

CITY OF LEBANON
LEBANON COUNTY, PENNSYLVANIA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

CITY OF LEBANON
YEAR ENDED DECEMBER 31, 2015
TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 19 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 20 |
| Statement of Activities | 21 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 22 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 23 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 24 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 25 |
| Statement of Net Position – Proprietary Funds | 26 |
| Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds | 27 |
| Statement of Cash Flows – Proprietary Funds | 28 |
| Statement of Fiduciary Net Position | 29 |
| Statement of Changes in Fiduciary Net Position | 30 |
| Notes to Financial Statements | 31 - 72 |
| Required Supplementary Information: | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 74 |
| Schedules of Changes in the Net Pension Liability and Related Ratios – Last 10 Years | 75 - 77 |
| Schedules of Employer Contributions – Last 10 Years | 78 - 80 |
| Schedule of Investment Returns – Last 10 Years | 81 |
| Schedule of Funding Progress – Postemployment Benefits Other Than Pensions | 82 |

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon (the "City"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Harrisburg

830 Sir Thomas Court, Suite 100
Harrisburg, PA 17109
717.561.9200 Fax 717.561.9202

Philadelphia

2370 York Road, Suite A-5
Jamison, PA 18929
215.918.2277 Fax 215.918.2302

Pittsburgh

3800 McKnight E. Drive, Suite 3805
Pittsburgh, PA 15237
412.367.7102 Fax 412.367.7103

Greensburg

210 Tollgate Hill Road
Greensburg, PA 15601
724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

Adoption of Governmental Accounting Standard Board Principles

As discussed in Note 1 to the financial statements, in 2015 the City adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*” and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*”. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis; the schedule of revenues, expenditures, and changes in fund balance – budget and actual – general fund; schedules of changes in net pension liability and related ratios – last 10 years, schedules of employer contributions – last 10 years, and the schedule of investment returns for the pension plans; and the schedule of funding progress for postemployment benefits other than pensions on pages 3-19, 74, 75-77, 78-80, 81, and 82, respectively, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

September 30, 2016
Harrisburg, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015. 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, 2015.

FINANCIAL HIGHLIGHTS

- The City's Real Estate Millage Rate increased to 4.581 from 3.581 for 2015. This type of tax is the City's second largest revenue source with the first being Earned Income Taxes.
- The City Council authorized the issuance of a tax and revenue anticipation note in the amount of \$1,000,000 on January 6, 2015 and drew down \$50,000 against the authorized amount. The note was paid off in December 2015 as required.
- The City created a Capital Reserve Fund in 2013. No money was transferred from the General Fund to the Capital Reserve Fund in 2015. However, 1.5 million was receipted in November of 2014, which represented a safety incentive payment from the Norfolk Southern Railroad Co. for the closing of the at-grade railroad crossings in conjunction with the 9th & 10th Street Bridges Over the Norfolk Southern Railroad Project. This money was designated for the purchase of public works and public safety vehicles and equipment. Fifteen pieces of equipment and/or vehicles were purchased in 2015 for the Department of Public Works, one police cruiser was purchased for the Police Department and financial assistance was given to two volunteer fire companies to bridge financing for two new fire engines.
- The City's long- term debt decreased from \$170,000 to \$155,000 as of December 31, 2015.
- 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. These surpluses were accomplished by making some difficult decisions: eliminating positions, implementing a wage-freeze, reduction of some services and by raising taxes. In 2011, 2012, and 2013, the City did not need to utilize excess carryover to balance the budget. In 2014 although we performed better than budget, the City used over \$439,000 to balance the budget. In 2015, we once again performed better than budget and the excess carryover did not need to be used. This was mainly accomplished by raising taxes and by continuing with our tight fiscal controls.

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

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.

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.

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 recourses measurement focus and the accrual basis of accounting
- Allocate net position balances as follows:
 - Net investment in capital assets – this category groups all capital assets into one component of net position; accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
 - 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 the definition of “restricted” or “net investment in capital assets”.

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.

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, 2015, the City’s total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$48,479,856. Key components of this change are summarized in Table A-1.

Table A-1 Condensed Statement of Net Position

| | Governmental Activities | | % Change |
|---------------------------------------|--------------------------------|---------------|-----------------|
| | 2015 | 2014 | |
| Assets | | | |
| Current and Other Assets | \$ 12,200,766 | \$ 13,037,733 | -6.42% |
| Capital Assets | 53,871,717 | 53,987,487 | -0.21% |
| Total Assets | 66,072,483 | 67,025,220 | -1.42% |
| Deferred Outflows of Resources | 1,610,213 | - | 100.00% |
| Liabilities | | | |
| Long-Term Liabilities | 13,115,407 | 9,405,074 | 39.45% |
| Other Liabilities | 1,810,107 | 1,161,155 | 55.89% |
| Total Liabilities | 14,925,514 | 10,566,229 | 41.26% |
| Deferred Inflows of Resources | 4,277,326 | 3,702,886 | 15.51% |
| Net Position | | | |
| Net investment in Capital Assets | 53,716,717 | 53,817,487 | -0.19% |
| Restricted | 1,455,314 | 1,383,937 | 5.16% |
| Unrestricted (Deficit) | (6,692,175) | (2,445,319) | 173.67% |
| Total Net Position | \$ 48,479,856 | \$ 52,756,105 | -8.11% |

2014 amounts presented in the MD&A were not restated for the adoption of GASB 68, as information on the 2014 beginning balance restatement could not be obtained. See Note 15 for more details.

The City's assets totaled \$66,072,483 at December 31, 2015. Of this amount, capital assets, including infrastructure and construction in progress, totaled \$53,871,717, and current and other assets totaled \$12,200,766.

Capital assets decreased \$(115,770) over the balance at December 31, 2014. This decrease is due to additional expenditures for the City's bridge project, \$133,602; addition of 15 highway and park vehicles, \$996,870; addition of four new police vehicles and in-car computers, \$140,341; additional expenditures for the renovation of Coleman Memorial Park, \$186,801; the addition of new financial and land management software, \$104,711; addition of fire vehicles, \$19,733; addition of city-wide radio system, \$18,374; offset by the auction of 7 police vehicles, 3 highway vehicles, 1 fire engine; (\$242,472) and a net change in accumulated depreciation, \$(1,473,730). The City's net investment in capital assets totaled \$53,716,717 at December 31, 2015.

Current and other assets decreased \$(836,967) over the balance at December 31, 2014. This decrease is due to an decrease in cash and cash equivalents of \$(1,604,950), which consists primarily of the purchase of \$1,175,318 in vehicles and other operating assets for the police, public safety, and public works departments, as well as the addition of other capital assets in the amount of \$425,114; an increase in accounts receivable of \$495,771; an increase in restricted cash of \$233,086; an increase in program loans and loans receivable of \$57,650; offset by a decrease in other miscellaneous assets of \$(18,524).

Liabilities and deferred inflows of resources totaled \$19,202,840 as of December 31, 2015. The long-term liabilities line item includes the long term portion of a note payable, \$155,000; compensated absences, \$44,766; other post-employment liabilities, \$10,539,175; and a net pension liability of

\$2,376,466. The other liabilities line item includes accounts payable, \$1,045,990; accrued expenses, customer deposits, and accrued health benefits, \$764,117.

Other liabilities and deferred inflows of resources increased \$1,223,392 which represents an increase in accounts payable of \$575,195, which is primarily due to the accrual of additional 2015 expenditures for the renovation of Coleman Memorial Park and the timing of payments for the liability to the Internal Service Fund; an increase in deferred inflows of \$574,440, which includes a deferral of \$471,788 related to pensions; and a net increase in other deposits and accrued expenses of \$73,757.

Long term liabilities increased \$3,710,333, which represents the recognition of a pension liability for the unfunded portion of the City's pension obligations, \$2,376,466; an increase in other post-employment benefits of \$1,339,028; and a decrease in compensated absences of \$(5,161).

In 2008, the City adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment 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, \$1,202,335; \$1,143,465 and \$1,339,028 were added in 2009, 2010, 2011, 2012, 2013, 2014 and 2015, 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 and the reporting of the unfunded portion of the City's pension obligations, unrestricted net position was \$(6,692,175) as of December 31, 2015. 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, 2015. It shows revenues by source and expenses by function for governmental activities.

