1,243,327
Assigned:							
2014 budget	991,094	-	-	-	-	-	991,094
Unassigned (Deficit)	1,873,171	-	-	-	-	(4,610)	1,868,561
Total Fund Balance	\$2,968,950	\$ 198,359	\$ 47,203	\$ 203	\$ 33,660	\$961,342	\$4,209,717

NOTE 10 NET INVESTMENT IN CAPITAL ASSETS

A schedule of net investment in capital assets as of December 31, 2013 is as follows:

Governmental Activities:	
Total capital assets, net	\$ 55,056,055
Less: loans/bonds payable	215,000
Total Net Investment in Capital Assets	\$ 54,841,055

NOTE 11 SELF-INSURED HEALTH BENEFITS

The City is exposed to risk of loss in the area of health insurance benefits. The Internal Service Fund is used to account for the risk associated with health benefits. The City has elected to retain a portion of the risk of loss from health benefit claims by reducing insurance coverage to obtain the benefits of reduced premium costs. The City changed its excess health benefits risk insurance, effective August 1, 1998, for claim payments in excess of the individual stop-loss and aggregate stop-loss deductible for the benefit determination period.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 11 SELF-INSURED HEALTH BENEFITS (cont'd)

The aggregate stop-loss deductible is the calculated annualized amount based on the number of employees and dependents times the determination factors with a maximum of \$5,000,000 in aggregate claims covered by the plan of insurance. During 2013, the City had approximately 151 participants in the plan. The individual stop-loss deductible for the benefit determination period is \$65,000 per employee with a maximum of \$1,000,000 in claims per individual covered by the plan of insurance.

The City maintains reserves for claims incurred and claims incurred but not reported as estimated by the City using historical data and known claims.

The self-insured health benefits liability balance is based on the requirements of Statement of Governmental Accounting Standards No. 10 (that was amended by Statement No. 20), which requires that a liability for claims be reported if information prior to the issuance of financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The following summary provides aggregate information on the prior year health benefits self-insurance liability, incurred claims, and payments during the years ended December 31, 2013 and 2012 and the ending health benefits self-insurance liability at December 31, 2013 and 2012, recorded in the City's Internal Service Fund.

<u>Year Ended December 31,</u>	<u>Beginning Liability</u>	<u>Insured Claims</u>	<u>Payments</u>	<u>Ending Liability</u>
2013	\$ 64,940	\$ 1,567,513	\$ 1,557,176	\$ 75,277
2012	46,957	1,764,951	1,746,968	64,940

NOTE 12 DEFINED BENEFIT PENSION PLANS

The City participates in two defined benefit pension plans: the Police Pension Plan ("Police Plan") and the Paid Firemen's Pension Plan ("Fire Plan"). The Police Plan, a single-employer defined benefit plan, covers all full-time uniformed police officers. The Fire Plan, a single-employer defined benefit plan, covers all full-time members of the fire department, excluding the Fire Chief and his assistants. The City contributes to both plans.

The City administers the assets of the two single-employer defined benefit plans and, accordingly, is required to prepare pension trust fund financial statements using the accrual basis of accounting. Separate pension fund financial statements for each plan have not been issued; accordingly, they are presented as required by GASB Statement No. 34, as follows:

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 DEFINED BENEFIT PENSION PLANS (cont'd)

STATEMENT OF NET POSITION - PENSION TRUST FUNDS

December 31, 2013

	Fire	Police	Totals
ASSETS			
Cash and cash equivalents	\$ -	\$ 920,833	\$ 920,833
Investments	6,347,862	14,159,572	20,507,434
Accounts receivable	-	25,049	25,049
TOTAL ASSETS	<u>\$ 6,347,862</u>	<u>\$ 15,105,454</u>	<u>\$ 21,453,316</u>
LIABILITIES AND NET POSITION			
LIABILITIES:			
Accounts payable	\$ -	\$ -	\$ -
NET POSITION:			
Assets held in trust for employee pension benefits	6,347,862	15,105,454	21,453,316
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,347,862</u>	<u>\$ 15,105,454</u>	<u>\$ 21,453,316</u>

STATEMENT OF CHANGES IN NET POSITION - PENSION TRUST FUNDS

For the Year Ended December 31, 2013

	Fire	Police	Totals
ADDITIONS			
Contributions:			
Employer contribution	\$ 14,407	\$ 430,403	\$ 444,810
Employee contribution	53,761	136,559	190,320
Commonwealth	88,463	543,810	632,273
Total Contributions	<u>156,631</u>	<u>1,110,772</u>	<u>1,267,403</u>
Investment Income:			
Interest and dividends	11,495	329,425	340,920
Net appreciation in fair value of investments	832,976	1,826,032	2,659,008
Total Investment Income	<u>844,471</u>	<u>2,155,457</u>	<u>2,999,928</u>
Less investment expense	23,084	89,288	112,372
Net Investment Income	<u>821,387</u>	<u>2,066,169</u>	<u>2,887,556</u>
TOTAL ADDITIONS	<u>978,018</u>	<u>3,176,941</u>	<u>4,154,959</u>
DEDUCTIONS			
Administrative costs	-	2,772	2,772
Benefits paid	337,078	951,682	1,288,760
TOTAL DEDUCTIONS	<u>337,078</u>	<u>954,454</u>	<u>1,291,532</u>
CHANGE IN NET POSITION	640,940	2,222,487	2,863,427
NET POSITION, BEGINNING OF YEAR	<u>5,706,922</u>	<u>12,882,967</u>	<u>18,589,889</u>
NET POSITION, END OF YEAR	<u>\$ 6,347,862</u>	<u>\$ 15,105,454</u>	<u>\$ 21,453,316</u>

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 13 PAID FIREMEN'S PENSION PLAN

Plan Description and Provisions

The Paid Firemen's Pension Plan ("Fire Plan") was established in accordance with the Third Class City Code and State statutes. All full-time members of the fire department, excluding the Fire Chief and his assistants, join the Fire Plan upon employment. The Fire Plan is reported as a Pension Trust Fund in the City's financial statements.

A participant in the Fire Plan is eligible for normal retirement after attainment of age 50 and 20 years of service, or 25 years of vesting service if hired on or after July 1, 1972. Retirees' base pension amounts are equal to 50 percent of their average monthly compensation. In addition to the base pension amount, a service increment for each full year of service in excess of 20 years worked prior to age 65 is included in the retiree's pension amount. The increment is equal to 1.25 percent of each retiree's average pay, with an annual maximum of \$1,200.

Basis of Accounting

The plan's policy is to prepare its financial statements on the accrual basis of accounting. Plan member contributions are recognized in the period on which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when paid in accordance with the terms of the plan.

Valuation of Investments

In accordance with GASB Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Membership

Fire Plan membership as of January 1, 2013, the date of the latest actuarial valuation, is presented below:

Retirees and beneficiaries currently receiving benefits	22
Terminated employees entitled to death benefits	2
Active employees	20
Total	<u>44</u>

Contributions

Members of the Fire Plan are required to contribute five percent of their pay, plus \$1 per month. The City makes contributions of the Fire Plan equal to the amount required by State statutes. The City's contributions to the Fire Plan are governed by Act 205, the Municipal Pension Plan Funding Standard and Recovery Act, which mandates minimum actuarial funding pension plans.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 13 PAID FIREMEN'S PENSION PLAN (cont'd)

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged and paid by investment earnings of the plan.

Actuarial Assumptions

The City has an actuarial valuation for the Fire Plan prepared on a biennial basis. The date of the latest actuarial valuation is January 1, 2013. The following methods and assumptions were used to prepare the valuation:

Actuarial cost method	Entry age normal cost
Asset valuation method	Five-year smoothing of gains and losses not to be greater than 120% or less than 80% of market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living increase	4.0%
Amortization method	Level Dollar, Closed
Remaining amortization period	12 years

Annual Pension Cost and Net Pension Obligation

The three-year trend information for the Fire Plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/2013	\$ 102,870	100.00%	\$ -
12/31/2012	\$ 97,758	100.00%	\$ -
12/31/2011	\$ 177,369	100.00%	\$ -

The negative events in the credit market, as well as the general economic conditions in the United States and worldwide have caused a significant decrease in investment values, either directly invested or tied to the equity markets. These declines, at present, are expected to be temporary and not permanent declines; however, equity market recovery, if it occurs, may take some time. The major resulting impact of the equity market's decline on the City will be in the form of increased annual required contributions and increased pension expense with respect to the Fire Plan.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 13 PAID FIREMEN'S PENSION PLAN (cont'd)

Funding Status and Progress

The funded status of the Fire Plan as of the most recent actuarial valuation date is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
				Unfunded (assets in excess of)		Unfunded (assets in excess of)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	Accrued Liability (2)-(1)	Annual Covered Payroll	Accrued Liability as a % of Payroll (4)/(5)
1/1/2013	\$5,689,875	\$6,681,630	85.16%	\$991,755	\$1,362,400	72.80%

The schedule of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

The above information regarding the Fire Plan was taken from the January 1, 2013 Actuarial Valuation presented by Beyer-Barber Company, signed by Lawrence C. Brisman, dated July 31, 2013.