Table A-2 Change in Net Position

| | Governmental Activities | | % Change |
|--|--------------------------------|----------------------|-----------------|
| | 2015 | 2014 | |
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 800,961 | \$ 1,042,522 | -23.17% |
| Operating Grants and Contributions | 2,166,521 | 2,215,243 | -2.20% |
| Capital Grants and Contributions | 612,330 | 773,792 | -20.87% |
| General Revenues: | | | |
| Real Estate Taxes - General Levy | 3,941,396 | 3,111,978 | 26.65% |
| Real Estate Transfer Taxes | 158,412 | 181,108 | -12.53% |
| Earned Income Tax | 4,148,703 | 4,491,822 | -7.64% |
| Local Services Tax | 409,436 | 386,695 | 5.88% |
| Franchise Fees | 301,286 | 292,509 | 3.00% |
| Fines and Forfeitures | 555,948 | 545,241 | 1.96% |
| Mechanical Device Tax | 6,222 | 6,011 | 3.51% |
| Intergovernmental Revenues - not program restricted | 171,169 | 167,684 | 2.08% |
| Interest, Investment Earnings, and Royalties | 146,195 | 165,241 | -11.53% |
| Gain from Asset Disposal | 88,208 | - | 100.00% |
| Contributions | 27,092 | 1,502,090 | -98.20% |
| Miscellaneous | 87,117 | 81,574 | 6.80% |
| Total Revenues | 13,620,996 | 14,963,510 | -8.97% |
| Expenses: | | | |
| General Government | 1,991,199 | 2,332,243 | -14.62% |
| Public Safety | 10,586,104 | 9,981,427 | 6.06% |
| Public Works | 2,150,809 | 1,748,400 | 23.02% |
| Culture and Recreation | 579,452 | 467,508 | 23.94% |
| Economic Development | 763,432 | 944,765 | -19.19% |
| Debt Service | 14,757 | 16,965 | -13.02% |
| Total Expenses | 16,085,753 | 15,491,308 | 3.84% |
| Change in Net Position | (2,464,757) | (527,798) | 366.99% |
| Net Position at beginning of year, before restatement | 52,756,105 | 53,283,903 | -0.99% |
| Cumulative effect of change in accounting principle | (1,811,492) | - | 100.00% |
| Net position at beginning of year, as restated | 50,944,613 | 53,283,903 | -4.39% |
| Net Position - End of Year | \$ 48,479,856 | \$ 52,756,105 | -8.11% |

REVENUES

In 2015, government-wide revenues of \$13,620,966 came primarily from tax revenue and franchise fees totaling \$8,965,455, operating grants and contributions of \$2,166,521, charges in services of 800,961; and capital grants and contributions of \$612,330. Tax revenues and franchise fees were 5.8 percent, or \$495,332, higher than in 2014 primarily due to an increase in real estate tax, \$829,418; offset by a decrease in earned income tax of \$(343,119). Capital grants and contributions decreased \$(161,462) from 2014 due primarily to the decrease in activity on the Partridge Street project \$(276,434); offset by an increase in the activity on the Coleman Park Renovation, \$152,471.

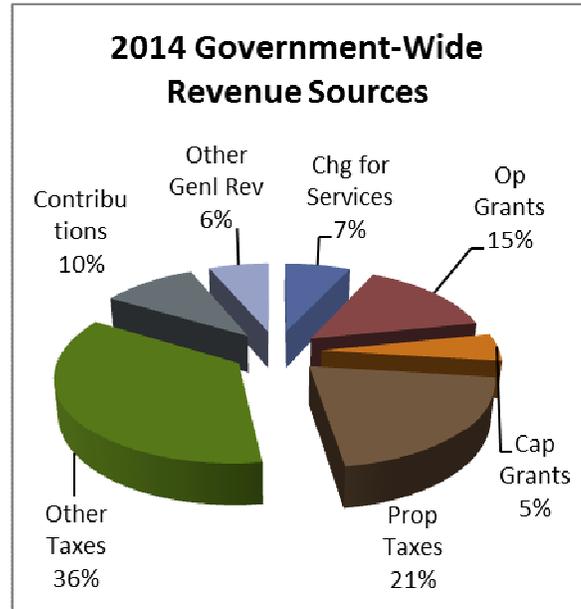
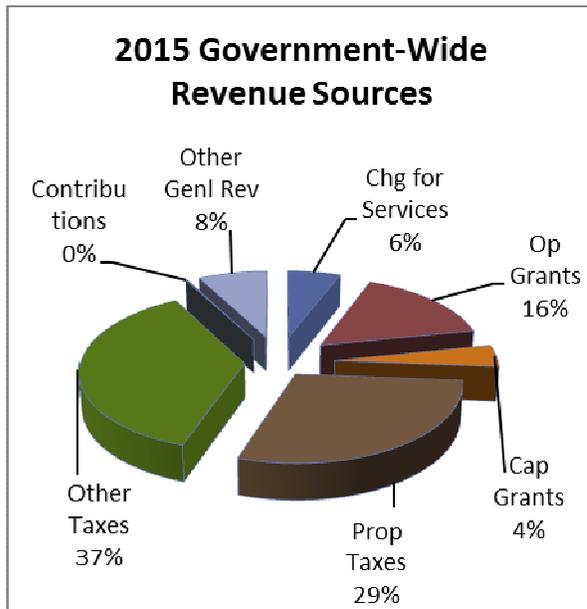
Charges for services decreased in 2015, as compared to 2014, by \$(241,561) from an decrease in net income from the Internal Service Fund, \$(264,927); an increase in building and zoning permits, \$37,127; and a net decrease in all other licenses, permits and charges for services of \$(13,761).

Operating grants and contributions decreased \$(48,722) in 2015, as compared to 2014. Increases in grant receipts; such as the EIP project, \$59,282; and the CDBG grant program, \$84,115; were offset by decreases in the NSP project, \$(102,254); and the HOME program, \$(91,761); and a net increase in all other grant programs of \$1,896.

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 has been reclassified to operating grants in 2012.

Interest and rent revenue decreased \$(19,046) in 2015, as compared to 2014, due to a decrease in income from program loans, \$(14,295); and a decrease in other revenue of \$(4,751).

The following chart graphically depicts the government-wide revenue sources for the fiscal years ended December 31, 2015 and December 31, 2014:



EXPENSES

Total expenses for all programs in 2015 were \$16,085,753. The expenses cover a range of services, with the largest being public safety at \$10,586,104 or 65.81 percent. The second largest program area was public works at \$2,150,809 or 13.37 percent. General government, culture and recreation, economic development, and debt service made up the remaining 20.82 percent of total expenses.

General government expenses decreased \$(341,044) in 2015, as compared to 2014, due to a decrease in legal services of \$(35,838) for litigation related to the collection of unpaid earned income tax for the period of 2004-2007; a decrease in software and hardware expenditures related to the acquisition of a new server and computers in 2014, \$(75,760); a decrease in the allocation of miscellaneous expenses, \$(34,174); and a net decrease in other general expenses of \$(195,272).

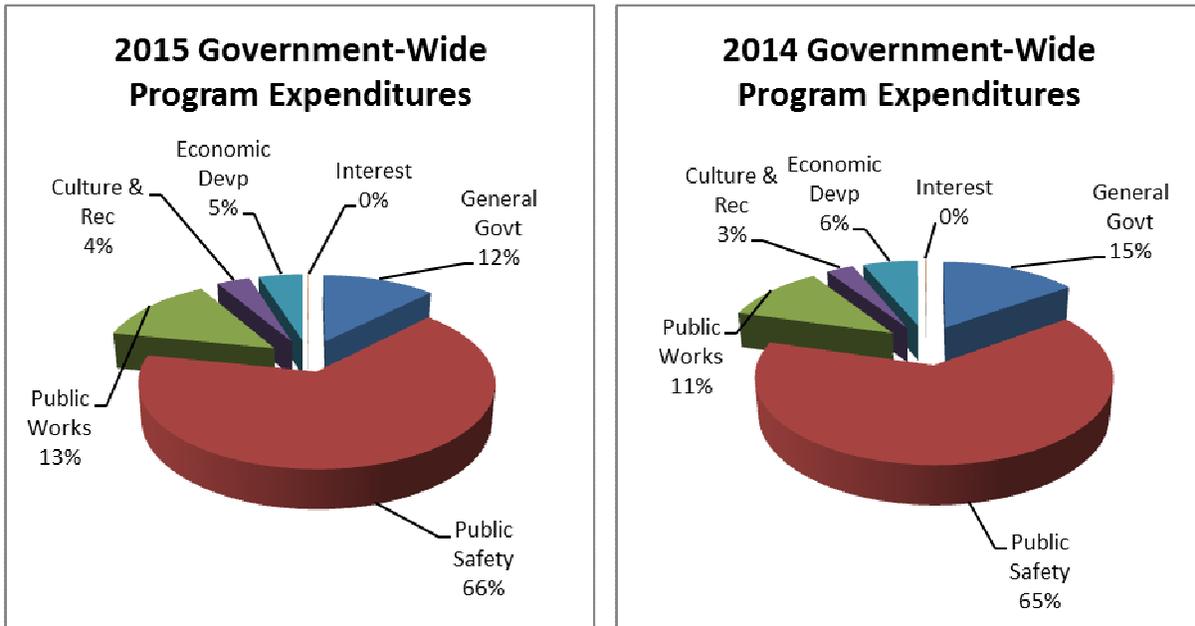
Economic development expenses decreased \$(181,333) in 2015 as compared to 2014, due to a reduction in expenses of the HOME Program, \$(151,790); a reduction in expenses of the Partridge Street Project, \$(276,373); an increase in the CDBG program expenses, \$221,708 and an increase in other development projects of \$25,122.

Public Safety expenses increased \$604,677 in 2015, as compared to 2014, due to the increase in overall police expenses due primarily to an increase in salaries and benefits, \$169,514; an increase in overall fire expenses due primarily to an increase in salaries and benefits, \$77,938; an increase in the pension funding for police and fire, \$215,398; a net increase in the addition of capital assets and depreciation, \$109,216; and an increase in other expenses of \$32,611.

Culture and recreation expenses increased \$111,944 in 2015, as compared to 2014, due primarily to additional maintenance and safety compliance expenses for the following: The pool at Coleman Memorial Park, \$17,786; Stoever's Dam, \$10,702; all other parks throughout the City, \$19,018. In addition, depreciation expense has increased \$27,842; and all other expenses increased \$36,596.

Public works expenses increased \$402,409 in 2015, as compared to 2014; due to a decrease in expenses related to projects from the CDBG program, \$(75,298); an increase in Liquid Fuels projects, \$56,141; an increase in traffic control expenses, \$30,066; an increase in expenses related to MS-4, \$35,573; a net increase in the addition of capital assets and depreciation, \$363,884; a decrease in the allocation of general expenses, \$(17,964); and a net increase in other expenses of \$10,007.

The following chart graphically depicts the government-wide program expenditures for the fiscal years ended December 31, 2015 and December 31, 2014:



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, 2015.