NOTE 14 POLICE PENSION PLAN

Plan Description and Provisions

The Police Pension Plan ("Police Plan") was established in accordance with the Third Class City Code and State statutes. All full-time members of the police force join the Police Plan upon employment. The Police Plan is reported as a Pension Trust Fund in the City's financial statements.

For members hired prior to July 11, 1966, participants were eligible for normal retirement after 20 years of vesting service. For members hired after July 11, 1966, participants are eligible for normal retirement after age 50 and 25 years of vesting service. Retirees' base pension amounts are equal to 50 percent of their average pay. A service increment is added to the base pension amount for each year of service in excess of 20 years worked and prior to age 65. The increment is equal to 1.25 percent of the retiree's average pay with an annual maximum of \$1,200. The minimum monthly pension amount is \$250. Under an annual cost-of-living provision, members who retire on or after January 1, 1999 receive cost-of-living increases of up to 10 percent of the initial pension.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

Disabled employees are entitled to receive disability benefits equal to 50 percent of average monthly compensation, reduced by the amount of any worker's compensation received. Surviving spouses of employees hired on or after March 1, 1978 receive death benefits based on 100 percent of the retirees pension benefit.

Basis of Accounting

The plan's policy is to prepare its financial statements on the accrual basis of accounting. Plan member contributions are recognized in the period on which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when paid in accordance with the terms of the plan.

Valuation of Investments

In accordance with GASB Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Membership

Police Plan membership as of January 1, 2013, the date of the latest actuarial valuation, is presented below:

Retirees and beneficiaries currently receiving benefits	50
Terminated employees entitled to death benefits	2
Active employees	41
Total	<u>93</u>

Contributions

Members of the Police Plan are required to contribute five percent of their pay, plus \$1 per month. The City makes contributions of the Police Plan equal to the amount required by State statutes. The City's contributions to the Police Plan are governed by Act 205, the Municipal Pension Plan Funding Standard, and Recovery Act, which mandates minimum actuarial funding pension plans.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged and paid by investment earnings of the plan.

Actuarial Assumptions

The City has an actuarial valuation for the Police Plan prepared on a biennial basis. The date of the latest actuarial valuation is January 1, 2013. The following methods and assumptions were used to prepare the valuation:

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

Actuarial cost method	Entry age normal cost
Asset valuation method	Five-year smoothing of gains and losses not to be greater than 120% or less than 80% of market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living increase	4.0%
Amortization method	Level Dollar, Closed
Remaining amortization period	14 years

Annual Pension Cost and Net Pension Obligation

The three-year trend information for the Police Plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/2013	\$ 974,213	100.00%	\$ -
12/31/2012	\$ 818,503	100.00%	\$ -
12/31/2011	\$ 834,634	100.00%	\$ -

The negative events in the credit market, as well as the general economic conditions in the United States and worldwide have caused a significant decrease in investment values, either directly invested or tied to the equity markets. These declines, at present, are expected to be temporary and not permanent declines; however, equity market recovery, if it occurs, may take some time. The major resulting impact of the equity market's decline on the City will be in the form of increased annual required contributions and increased pension expense with respect to the Police Plan.

Funding Status and Progress

The funded status of the Police Plan as of the most recent actuarial valuation date is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	Unfunded (assets in excess of) Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded (assets in excess of) Accrued Liability as a % of Payroll (4)/(5)
1/1/2013	\$12,920,518	\$18,127,703	71.27%	\$5,207,185	\$2,612,769	199.30%

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

The schedule of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

The above information regarding the Police Plan was taken from the January 1, 2013 Actuarial Valuation presented by Conrad Siegal Actuaries, signed by David H. Killick, F.S.A., dated March 19, 2014.