Net Cost of Governmental Activities

| Program: | Total Cost of Services | Charges For Services | Operating Grants & Contributions | Net Operating Cost of Services | Capital Grants | Net Cost of Services |
|------------------------|------------------------|----------------------|----------------------------------|--------------------------------|---------------------|----------------------|
| General Government | \$ 1,991,199 | \$ (267,370) | \$ (19,057) | \$ 1,704,772 | \$ - | \$ 1,704,772 |
| Public Safety | 10,586,104 | (164,482) | (695,701) | 9,725,921 | - | 9,725,921 |
| Public Works | 2,150,809 | (323,776) | (771,693) | 1,055,340 | (108,778) | 946,562 |
| Culture and Recreation | 579,452 | (45,333) | - | 534,119 | (188,164) | 345,955 |
| Economic Development | 763,432 | - | (680,070) | 83,362 | (315,388) | (232,026) |
| Debt Service | 14,757 | - | - | 14,757 | - | 14,757 |
| Total Expenses | \$ 16,085,753 | \$ (800,961) | \$ (2,166,521) | \$ 13,118,271 | \$ (612,330) | \$ 12,505,941 |

The City relied on real estate taxes, earned income taxes, and other general revenues, or \$9,952,976 to fund almost 61.9 percent of its governmental activities in 2015. Taxes and franchise fees of \$8,965,455 accounted for 90.1 percent of general revenues in 2015.

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 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, 2015 and December 31, 2014 were as follows:

| | 2015 | 2014 | Changes from 2014 to 2015 |
|----------------------------|----------------------|----------------------|------------------------------|
| Revenues: | | | |
| Taxes | \$ 9,017,300 | \$ 8,073,202 | \$ 944,098 |
| Licenses and Permits | 564,580 | 556,868 | 7,712 |
| Fines and Forfeitures | 555,948 | 545,241 | 10,707 |
| Interest and Rents | 146,195 | 165,241 | (19,046) |
| Intergovernmental | 2,950,020 | 3,156,719 | (206,699) |
| Charges for Services | 537,667 | 513,236 | 24,431 |
| Contributions | 27,092 | 1,502,090 | (1,474,998) |
| Miscellaneous | 87,117 | 81,574 | 5,543 |
| Transfers in | 143,359 | 152,745 | (9,386) |
| Proceeds of Long-term Debt | 50,000 | 50,000 | - |
| Sale of Capital Assets | 97,402 | - | 97,402 |
| Total revenues | \$ 14,176,680 | \$ 14,796,916 | \$ (620,236) |

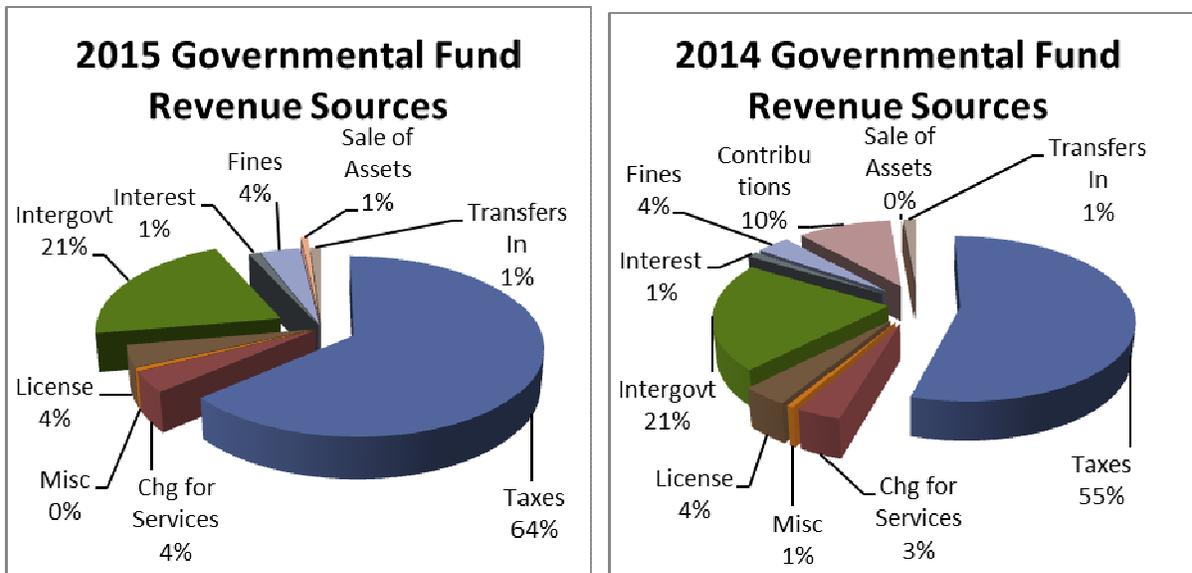
The variances in the fund financial statements are materially the same as the variances in the government-wide financial statements. Please see pages 8 and 9 for the variance analysis for government-wide financial statements.

The variance in the fund tax revenue, \$944,098 differs from the variance in the government tax revenue, \$495,332, primarily due to the recognition, in the government wide statements, of EIT revenue which is accrued, but uncollected.

The variance in fund intergovernmental revenue represents the changes in operating and capital grants and contributions.

The variance in the charges for services differs due to the inclusion in the government statements of the net income/loss from the Health Benefit fund, which is not included in the fund statement. In addition, licenses and permits revenues, excluding the Franchise tax, or \$263,294, is included in the government statements as a charge for service.

The following chart graphically depicts the governmental funds revenue sources for the fiscal years ended December 31, 2015 and December 31, 2014:



Governmental Fund Expenditures

Governmental fund expenditures and other financing uses at December 31, 2015 and December 31, 2014 were as follows:

| | 2015 | 2014 | Changes from 2014 to 2015 |
|---------------------------|----------------------|----------------------|------------------------------|
| Expenditures: | | | |
| General Government | \$ 992,478 | \$ 992,331 | \$ 147 |
| Public Safety | 9,529,793 | 8,685,844 | 843,949 |
| Public Works | 2,971,230 | 1,984,032 | 987,198 |
| Culture and Recreation | 654,578 | 382,455 | 272,123 |
| Economic Development | 754,813 | 924,024 | (169,211) |
| Debt Service | 79,851 | 112,246 | (32,395) |
| Miscellaneous | - | 291,103 | (291,103) |
| Transfers Out | 143,359 | 152,745 | (9,386) |
| Total Expenditures | \$ 15,126,102 | \$ 13,524,780 | \$ 1,601,322 |

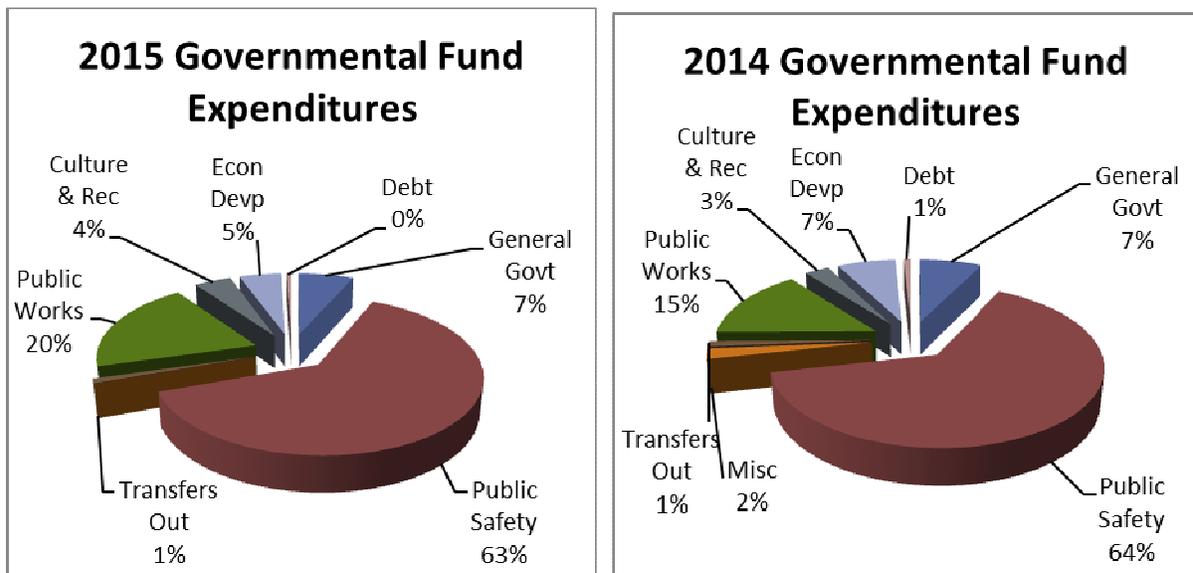
The variances in the expenditures in fund financial statements differ from the variances in the government-wide financial statements due to elimination of depreciation and other non-cash accrual items. Please see pages 9-11 for the variance analysis for government-wide financial statements.

The variance in public works is primarily due to the increase in the purchase of capital assets purchased with the receipt of a safety incentive payment from the Norfolk Southern Railroad Co. in November of 2014, \$1,024,592; which is offset by a net decrease in other public works expenses, \$(37,394).

The variance in public safety is primarily due to the increase in the purchase of capital assets, \$231,635; the increase in the allocation of miscellaneous expenses, \$204,278, the increase in pension expenses, \$215,398; and a net increase in other public safety expenses of \$192,638.

The variance in culture & recreation is due to the increase in 2015 of the construction costs at Coleman Memorial Park, \$179,533; and an increase in other expenses of \$92,590.

The following chart graphically depicts the governmental funds expenditures for the fiscal years ended December 31, 2015 and December 31, 2014:



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

| | <u>2015 Actual</u> | <u>2015 Budget</u> | <u>2015 Variance</u> | <u>% Variance</u> |
|---------------------------------|--------------------|---------------------|----------------------|-------------------|
| REVENUES | | | | |
| Taxes | \$ 9,017,300 | \$ 8,807,956 | \$ 209,344 | 2.38% |
| Intergovernmental | 1,014,036 | 878,122 | 135,914 | 15.48% |
| Other Revenue | 1,804,667 | 1,572,762 | 231,905 | 14.75% |
| Total Revenue | <u>11,836,003</u> | <u>11,258,840</u> | <u>577,163</u> | <u>5.13%</u> |
| EXPENDITURES | | | | |
| General Government | 992,478 | 947,995 | (44,483) | -4.69% |
| Public Safety | 9,289,873 | 9,607,001 | 317,128 | 3.30% |
| Public Works | 1,020,702 | 1,155,969 | 135,267 | 11.70% |
| Other Expenditures | 552,161 | 502,146 | (50,015) | -9.96% |
| Total Expenditures | <u>11,855,214</u> | <u>12,213,111</u> | <u>357,897</u> | <u>2.93%</u> |
| Excess of Revenues over (under) | | | | |
| Expenditures | <u>\$ (19,211)</u> | <u>\$ (954,271)</u> | <u>\$ 935,060</u> | |

Tax revenues were better than budget due to an increase in real estate property tax collections, \$29,423; an increase in real estate transfer tax collections, \$38,412; an increase in earned income tax collections, \$132,386; and an increase in other tax collections, \$9,123.

Intergovernmental revenues were better than budget due to a state grant for EIP, \$65,282; a payment from FEMA for damages related to Tropical Storm Lee (2011), \$29,221; an increase in state pension aid, \$14,487; and a net increase in all other intergovernmental revenues, \$26,924.

Other revenues were better than budget due to an increase in license and permit collections, \$43,080; an increase in rental property fees, \$17,994; an increase in fines and forfeitures, \$50,798; an increase in building and zoning permit fees, \$36,075; an increase in interest and rents, \$16,650; an increase in proceeds from the sale of used vehicles and equipment, \$43,978; and a net increase in other revenues, \$23,330.

Public safety expenditures were lower than budget due to a decrease in the cost of the City's policing efforts, \$164,244; a decrease in the cost of operating the City's fire department, \$65,866; and a net decrease in other expenditures, \$87,018.

Public works expenditures were lower than budget due to a decrease in overall highway department expenditures, \$14,143; offset by a decrease in traffic control expenditures, \$56,275; a decrease in engineering expenditures, \$16,622; and a net decrease in all other expenditures, \$48,227.

Other expenditures were higher than budget due primarily to the receipt of the tax and revenue anticipation note, \$(50,000).

CAPITAL ASSETS

The City's capital assets, net of accumulated depreciation, included land, building, equipment, construction in progress and infrastructure, and totaled \$53,871,717 at December 31, 2015. The following is a summary of capital assets at December 31, 2015 and 2014:

| | 2015 | 2014 |
|------------------------------------|----------------------|----------------------|
| Governmental Activities: | | |
| Land | \$ 951,802 | \$ 951,802 |
| Buildings and Improvements | 8,230,942 | 8,044,141 |
| Infrastructure | 65,578,492 | 65,444,890 |
| Machinery and Equipment | 1,304,790 | 845,186 |
| Vehicles | <u>2,791,178</u> | <u>2,213,225</u> |
| Total Capital Assets | \$ 78,857,204 | \$ 77,499,244 |
| Less: Accumulated Depreciation | <u>(24,985,487)</u> | <u>(23,511,757)</u> |
| Cost Less Accumulated Depreciation | <u>\$ 53,871,717</u> | <u>\$ 53,987,487</u> |

Capital assets decreased \$(115,770) over the balance at December 31, 2014. This decrease is due to additional expenditures for the City's bridge project, \$133,602; addition of 15 highway and park vehicles, \$996,870; addition of four new police vehicles and in-car computers, \$140,341; additional expenditures for the renovation of Coleman Memorial Park, \$186,801; the addition of new financial and land management software, \$104,711; addition of fire vehicles, \$19,733; addition of city-wide radio system, \$18,374; offset by the auction of 7 police vehicles, 3 highway vehicles, 1 fire engine; (\$242,472) and a net change in accumulated depreciation, \$(1,473,730). The City's net investment in capital assets totaled \$53,716,717 at December 31, 2015.

Depreciation expense for 2015 and 2014 totaled \$1,707,008 and \$1,576,448, 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 2015 was \$15,000.

In January, 2015 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%. The amount of \$50,000 which had been drawn down against the note was paid off in December 2015 as required.

At December 31, 2015, the City had \$155,000 of debt outstanding. The following is a summary of long-term debt for the 2015 year:

| | |
|--|--------------------------|
| Beginning balance, January 1, 2015 | \$ 170,000 |
| Less: Principal Payments | <u>(15,000)</u> |
| Balance Outstanding, December 31, 2015 | <u><u>\$ 155,000</u></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 3rd 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. Almost thirty percent of the assessed land value within the City is tax-exempt. If these properties were taxable, the City would receive an additional 1.5 million dollars 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.

City Administration negotiated three collective bargaining agreements in 2014/2015. The agreements represent very reasonable contracts that result in a savings for the City and a modernization of the benefits that will assist the City in addressing, the impact of, among other things, Obamacare. The City has made inroads with addressing some of our higher personnel costs like post-retirement health insurance and current employees' share of medical costs. The AFSCME contract was ratified by City Council at the February 2015 Council meeting and the Firefighter Local 1952 contract was ratified at the April meeting. The Police Bargaining Association and the City entered into arbitration and an award was made in August of 2015. With more than 83% of projected budget costs dedicated to employees, responsibly managing workforce costs is critical to maintaining fiscal health. Over the last several years, non-personnel spending was cut almost in half and debt service fell by 50%. Retiree benefits, including pension and health care benefits have been reduced or eliminated for new hires and the employees' share of medical costs have been increased in the 2014/2015 contract negotiations and arbitration awards. The City expended about \$2.2 million for post-retirement benefits in 2015. We anticipate that trend continuing until changes in the post-retirement benefits can be recognized.

In 2013, the City's tax millage was lowered to 3.581 due to a county-wide reassessment. The 2014 Real Estate Tax Rate remained the same, but increased to 4.581 in 2015. However, the millage will remain the same for 2016.

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

Earned Income Tax Revenue is the City's largest revenue item. Regarding the Lebanon County Earned Income Tax Bureau situation involving overpaid/underpaid earned income taxes, the City of Lebanon joined into a Revised Intermunicipal Agreement in 2012, which included the ELCO School District as an "overpaid". Cornwall Borough, Bethel, Heidelberg, N. Annville, and West Cornwall

Townships did not agree to the "Grumbine Plan". Subsequently, in 2012, the City and 11 other plaintiffs filed a civil suit in the Lebanon County Court of Common Pleas against the 5 municipalities that did not sign onto the "Grumbine Plan". On July 15, 2015, Judge Charles issued a decision granting the plaintiffs the relief requested, including the total amounts demanded in the Complaint, prejudgment interest at a rate of 6% and continuing interest at a rate of 6%. In total, the Defendants have been ordered to pay \$3,333,699.02 plus the continuing interest to the plaintiffs. The City's share of the award would represent more than \$847,000. However, the defendants have since filed an appeal and Oral Argument in Commonwealth Court was heard on September 13, 2016.

On January 6, 2016, 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 a fixed rate of 1.25% per annum. As of September of 2016, 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 sixty-three percent (63.0%) of all residents in the City of Lebanon are considered low- to moderate-income and the 2010 Census reported that 22.9% of City residents are below poverty level. This number increased from the 2000 Census, which reported that 14.6% of the City's population was below poverty level. The average in Pennsylvania is 12.4% 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 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 a decade ago, the City received \$1.23 million in Community Development Block Grant monies. In 2016, we will receive about \$617,453 or half of what we received in 2004. CDBG funding is used to provide city services and it supplements the general fund. Continued reductions place a heavier burden on the general fund.

Regarding our employment base, the Center for Work Force Information & Analysis indicates that the number of jobs available has increased from 2014 to 2015 and unemployment continues to decrease. The top sectors for number of employees are manufacturing, health care and the retail trade. We continue to address workforce development issues at a county and regional level with an emphasis on reaching students at a younger age and increasing awareness of the skill needs of our different sectors. Our partners, the LVEDC and the Chamber recently held a Manufacturer's Day in the spring of 2016 wherein manufacturers throughout the county identified areas of concern: workforce development, commuting issues and skills training gaps. They brainstormed with the workforce community and shared new initiatives like Act 339, WorkKeys and other viable programs. The average income of our households has slightly increased over the last decade. However, over the last six years, more of our residents are relying on public assistance.

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 was completed in 2014. The widening of Church Street to provide access from SR 72 North and South was completed in August of 2015. The City sought proposals from developers interested in purchasing the land and who would improve the site with a use that will improve the economic strength of the City and provide quality jobs for our residents. A Request for Proposal for the "Highest and Best Use" was offered on October 1, 2015 and a Notice of Award authorized on October 29, 2015. An Agreement of Sale is being finalized and it is anticipated that it will be executed in the fall of 2016.