NOTE 15 POST-EMPLOYMENT RETIREMENT BENEFITS

Plan Description

The City has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits and life insurance benefits provided by the City. This statement generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

The City administers a single-employer post-employment benefit plan ("Plan") that covers health and life insurance benefits for eligible retirees. Groups of retirees who are eligible for other post-employment benefits are policemen, firemen, American Federation of State, County, and Municipal Employees ("AFSCME"), and management employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

The contribution requirements of plan members are established and may be amended by resolution of the City Council. The Plan does not require any contributions from Police and Fire Plan members. AFSCME and management retirees are required to contribute at the same rate paid twice monthly by active employees.

Because retirees are permitted to participate in the Plan at the blended group (implicitly subsidized) premium rates for both active and retired employees, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Therefore, the City's contributions to the Plan for 2013 and 2012 were estimated by the actuary using an implicit rate subsidy for retirees.

Funding Policy

GASB Statement No. 45 does not mandate the prefunding of the post-employment benefits liability. The City currently funds these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide post-employment benefits.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and the 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 limitation on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The following methods and assumptions were used to prepare the valuation:

Actuarial cost method	Entry age normal cost
Asset valuation method	Equal to the market value of assets
Actuarial assumptions:	
Interest rate	4.5%
Projected salary increases	5.0%
Healthcare cost trend rate	7.0% in 2013, decreasing by 0.5% per year to 5.5% in 2016
Percent of Eligible Retirees	100% of police and paid firemen and 50% of AFSCME and management employees are assumed to elect coverage
Amortization method	Level Dollar, 30-year open period

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

	2013	2012	2011
Annual required contribution	\$ 2,036,710	\$ 2,036,710	\$ 2,325,489
Interest on OPEB obligation	308,445	253,122	186,992
Adjustment to annual required contribution	<u>(420,798)</u>	<u>(345,322)</u>	<u>(255,105)</u>
Annual OPEB cost (expense)	1,924,357	1,944,510	2,257,376
Contributions made	<u>(722,022)</u>	<u>(715,087)</u>	<u>(787,835)</u>
Increase in net OPEB obligation	1,202,335	1,229,423	1,469,541
Net OPEB obligation, beginning of year	<u>6,854,347</u>	<u>5,624,924</u>	<u>4,155,383</u>
Net OPEB obligation, end of year	<u>\$ 8,056,682</u>	<u>\$ 6,854,347</u>	<u>\$ 5,624,924</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation through fiscal year 2013 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 1,924,357	37.52%	\$ 8,056,682
2012	\$ 1,944,510	36.78%	\$ 6,854,347
2011	\$ 2,257,376	34.90%	\$ 5,624,924

Funding Status and Progress

The funded status of the Plan as of the most recent actuarial valuation date is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1)/(2)	Annual Covered Payroll	Unfunded (assets in excess of) Accrued Liability as a % of Payroll (3)/(5)
1/1/2012	\$0	\$21,131,960	\$21,131,960	0.00%	\$5,032,844	419.88%

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

The schedule of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

The above information regarding the Plan was taken from the January 1, 2011 Actuarial Valuation presented by Conrad Segal Actuaries, signed by David H. Killick, F.S.A., dated November 30, 2012.

NOTE 16 COMMITMENTS AND CONTINGENCIES

The City is exposed to various cases and legal actions arising in the ordinary course of business. In the opinion of management's and City's legal counsel, the ultimate outcome will not have a material adverse effect on the City's financial position.

The City receives federal, state, and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. City officials do not expect any significant adjustments as a result of these examinations.

The City is committed to capital projects for the construction of a bridge and other projects. Anticipated construction commitments are as follows:

Project	Project Amount	Completed to 12/31/13	Retainage Payable at 12/31/13
Coleman Park Renovations	\$ 727,021	\$ 727,021	\$ 28,662

In addition, there were additional costs incurred through December 31, 2013 for projects that were not under formal commitments totaling \$26,259.

NOTE 17 RISK MANAGEMENT

The City is exposed to various risks of loss related to theft and destruction of assets, errors and omissions, and natural disasters. The City has purchased various insurance policies to safeguard its assets from risk of loss. There has been no significant change in coverage, and there have been no losses above insurance limits during the past year or the three prior years.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 18 DEFICIT FUND BALANCES

For the year ended December 31, 2013, the Main Street Contribution Fund, a non-major governmental fund, had a deficit fund balance of \$4,506, which resulted primarily from revenues being insufficient to cover expenditures. It is anticipated that this deficit will be eliminated through revenues exceeding expenditures in future years.