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 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 one million dollars 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). Phase III was to develop an Economic Development Strategic Plan to retain and create jobs for our residents and to bolster the tax base to support the community. A Request for Proposal was sent to several consultants in June 2014. A consultant was chosen and the process kicked off in October of 2014. DCED also gave approval to amend the contract to include completing a Preliminary Plan for a Business Improvement District. The BID Study kicked off in December of 2014. The EDSP was completed in April of 2015 and a public presentation was held on May 5, 2015. Many action steps were included in the EDSP to assist the City in moving forward. The BID Study was completed and approved by the Neighborhood Improvement District Management Association (Lebanon 2000 Foundation) on 7/22/2015. A BID Preliminary Plan was presented to the downtown stakeholders in September of 2015 and a Public Hearing was held in November. City Council enacted an Ordinance in February of 2016 to implement the BID. A legal challenge was filed in March. Oral Argument was held in June of 2016. A decision is anticipated by October of 2016. Regarding the other action items, over the next several years, we will address the priorities in our Economic Development Strategic Plan to Grow Lebanon.

Regarding other economic development approaches, the City continues to market its Keystone Opportunity Zone (KOZ-10 year tax abatement) and Local Economic Revitalization Tax Assistance (LERTA- 5 year tax abatement) programs. In fact, the City, in partnership with the Lebanon County Redevelopment Authority closed on one of two lots located on Schneider Drive in 2015 and a multiple commercial use complex was constructed in 2016.

The City also continues to meet with developers to encourage investment in the City. More than \$13.4 million has been invested by the private sector within the last 2 years and more than \$27 million will be invested in the next 2 years.

The City will continue to 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 Lebanon City.

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
STATEMENT OF NET POSITION
DECEMBER 31, 2015

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and Cash Equivalents | \$ 3,379,721 |
| Receivables | |
| Accounts | 776,928 |
| Taxes | 2,662,220 |
| Grants | 816,093 |
| Other Assets | 199,066 |
| Restricted Assets | |
| Cash | 364,588 |
| Conditional Grants Receivable | 18,256 |
| Loans Receivable | 3,811,037 |
| Program Loans Receivable | 172,857 |
| Capital Assets, Not Being Depreciated | 951,802 |
| Capital Assets, Being Depreciated, net | <u>52,919,915</u> |
| Total Assets | <u>66,072,483</u> |
| Deferred Outflows of Resources | |
| Deferred Outflows of Resources from Pensions | <u>1,610,213</u> |
| Total Deferred Outflows of Resources | <u>1,610,213</u> |
| Liabilities | |
| Accounts Payable | 1,045,990 |
| Accrued Expenses and Withholdings | 214,617 |
| Accrued Interest | 1,205 |
| Escrowed Funds | 94,660 |
| Unearned Revenue | 453,635 |
| Non-Current Portions of Long Term Liabilities: | |
| Bonds Payable | 155,000 |
| Compensated Absences | 44,766 |
| Other Postemployment Benefits | 10,539,175 |
| Pension Liability | <u>2,376,466</u> |
| Total Liabilities | <u>14,925,514</u> |
| Deferred Inflows of Resources | |
| Long-term Receivables - Revolving Loans | 3,805,538 |
| Deferred Inflows of Resources from Pensions | <u>471,788</u> |
| Total Deferred Inflows of Resources | <u>4,277,326</u> |
| Net Position | |
| Net Investment In Capital Assets | 53,716,717 |
| Restricted for: | |
| Program Purposes | 1,455,314 |
| Unrestricted | <u>(6,692,175)</u> |
| Total Net Position | <u>\$ 48,479,856</u> |

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

CITY OF LEBANON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Program Revenues | | | | Net (Expenses) Revenue and Changes in Net Position |
|-------------------------------|------------------|-------------------------|--|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Functions/Programs | | | | | |
| Governmental Activities: | | | | | |
| General Government | \$ 1,991,199 | \$ 267,370 | \$ 19,057 | \$ - | \$ (1,704,772) |
| Public Safety | 10,586,104 | 164,482 | 695,701 | - | (9,725,921) |
| Public Works | 2,150,809 | 323,776 | 771,693 | 108,778 | (946,562) |
| Culture and Recreation | 579,452 | 45,333 | - | 188,164 | (345,955) |
| Economic Development | 763,432 | - | 680,070 | 315,388 | 232,026 |
| Interest on Long-Term Debt | 14,757 | - | - | - | (14,757) |
| | 16,085,753 | 800,961 | 2,166,521 | 612,330 | (12,505,941) |
| Total Governmental Activities | 16,085,753 | 800,961 | 2,166,521 | 612,330 | (12,505,941) |
| Total Primary Government | \$ 16,085,753 | \$ 800,961 | \$ 2,166,521 | \$ 612,330 | (12,505,941) |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| | | | | | 3,941,396 |
| | | | | | 158,412 |
| | | | | | 4,148,703 |
| | | | | | 409,436 |
| | | | | | 6,222 |
| | | | | | 555,948 |
| | | | | | 301,286 |
| | | | | | 146,195 |
| | | | | | 171,169 |
| | | | | | 27,092 |
| | | | | | 87,117 |
| | | | | | 88,208 |
| | | | | | 10,041,184 |
| | | | | | (2,464,757) |
| | | | | | 50,944,613 |
| | | | | | \$ 48,479,856 |

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

CITY OF LEBANON
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2015

| | General Fund | CDBG | HOME | Capital Reserve | Non-Major Funds | Total Governmental Funds |
|--------------------------------------|---------------------|---------------------|---------------------|-------------------|---------------------|--------------------------------|
| Assets | | | | | | |
| Cash and Cash Equivalents | \$ 1,374,355 | \$ - | \$ - | \$ 403,580 | \$ 1,086,457 | \$ 2,864,392 |
| Restricted Cash | 57,326 | 172,563 | 87,726 | - | 46,973 | 364,588 |
| Receivables | | | | | | |
| Accounts | 757,470 | 15,865 | - | - | 3,593 | 776,928 |
| Taxes | 2,662,220 | - | - | - | - | 2,662,220 |
| Grants | 49,712 | 87,825 | - | - | 678,556 | 816,093 |
| Conditional Grants | - | - | - | - | 18,256 | 18,256 |
| Loans | - | 1,194,012 | 1,903,323 | - | 713,702 | 3,811,037 |
| Program Loans | - | 39,649 | 40,575 | - | 92,633 | 172,857 |
| Due From Other Funds | 615,618 | - | 1,160 | - | - | 616,778 |
| Other Assets | 179,711 | - | 85 | - | - | 179,796 |
| Total Assets | <u>\$ 5,696,412</u> | <u>\$ 1,509,914</u> | <u>\$ 2,032,869</u> | <u>\$ 403,580</u> | <u>\$ 2,640,170</u> | <u>\$ 12,282,945</u> |
| Liabilities | | | | | | |
| Accounts Payable | \$ 703,899 | \$ 23,125 | \$ - | \$ 108,109 | \$ 207,939 | \$ 1,043,072 |
| Customer Deposits | - | - | - | - | 1,000 | 1,000 |
| Accrued Expenses and Withholdings | 108,275 | 2,086 | - | - | 2,529 | 112,890 |
| Due to Other Funds | 55,316 | 110,915 | 13,950 | - | 489,728 | 669,909 |
| Unearned Revenue - Other | 382,058 | 588 | - | - | 70,899 | 453,545 |
| Escrowed Funds | 91,900 | 1,760 | - | - | - | 93,660 |
| Total Liabilities | <u>1,341,448</u> | <u>138,474</u> | <u>13,950</u> | <u>108,109</u> | <u>772,095</u> | <u>2,374,076</u> |
| Deferred Inflows of Resources | | | | | | |
| Unavailable Revenue - Property Taxes | 329,358 | - | - | - | - | 329,358 |
| Unavailable Revenue - Other Taxes | 1,241,542 | - | - | - | - | 1,241,542 |
| Unavailable Revenues - Receivables | - | 1,194,012 | 1,903,276 | - | 708,250 | 3,805,538 |
| Total Deferred Inflows of Resources | <u>1,570,900</u> | <u>1,194,012</u> | <u>1,903,276</u> | <u>-</u> | <u>708,250</u> | <u>5,376,438</u> |
| Fund Balances | | | | | | |
| Nonspendable | 179,711 | - | - | - | 45,973 | 225,684 |
| Restricted | - | 177,428 | 115,643 | - | 1,116,270 | 1,409,341 |
| Assigned | 702,575 | - | - | 295,471 | - | 998,046 |
| Unassigned | 1,901,778 | - | - | - | (2,418) | 1,899,360 |
| Total Fund Balances | <u>2,784,064</u> | <u>177,428</u> | <u>115,643</u> | <u>295,471</u> | <u>1,159,825</u> | <u>4,532,431</u> |
| Total Liabilities and Fund Balances | <u>\$ 5,696,412</u> | <u>\$ 1,509,914</u> | <u>\$ 2,032,869</u> | <u>\$ 403,580</u> | <u>\$ 2,640,170</u> | <u>\$ 12,282,945</u> |

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

CITY OF LEBANON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015

Total fund balances for governmental funds \$ 4,532,431

Total net assets reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not current financial resources and, therefore are not reported in the funds. Those assets consist of:

| | | |
|---|----------------|----------------|
| Land | \$ 951,802 | |
| Buildings and improvements, net of \$5,988,587 accumulated depreciation | 2,242,355 | |
| Infrastructure, net of \$16,322,901 accumulated depreciation | 49,255,591 | |
| Machinery and equipment, net of \$707,165 accumulated depreciation | 597,625 | |
| Automotive equipment, net of \$1,966,834 accumulated depreciation | <u>824,344</u> | |
| Total capital assets | | 53,871,717 |

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. 482,995

Some of the City's revenues 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 revenues in the funds. 1,570,900

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.

Balances at December 31, 2015 are:

| | | |
|---|---------------------|---------------------|
| Compensated Absences | (44,766) | |
| Accrued Interest on Bonds and Loan | (1,205) | |
| Bonds Payable | (155,000) | |
| Deferred Outflows of Resources - Pensions | 1,610,213 | |
| Deferred Inflows of Resources - Pensions | (471,788) | |
| Net Pension Liability | (2,376,466) | |
| Cumulative Unfunded OPEB Cost | <u>(10,539,175)</u> | |
| | | <u>(11,978,187)</u> |

Total net position of governmental activities \$ 48,479,856

CITY OF LEBANON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

| | General Fund | CDBG | HOME | Capital Reserve | Non-Major Funds | Total Governmental Funds |
|---|---------------------|-------------------|-------------------|--------------------|---------------------|--------------------------|
| Revenues | | | | | | |
| Taxes | \$ 9,017,300 | \$ - | \$ - | \$ - | \$ - | \$ 9,017,300 |
| Licenses and Permits | 564,580 | - | - | - | - | 564,580 |
| Fines and Forfeitures | 555,948 | - | - | - | - | 555,948 |
| Interest and Rents | 48,713 | 27,510 | 63,867 | 999 | 5,106 | 146,195 |
| Intergovernmental | 1,014,036 | 599,775 | 67,222 | - | 1,268,987 | 2,950,020 |
| Charges for Services | 537,667 | - | - | - | - | 537,667 |
| Developers Contributions | 27,092 | - | - | - | - | 27,092 |
| Miscellaneous Income | 70,667 | 200 | 250 | 1,867 | 14,133 | 87,117 |
| Total Revenues | 11,836,003 | 627,485 | 131,339 | 2,866 | 1,288,226 | 13,885,919 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General Government | 992,478 | - | - | - | - | 992,478 |
| Public Safety | 9,289,873 | - | - | 231,635 | 8,285 | 9,529,793 |
| Public Works | 1,020,702 | 198,795 | - | 1,024,592 | 727,141 | 2,971,230 |
| Culture and Recreation | 466,414 | - | - | - | 188,164 | 654,578 |
| Economic Development | 5,896 | 338,364 | 71,294 | - | 339,259 | 754,813 |
| Debt Service: | | | | | | |
| Principal | 65,000 | - | - | - | - | 65,000 |
| Interest | 14,851 | - | - | - | - | 14,851 |
| Total Expenditures | 11,855,214 | 537,159 | 71,294 | 1,256,227 | 1,262,849 | 14,982,743 |
| Excess of Revenues Over (Under) Expenditures | (19,211) | 90,326 | 60,045 | (1,253,361) | 25,377 | (1,096,824) |
| Other Financing Sources (Uses) | | | | | | |
| Operating Transfers In | 137,530 | - | - | - | 5,829 | 143,359 |
| Operating Transfers Out | (5,829) | (95,000) | - | - | (42,530) | (143,359) |
| Proceeds from Tax Anticipation Note | 50,000 | - | - | - | - | 50,000 |
| Proceeds from Sale of Capital Assets | 97,402 | - | - | - | - | 97,402 |
| Total Other Financing Sources | 279,103 | (95,000) | - | - | (36,701) | 147,402 |
| Net Change in Fund Balances | 259,892 | (4,674) | 60,045 | (1,253,361) | (11,324) | (949,422) |
| Fund Balances - Beginning of year | 2,524,172 | 182,102 | 55,598 | 1,548,832 | 1,171,149 | 5,481,853 |
| Fund Balances - End of year | \$ 2,784,064 | \$ 177,428 | \$ 115,643 | \$ 295,471 | \$ 1,159,825 | \$ 4,532,431 |

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

CITY OF LEBANON
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2015

Net change in fund balances - total governmental funds \$ (949,422)

The change in net position reported for governmental activities in the statement of activities is 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 and reported as depreciation expense. This is the amount by which depreciation (\$1,707,008) and disposals (\$9,194) exceeded capital outlays (\$1,600,432) in the current period. (115,770)

Repayment of note principal and payments for other long-term obligations are expenditures in the governmental funds but reduce the liabilities in the statement of net position.

| | | | |
|-------------------------------|--|----------|--------|
| Debt issued: | | | |
| Tax Revenue Anticipation Note | | (50,000) | |
| Repayments: | | | |
| Bonds Payable | | 15,000 | |
| Tax Revenue Anticipation Note | | 50,000 | |
| | | 65,000 | |
| Net adjustment | | | 15,000 |

Under the modified accrual basis of accounting used in governmental funds, revenues are not reported until they become available. In the statement of activities, however, revenues are recorded regardless of when financial resources are available. This is the change in unavailable revenue from 12/31/14 to 12/31/15. (353,131)

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. (301,112)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for 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, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes in compensated absences, accrued interest, deferred assets, bond (premium)/discount and cumulative unfunded OPEB costs.

| | | |
|-------------------------------|-------------|----------------|
| Compensated Absences | 5,161 | |
| Accrued Interest on Bonds | 94 | |
| Pension Benefit | 573,451 | |
| Cumulative Unfunded OPEB Cost | (1,339,028) | |
| | (760,322) | (760,322) |
| | | \$ (2,464,757) |

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

CITY OF LEBANON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015

| | Internal Service Fund |
|---------------------------|--------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 515,329 |
| Due from Other Funds | 53,131 |
| Prepaid Expenses | 19,270 |
| Total Assets | \$ 587,730 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | \$ 2,918 |
| Accrued Health Benefits | 101,727 |
| Unearned Revenue | 90 |
| Total Liabilities | 104,735 |
| NET POSITION | |
| Unrestricted | 482,995 |
| Total Net Position | \$ 482,995 |

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

CITY OF LEBANON
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Internal Service Fund |
|--|--------------------------|
| Operating Revenues | |
| Charges for Services | \$ 1,467,843 |
| Miscellaneous Income | 1,684 |
| Total Operating Revenues | 1,469,527 |
| Operating Expenses | |
| Employee Benefits | 1,770,472 |
| Professional Services | 495 |
| Total Operating Expenses | 1,770,967 |
| Operating Loss | (301,440) |
| Nonoperating Revenues | |
| Interest Income | 328 |
| Total Nonoperating Revenues | 328 |
| Change in Net Position | (301,112) |
| Total Net Position - Beginning of Year | 784,107 |
| Total Net Position - End of Year | \$ 482,995 |

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

CITY OF LEBANON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Internal Service Fund |
|---|--------------------------|
| Cash Flows From Operating Activities | |
| Receipts from Users | \$ 1,469,527 |
| Payments to Suppliers | (1,742,766) |
| Net Cash Used in Operating Activities | (273,239) |
| Cash Flows from Investing Activities | |
| Interest Income | 328 |
| Net Cash Provided by Investing Activities | 328 |
| Net Decrease in Cash and Cash Equivalents | (272,911) |
| Cash and Cash Equivalents, Beginning of Year | 788,240 |
| Cash and Cash Equivalents, End of Year | \$ 515,329 |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | |
| Operating Loss | \$ (301,440) |
| Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities | |
| Change in Assets and Liabilities | |
| Accounts Payable | 1,070 |
| Accrued Health Benefits | 27,131 |
| Net Cash Used in Operating Activities | \$ (273,239) |

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

CITY OF LEBANON
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

| | Fire Pension | Police Pension | Fire Escrow Agency Fund | Total |
|---|---------------------|----------------------|----------------------------|----------------------|
| Assets | | | | |
| Cash and Cash Equivalents | \$ - | \$ 1,615,899 | \$ 147,538 | \$ 1,763,437 |
| Investments, at fair value: | | | | |
| Corporate Bonds | - | 624,237 | - | 624,237 |
| U.S. Treasuries | - | 768,897 | - | 768,897 |
| U.S. Government Agencies | - | 214,449 | - | 214,449 |
| Fixed Income Mutual Funds | 1,960,145 | 3,649,993 | - | 5,610,138 |
| Equities - Common Stock | - | 5,828,454 | - | 5,828,454 |
| Equities - ETF | - | 1,835,089 | - | 1,835,089 |
| Equities - Mutual Funds | 3,393,258 | 1,269,426 | - | 4,662,684 |
| Other Mutual Funds | 1,035,125 | 693,581 | - | 1,728,706 |
| Other | - | 62,735 | - | 62,735 |
| Interest Receivable | - | 25,296 | - | 25,296 |
| Contributions Receivable | - | 5,718 | - | 5,718 |
| | <u>\$ 6,388,528</u> | <u>\$ 16,593,774</u> | <u>\$ 147,538</u> | <u>\$ 23,129,840</u> |
| Liabilities | | | | |
| Accounts Payable | \$ - | \$ 251,882 | \$ 15,300 | \$ 267,182 |
| Customer Deposits | - | - | 132,238 | 132,238 |
| | <u>-</u> | <u>251,882</u> | <u>147,538</u> | <u>399,420</u> |
| Net Position Restricted for Pensions | <u>\$ 6,388,528</u> | <u>\$ 16,341,892</u> | <u>\$ -</u> | <u>\$ 22,730,420</u> |

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

CITY OF LEBANON
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2015

| | Fire Pension | Police Pension | Total |
|---|---------------------|----------------------|----------------------|
| Additions: | | | |
| Contributions: | | | |
| Employee | \$ 56,219 | \$ 146,783 | \$ 203,002 |
| Employer | 3,322 | 847,523 | 850,845 |
| Employer - Commonwealth Funding | 195,355 | 353,562 | 548,917 |
| Total Contributions | <u>254,896</u> | <u>1,347,868</u> | <u>1,602,764</u> |
| Investment Income: | | | |
| Interest and Dividends | 6,159 | 417,160 | 423,319 |
| Net Depreciation in Fair Value of Investments | <u>(31,483)</u> | <u>(361,290)</u> | <u>(392,773)</u> |
| Total Investment Income (Loss) | (25,324) | 55,870 | 30,546 |
| Less: Investment Expense | <u>(29,824)</u> | <u>(85,486)</u> | <u>(115,310)</u> |
| Net Investment Income (Loss) | <u>(55,148)</u> | <u>(29,616)</u> | <u>(84,764)</u> |
| Total Additions | <u>199,748</u> | <u>1,318,252</u> | <u>1,518,000</u> |
| Deductions: | | | |
| Retirement Benefits | 380,418 | 1,139,095 | 1,519,513 |
| Administrative | <u>6,200</u> | <u>7,021</u> | <u>13,221</u> |
| Total Deductions | <u>386,618</u> | <u>1,146,116</u> | <u>1,532,734</u> |
| Net Increase (Decrease) | (186,870) | 172,136 | (14,734) |
| Net Position Restricted for Pensions: | | | |
| Beginning of Year | <u>6,575,398</u> | <u>16,169,756</u> | <u>22,745,154</u> |
| End of Year | <u>\$ 6,388,528</u> | <u>\$ 16,341,892</u> | <u>\$ 22,730,420</u> |

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

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND 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:

A) 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.