For the year ended December 31, 2013, the Public Works Contribution Fund, a non-major governmental fund, had a deficit fund balance of \$104, which resulted primarily from revenues being insufficient to cover expenditures. It is anticipated that this deficit will be eliminated through revenues exceeding expenditures in future years.

NOTE 19 SUBSEQUENT EVENTS

On January 8, 2014, the City issued Tax and Revenue Anticipation Note, Series 2014, in the amount of \$1,000,000. The purchaser of the Note was Metro Bank. The Note is to be used for current expenses and is secured by a security interest in the taxes and other revenues of the City that are expected to be received during the period when the Note is outstanding. Interest accrues at an annual rate equal to 66.3 percent of the Wall Street Journal prime rate.

The City has evaluated all subsequent events through August 26, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEBANON
 SCHEDULE OF FUNDING PROGRESS – PENSION PLANS
 REQUIRED SUPPLEMENTARY INFORMATION

Ten-year historical trend information about the plans is presented herewith as required supplementary information. It is intended to help users assess the plans' funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The ten-year historical information required to be disclosed, beginning as of January 1, 2004, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	Unfunded (assets in excess of) Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded (assets in excess of) Accrued Liability as a % of Payroll (4)/(5)
PAID FIREMEN'S PENSION PLAN						
1/1/04	**	**	**	**	**	**
1/1/05	5,280,171	4,999,630	105.61%	(280,541)	744,485	-37.68%
1/1/06	**	**	**	**	**	**
1/1/07	6,031,601	5,448,058	110.71%	(583,543)	830,694	-70.25%
1/1/08	**	**	**	**	**	**
1/1/09	5,665,822	6,071,932	93.31%	406,110	916,015	44.33%
1/1/10	**	**	**	**	**	**
1/1/11	5,879,517	6,204,585	94.76%	325,068	948,392	34.28%
1/1/12	**	**	**	**	**	**
1/1/13	5,689,875	6,681,630	85.16%	991,755	1,362,400	72.80%

* The AAL was significantly changed due to a change in the asset valuation method used for the January 1, 2009 actuarial valuation. Effective for the January 1, 2009 valuation, the asset valuation method was changed to a five-year smoothing of gains and losses not to be greater than 130 percent or less than 70 percent of market value. In prior years, the asset valuation method used was the market value as determined by the trustee.

** Not available due to biennially required Act 205 report.

CITY OF LEBANON

SCHEDULE OF FUNDING PROGRESS – PENSION PLANS

REQUIRED SUPPLEMENTARY INFORMATION

Ten-year historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The ten-year historical information required to be disclosed, beginning as of January 1, 2004, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	Unfunded (assets in excess of) Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded (assets in excess of) Accrued Liability as a % of Payroll (4)/(5)
POLICE PENSION PLAN						
1/1/04	**	**	**	**	**	**
1/1/05	9,727,360	14,109,908	68.94%	4,382,548	2,264,266	193.55%
1/1/06	**	**	**	**	**	**
1/1/07	10,633,266	15,329,416	69.37%	4,696,150	2,463,065	190.66%
1/1/08	**	**	**	**	**	**
1/1/09	11,355,670	16,186,577	70.15%	4,830,907	2,516,550	191.97%
1/1/10	**	**	**	**	**	**
1/1/11	12,029,346	17,977,486	66.91%	5,948,140	2,452,990	242.49%
1/1/12	**	**	**	**	**	**
1/1/13	12,920,518	18,127,703	71.27%	5,207,185	2,612,769	199.30%

* The AAL was significantly changed due to a change in the asset valuation method used for the January 1, 2009 actuarial valuation. Effective for the January 1, 2009 valuation, the asset valuation method was changed to a five-year smoothing of gains and losses not to be greater than 130 percent or less than 70 percent of market value. In prior years, the asset valuation method used was the market value as determined by the trustee.