B) Government-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 non-fiduciary 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 (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B) Government-Wide and Fund Financial Statements (Continued)

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.

C) 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 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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

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.

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 fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the period 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 in the current period. For governmental fund types, the City considers all revenues to be available if they are collected within 60 days after fiscal year end. Revenues considered susceptible to accrual include taxes and grants associated with the current fiscal year. All other revenues are considered measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, amounts expended to acquire capital assets are recorded as expenditures in the year that resources are expended, rather than as fund assets. Also, amounts paid to reduce long-term indebtedness are reported as fund expenditures.

The City reports the following 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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Capital Reserve Fund – This fund is used to account for financial resources that are assigned for current or future capital projects within the City.

Non-major Governmental Funds – In addition to the above major governmental funds, the City includes certain Special Revenue Funds and a 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, Police Special Revenue Fund, Elm Street Fund, Liquid Fuels Fund, Rental Rehab Fund, Enterprise Zone Fund, DownCity 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, Bridge over Norfolk South Fund, Redevelopment Fund, and the State Housing and Redevelopment Assistance Fund.

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.

Proprietary 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 Funds – Trust funds are used to account for the assets held in trust 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.

Agency Fund – Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, and/or other entities.

CITY OF LEBANON
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances

1. Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments for the City are reported at fair value. Investments that do not have an established market value are reported at estimated fair value.

3. Inventories and Prepaids

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.

4. Restricted Assets

Certain cash funds are set aside and restricted for future specified operations, compliance with escrow agreements, and for the return of security deposits.

5. 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:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and Improvements | 20 to 40 |
| Infrastructure | 30 to 50 |
| Machinery and Equipment | 2 to 15 |
| Automotive Equipment | 2 to 8 |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

6. 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 \$4 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.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities.

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

CITY OF LEBANON
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

8. Unearned Revenues

Revenues that are received but not earned are recorded as unearned revenue in the City's financial statements. In the City's governmental funds, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

9. Net Position / Fund Balances

The following classifications describe the relative strength of the spending constraints:

- *Nonspendable Fund Balance* – Amounts that are not in a spendable form (such as Inventory) or are required to be maintained in tact.
- *Restricted Fund Balance* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed Fund Balance* – 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 Fund Balance* – 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.
- *Unassigned Fund Balance* – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

9. Net Position / Fund Balances (continued)

The government-wide and business-type activities financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the City, that does not meet the definition of “restricted” or “net investment in capital assets”.

10. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

11. Accounting Estimates

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

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

12. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category under the accrual and modified basis of accounting: deferred outflows related to pensions. Deferred outflows related to pensions are described further in Note 10. The components of deferred outflows of resources, other than the difference between the projected and actual investments earnings on investments, are amortized into pension expense over the weighted average remaining service life of all members of the plan beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on plan investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year).

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category: deferred inflows related to pensions, unavailable tax revenue certain long-term receivables for the revolving loans. Deferred inflows related to pensions are further described in Note 10 and are recognized in the same manner as deferred outflows related to pensions described above. The governmental funds report unavailable revenue from property taxes and certain long-term receivables. These items are deferred and recognized as an inflow of resources in the period that the amount becomes available

E) Adoption of Governmental Accounting Standards

The City adopted provisions of GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”* and GASB Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68”*.

The adoption of GASB 68 and GASB 71 resulted in the restatement of net position (see Note 15).

F) Pending Changes in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *“Fair Value Measurement and Application”*. The City is required to adopt statement No. 72 for its calendar year 2016 financial statements.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

F) Pending Changes in Accounting Principles (Continued)

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The City is required to adopt statement No. 73 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The City is required to adopt statement No. 74 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The City is required to adopt statement No. 75 for its calendar year 2018 financial statements.

In June 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The City is required to adopt statement No. 76 for its calendar year 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, "*Tax Abatement Disclosures*". The City is required to adopt statement No. 77 for its calendar year 2016 financial statements.

In December 2015, the GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The City is required to adopt statement No. 78 for its calendar year 2016 financial statements.

In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The City is required to adopt statement No. 79 for its calendar year 2016 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*". The City is required to adopt statement No. 80 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". The City is required to adopt statement No. 81 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, "*Pension Issues - an amendment of GASB Statements No.67, No.68, and No.73*". The City is required to adopt statement No. 82 for its calendar year 2018 financial statements.

The City has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

G) Budgets and Budgetary Accounting

Legal Requirements

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 is only legally required to adopt a budget for General Fund and the Liquid Fuels Fund, as such no budget to actual schedule is presented for the CDBG and HOME funds. The City follows the following procedures as outlined in the City's Home Rule Charter in establishing the budgetary data reflected in the financial statements:

City Budget Process

- 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.
- 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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

G) Budgets and Budgetary Accounting (Continued)

City Budget Process (continued)

- 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.
- l. 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 2015, there were no revisions to the legally adopted budget.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 2: DEPOSIT AND INVESTMENT RISK

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.
- 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 20 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 20 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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

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

| | Cash and Cash Equivalents | Investments | Total |
|-------------------------------------|------------------------------|----------------------|----------------------|
| Governmental Activities | \$ 3,379,721 | \$ - | \$ 3,379,721 |
| Governmental Activities, Restricted | 364,588 | - | 364,588 |
| Fiduciary Funds | 1,763,437 | 21,335,389 | 23,098,826 |
| Total | \$ 5,507,746 | \$ 21,335,389 | \$ 26,843,135 |

Deposits

Custodial Credit Risk - For deposits, 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, 2015, the carrying amount of the City's deposits was \$5,507,746, and the bank balance was \$5,563,653. Of the bank balance, \$4,447,162 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.

Investments

As of December 31, 2015, the City had the following debt investments and maturities within its Pension Trust Fund accounts:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|---------------------------|---------------------|----------------------------------|---------------------|---------------------|------------------|
| | | Less Than 1 | 1-5 | 6-10 | + 10 |
| Fixed Income: | | | | | |
| Corporate Bonds | \$ 624,237 | \$ 70,471 | \$ 466,531 | \$ 87,235 | \$ - |
| U.S. Treasuries | 768,897 | 69,016 | 655,873 | - | 44,008 |
| U.S. Government Agencies | 214,449 | 34,002 | 162,123 | - | 18,324 |
| Fixed Income Mutual Funds | 5,610,138 | - | 1,339,597 | 4,270,541 | - |
| Total | \$ 7,217,721 | \$ 173,489 | \$ 2,624,124 | \$ 4,357,776 | \$ 62,332 |

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 does 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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

Investments (continued)

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. 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.

As of December 31, 2015, \$297,316 (48%), \$126,074 (20%), and \$200,847 (32%) of the City's investments in Corporate Bonds were rated A, AA, and BAA, respectively, by Moody's.

As of December 31, 2015, \$196,125 (91%) and \$18,324 (9%) of the City's investments in U.S. Government Agencies were rated AAA and Not Rated, respectively, by Moody's.

As of December 31, 2015, \$5,610,138 (100%) of the City's investments in Fixed Income Mutual Funds were Not Rated by Moody's.

Concentration of Credit Risk - 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 25 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 25 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.

At December 31, 2015, the City did not have any investments subject to concentration of credit risk.

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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 3: REAL ESTATE TAXES

Real estate taxes attach as an enforceable lien on property on January 1. Taxes are billed on March 1, payable under the following terms: 2% discount, March 1 based on the assessed value listed for the real property located in the City through April 30; face amount, May 1 through June 30, and 10% penalty after June 30. The City bills and collects its own property taxes. Real estate taxes levied for 2015 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2015 and expected to be collected within the first sixty (60) days of 2016 are recognized as revenue in 2015. Net receivables estimated to be collectible subsequent to March 1, are reflected in unavailable revenue. Prior years levies are recorded using these same principles and remaining receivables are annually reevaluated as to collectability.

The rate of real estate taxation in 2015 was 4.581 mills for general purposes on a total City assessed valuation of \$863,164,000.