** Not available due to biennially required Act 205 report.

CITY OF LEBANON

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLANS

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended	Employer Contributions			
	Paid Firemen's Pension Fund		Police Pension Fund	
	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
12/31/2006	\$ 90,917	100.00%	\$ 626,418	100.00%
12/31/2007	94,175	100.00%	640,274	100.00%
12/31/2008	112,004	100.00%	650,940	100.00%
12/31/2009	117,357	100.00%	823,905	100.00%
12/31/2010	106,388	100.00%	827,932	100.00%
12/31/2011	177,369	100.00%	834,634	100.00%
12/31/2012	97,758	100.00%	818,503	100.00%
12/31/2013	102,870	100.00%	974,213	100.00%

POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

REQUIRED SUPPLEMENTARY INFORMATION

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)
1/1/2008	\$ -	\$ 19,346,072	\$ 19,346,072	0.00%	\$ 5,025,566	384.95%
1/1/2009	**	**	**	**	**	**
1/1/2010	-	22,857,486	22,857,486	0.00%	5,180,346	441.23%
1/1/2011	**	**	**	**	**	**
1/1/2012	-	21,131,960	21,131,960	0.00%	5,032,844	419.88%
1/1/2013	**	**	**	**	**	**

** Not available due to biennial valuation.

POST-EMPLOYMENT HEALTH CARE BENEFITS
SCHEDULE OF ANNUAL EMPLOYER COST

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	\$ 1,923,971	31.00%	\$ 1,531,034
12/31/2009	1,923,971	33.00%	2,573,985
12/31/2010	2,282,805	36.78%	4,155,383
12/31/2011	2,257,376	39.90%	5,624,924
12/31/2012	1,944,510	36.78%	6,854,347
12/31/2013	1,924,357	37.52%	8,056,682

CITY OF LEBANON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

	<u>Paid Firemen's Pension Plan</u>	<u>Police Pension Plan</u>
Actuarial cost method	Entry age normal cost	Entry age normal cost
Asset valuation method	Five-year smoothing of gains and losses not to be greater than 120% or less than 80% of market value	Five-year smoothing of gains and losses not to be greater than 120% or less than 80% of market value
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases	5.0%	5.0%
Cost-of-living increase	4.0%	4.0%
Amortization method	Level Dollar, Closed	Level Dollar, Closed
Remaining amortization period	12 years	14 years

Other Post-employment Benefits

Actuarial cost method	Entry age normal cost
Asset valuation method	Equal to the market value of assets
Actuarial assumptions:	
Interest rate	4.5%
Projected salary increases	5.0%
Healthcare cost trend rate	7.0% in 2013, decreasing by 0.5% per year to 5.5% in 2016
Percent of eligible retirees	100% of police and paid firemen and 50% of AFSCME and management employees are assumed to elect coverage
Amortization method	Level Dollar, 30-year open period

SUPPLEMENTARY INFORMATION

**CITY OF LEBANON
 COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS
 DECEMBER 31, 2013**

	<u>Paid Firemen's Pension</u>	<u>Police Pension</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ -	\$ 920,833	\$ 920,833
Investments	6,347,862	14,159,572	20,507,434
Accounts receivable	-	25,049	25,049
TOTAL ASSETS	<u>\$ 6,347,862</u>	<u>\$ 15,105,454</u>	<u>\$ 21,453,316</u>
LIABILITIES AND NET POSITION			
Current Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Assets held in trust for pension benefits	<u>6,347,862</u>	<u>15,105,454</u>	<u>21,453,316</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,347,862</u>	<u>\$ 15,105,454</u>	<u>\$ 21,453,316</u>

CITY OF LEBANON
COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Paid Firemen's Pension</u>	<u>Police Pension</u>	<u>Total</u>
ADDITIONS			
Contributions:			
Employee	\$ 53,761	\$ 136,559	\$ 190,320
Employer	14,407	430,403	444,810
Commonwealth	88,463	543,810	632,273
Total Contributions	<u>156,631</u>	<u>1,110,772</u>	<u>1,267,403</u>
INVESTMENT INCOME			
Interest and dividends	11,495	329,425	340,920
Net appreciation in fair value of investments	832,976	1,826,032	2,659,008
Total Investment Income	844,471	2,155,457	2,999,928
Less investment expenses	23,084	89,288	112,372
Net Investment Income	<u>821,387</u>	<u>2,066,169</u>	<u>2,887,556</u>
TOTAL ADDITIONS	<u>978,018</u>	<u>3,176,941</u>	<u>4,154,959</u>
DEDUCTIONS:			
Administrative costs	-	2,772	2,772
Retirement benefits	337,078	951,682	1,288,760
TOTAL DEDUCTIONS	<u>337,078</u>	<u>954,454</u>	<u>1,291,532</u>
CHANGE IN NET POSITION	640,940	2,222,487	2,863,427
NET POSITION, BEGINNING OF YEAR	<u>5,706,922</u>	<u>12,882,967</u>	<u>18,589,889</u>
NET POSITION END OF YEAR	<u>\$ 6,347,862</u>	<u>\$ 15,105,454</u>	<u>\$ 21,453,316</u>

SINGLE AUDIT

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

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August 26, 2014

To the Honorable Mayor and City Council
City of Lebanon
Lebanon, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Lebanon, Pennsylvania as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City of Lebanon (the "City"), and have issued our report thereon dated August 26, 2014.

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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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.

To the Honorable Mayor and City Council
City of Lebanon

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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August 26, 2014

To the Honorable Mayor and City Council
City of Lebanon
Lebanon, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the City of Lebanon's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Lebanon's major federal programs for the year ended December 31, 2013. The City of Lebanon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

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

To the Honorable Mayor and City Council
City of Lebanon

Opinion on Each Major Federal Program

In our opinion, the City of Lebanon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**SCHEDULE OF
FINDINGS AND RECOMMENDATIONS**

CITY OF LEBANON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

Yes No

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

14.218

Community Development Block Grants/
Entitlement Grants

20.205

Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

**CITY OF LEBANON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PROJECT AWARD OR PASS- GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 01/01/2013	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE 12/31/2013
U.S. Department of Housing and Urban Development										
Community Development Block Grants/Entitlement Grants	D	14.218	B-11-MC-42-0021	01/01/11-12/31/13	\$ 761,866	\$ 37,126	\$ 37,126	\$ 689,068	\$ 689,068	\$ 144,786
Community Development Block Grants/Entitlement Grants	D	14.218	B-12-MC-42-0021	01/01/12-12/31/14	620,342	544,282	37,126	689,068	689,068	144,786
Passed through the PA Department of Community and Economic Development						581,408				
HOME Investment Partnership Program										
Community Development Block Grants/States Program (State-Administered Small Cities Program)	I	14.239	C000048952	05/27/10-05/26/15	500,000	117,312	7,074	114,813	114,813	4,575
Total U.S. Department of Housing and Urban Development						871,226	216,706	803,881	803,881	149,361
U.S. Department of Justice:										
Federal Equity Sharing Grant	D	16.000	N/A	01/01/11-12/31/13	-	-	(6,580)	6,580	6,580	(8,797)
Edward Byrne Memorial Justice Assistance Grant Program	D	16.738	2010-DJ-BX-0873	10/01/09-09/30/13	17,595	11,079	2,282	-	-	-
Edward Byrne Memorial Justice Assistance Grant Program	D	16.738	2011-DJ-BX-2835	10/01/10-09/30/14	12,521	-	677	4,255	4,255	4,932
Total CFDA # 16.738						11,079	2,959	4,255	4,255	(3,865)
Bulletproof Vest Partnership Program	D	16.607	N/A	07/01/11-08/31/13	6,080	3,763	3,745	2,335	2,335	2,317
Total U.S. Department of Justice						14,842	124	13,170	13,170	(1,548)
U.S. Department of Transportation:										
Passed through PA Department of Transportation										
Highway Planning and Construction	I	20.205	086508E	06/30/11-06/30/13	27,652,916	5,966,023	1,867,448	4,355,906	4,355,906	257,331
Highway Planning and Construction	I	20.205	089933	03/26/12-03/26/17	593,750	165,890	163,897	1,993	1,993	-
Total CFDA # 20.205						6,131,913	2,031,345	4,357,899	4,357,899	257,331
Passed through North Central Highway Safety Network										
State and Community Highway Safety	I	20.600	N/A	01/01/12-12/31/12	6,692	958	958	-	-	-
State and Community Highway Safety	I	20.600	N/A	01/01/13-12/31/13	3,500	3,001	958	3,001	3,001	-
Total U.S. Department of Transportation						6,135,872	2,032,303	4,360,900	4,360,900	257,331
U.S. Department of Homeland Security:										
Passed through the PA Department of Emergency Management										
Disaster Grants - Public Assistance	I	97.036	FEIMA-4030-DR	09/03/11-09/11/11	100,148	-	(6,622)	-	-	(6,622)
TOTAL EXPENDITURES OF FEDERAL AWARDS						\$ 7,021,940	\$ 2,242,511	\$ 5,177,951	\$ 5,177,951	\$ 398,522

Source Codes

I - Indirect Funding
D - Direct Funding

CITY OF LEBANON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF ACCOUNTING

The City uses the modified accrual method of recording transactions. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE B FEDERAL EXPENDITURES

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.