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 | Non-Major Funds | Total |
|-------------------|--------------|---|--------------------|--------------|
| Taxes: | | | | |
| Real Estate | \$ 392,823 | \$ - | \$ - | \$ 392,823 |
| Earned Income | 2,157,990 | - | - | 2,157,990 |
| Local Services | 111,407 | - | - | 111,407 |
| Total Taxes | 2,662,220 | - | - | 2,662,220 |
| Accounts | 757,470 | 15,865 | 3,593 | 776,928 |
| Grants | 49,712 | 87,825 | 678,556 | 816,093 |
| Total Receivables | \$ 3,469,402 | \$ 103,690 | \$ 682,149 | \$ 4,255,241 |

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 (the "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 10-20 year period for the settling entities. In 2012, the City and 11 other plaintiffs filed a civil suit in the Lebanon Court of Common Pleas against the five municipalities that did not sign the intermunicipal agreement. In July 2015, a judgment was awarded in favor of the City and the other 11 municipalities ordering the five defendant municipalities to repay the over-compensated earned income tax funds. As of July 2016, one municipality settled as a result of the judgment and the other four municipalities have filed an appeal, and the City expects to collect those funds in up 18 months. As of December 31, 2015, \$1,048,598 is recorded as a receivable and unavailable revenue.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 5: LOAN PROGRAMS

Conditional grants, deferred loans, and program loans totaling \$18,256, \$3,811,037, and \$172,857, respectively, have been recorded as receivables at December 31, 2015. Unavailable receivables totaling \$3,805,538 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, 2015, program loans outstanding from the rehabilitation project totaled \$39,649. 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, 2015 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, 2015 for these loans and totaled \$1,194,012, and the deferred balance, including finance charges and penalties, was \$1,194,012.

Home Grant and Homebuyer Program

The Home Grant Program also disburses funds in the form of loans. The principal balances outstanding at December 31, 2015 for the loans amounted to \$40,575.

In addition, the Home Grant Program and the Homebuyer Program also disburse funds in the form of deferred payment loans for low and moderate-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, 2015 for these loans totaled \$1,903,323 in the HOME Fund. Deferred inflows of resources, including finance charges and penalties, were \$1,903,276.

DownCity Revitalization Program

State funds received through a DownCity 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 DownCity "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, 2015 principal balance outstanding totaled \$116,341 in the Enterprise Zone (non-major) fund.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 5: LOAN PROGRAMS (CONTINUED)

DownCity Revitalization Program (Continued)

The DownCity Revitalization Program also disburses funds in the form of conditional grants and deferred loans. The principal balance outstanding at December 31, 2015 for the conditional grants amounted to \$11,179 in the Enterprise Zone (non-major) Fund and \$7,077 in the Redevelopment Assistance Fund. The principal balance for the deferred program loans amounted to \$90,000 in the Enterprise Zone (non-major) Fund and \$2,633 in the ACT 137 (non-major) Fund. Deferred inflows of resources for the deferred loans totaled \$110,889.

The grant contract for the DownCity 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, 2015 for the deferred loans totaled \$495,000 and \$98,028 for the program loans in the State Housing and Redevelopment (non-major) Fund. Deferred inflows of resources, including finance charges and penalties, totaled \$593,028.

State Funds received through Commonwealth of PA were disbursed in the form of a deferred loan for a façade project. The loan agreement requires repayment when the property is sold. The principal balance outstanding at December 31, 2015 for the deferred loan was \$4,333 in the Elm Street (non-major) Fund. Deferred inflows of resources related to the façade loan, including any finance charges, totaled \$4,333.

NOTE 6: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

| | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> |
|-----------------------|---------------------------------|-------------------------------|
| General Fund | \$ 615,618 | \$ 55,316 |
| CDBG Fund | - | 110,915 |
| HOME Fund | 1,160 | 13,950 |
| Non-Major Funds | - | 489,728 |
| Internal Service Fund | 53,131 | - |
| Totals | <u>\$ 669,909</u> | <u>\$ 669,909</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.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 6: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

The City made the following interfund operating transfers during the year ended December 31, 2015. The transfers were made to reimburse the General Fund for indirect costs.

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------|---------------------|----------------------|
| General Fund | \$ 137,530 | \$ 5,829 |
| CDBG Fund | - | 95,000 |
| Non-Major Funds | <u>5,829</u> | <u>42,530</u> |
| Totals | <u>\$ 143,359</u> | <u>\$ 143,359</u> |

NOTE 7: CAPITAL ASSETS

A summary of changes in the capital assets for the year ended December 31, 2015 is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|-------------------|---------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 951,802 | \$ - | \$ - | \$ 951,802 |
| Total capital assets not being depreciated | <u>951,802</u> | <u>-</u> | <u>-</u> | <u>951,802</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 8,044,141 | 186,801 | - | 8,230,942 |
| Infrastructure | 65,444,890 | 133,602 | - | 65,578,492 |
| Machinery and equipment | 845,186 | 459,604 | - | 1,304,790 |
| Automotive equipment | 2,213,225 | 820,425 | (242,472) | 2,791,178 |
| Total capital assets being depreciated | <u>76,547,442</u> | <u>1,600,432</u> | <u>(242,472)</u> | <u>77,905,402</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (5,784,750) | (203,837) | - | (5,988,587) |
| Infrastructure | (15,010,960) | (1,311,941) | - | (16,322,901) |
| Machinery and equipment | (642,420) | (64,745) | - | (707,165) |
| Automotive equipment | (2,073,627) | (126,485) | 233,278 | (1,966,834) |
| Total accumulated depreciation | <u>(23,511,757)</u> | <u>(1,707,008)</u> | <u>233,278</u> | <u>(24,985,487)</u> |
| Total capital assets being depreciated, net | <u>53,035,685</u> | <u>(106,576)</u> | <u>(9,194)</u> | <u>52,919,915</u> |
| Total capital assets, governmental activities | <u>\$ 53,987,487</u> | <u>\$ (106,576)</u> | <u>\$ (9,194)</u> | <u>\$ 53,871,717</u> |

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

Governmental activities

| | |
|--|---------------------|
| General government | \$ 1,334,083 |
| Public safety | 95,127 |
| Public works | 173,488 |
| Culture and recreation | <u>104,310</u> |
| Total depreciation expense – governmental activities | <u>\$ 1,707,008</u> |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 8: LONG – TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended December 31, 2015:

| | Balance at January 1, 2015 | Additions | Reductions | Balance at December 31, 2015 | Due Within One Year |
|--|-------------------------------|---------------------|--------------------|------------------------------------|------------------------|
| <u>Governmental activities</u> | | | | | |
| General obligation debt | \$ 170,000 | \$ - | \$ (15,000) | \$ 155,000 | \$ - |
| Tax Anticipation Note payable | - | 50,000 | (50,000) | - | - |
| Compensated absences | 49,927 | - | (5,161) | 44,766 | - |
| Net Pension Liability | 1,811,492 | 564,974 | - | 2,376,466 | - |
| OPEB | 9,200,147 | 1,339,028 | - | 10,539,175 | - |
| Governmental activities long-term liabilities | <u>\$ 11,231,566</u> | <u>\$ 1,954,002</u> | <u>\$ (70,161)</u> | <u>\$ 13,115,407</u> | <u>\$ -</u> |

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, 2015 totaled \$8,616 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 County 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 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, 2015, the City's outstanding principal balance on the 2009 Bonds was \$155,000.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 8: LONG – TERM LIABILITIES (CONTINUED)

An analysis of debt service requirements to maturity on the Governmental Activities obligations follows:

| | Principal Requirements | Interest Requirements | Total Debt Service Requirements |
|------|---------------------------|--------------------------|---------------------------------------|
| 2016 | \$ - | \$ 5,785 | \$ 5,785 |
| 2017 | - | 5,785 | 5,785 |
| 2018 | - | 5,785 | 5,785 |
| 2019 | 60,000 | 5,785 | 65,785 |
| 2020 | 65,000 | 3,625 | 68,625 |
| 2021 | 30,000 | 1,187 | 31,187 |
| | <u>\$ 155,000</u> | <u>\$ 27,952</u> | <u>\$ 182,952</u> |

NOTE 9: 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.

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 \$1,000,000 in aggregate claims covered by the plan of insurance. At December 31, 2015, the City had 149 participants in the plan. The individual stop-loss deductible for the benefit determination period is \$75,000 per employee with an unlimited maximum 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. 30), 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, 2015 and 2014, and the ending health benefits self-insurance liability at December 31, 2015 and 2014, recorded in the City's Internal Service Fund.

| Year Ended December 31, | Beginning Liability | Prior Year Incurred, but not Accrued | Incurred Claims | Payments | Ending Liability |
|----------------------------|------------------------|---|--------------------|--------------|------------------|
| 2015 | \$ 74,596 | \$ 17,139 | \$ 1,417,609 | \$ 1,407,617 | \$ 101,727 |
| 2014 | 75,277 | - | 1,959,552 | 1,960,233 | 74,596 |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS

Non-Uniform Defined Benefit PlanA. Plan Description

The City, through provisions of Bill No. 36 of 2004-2005, adopted pursuant to Act 15, entered into an agreement with the Pennsylvania Municipal Retirement System (PMRS), to provide employee pension benefits to non-uniformed employees through participation in the PMRS. The PMRS was created by the Pennsylvania General Assembly in 1974 with the passage of the Pennsylvania Municipal Retirement Law 1974, P.L. 34, No. 15. PMRS administers pension plans on a contracted basis for any municipality or institution supported and maintained by a Pennsylvania municipality. This agent multiple-employer public employee retirement system maintains each municipality's account separately with that municipality's contributions and related employee contributions, and earnings segregated into separate accounts. PMRS issues a separate Comprehensive Annual Financial Report, which can be obtained by contacting the PMRS accounting office at P.O. Box 1165, Harrisburg, PA 17108-1165.

Employees covered by benefit terms. At December 31, 2014, the following employees were covered by the benefit terms:

Participants:

| | |
|---|----|
| Inactive plan members or beneficiaries currently receiving benefits | 55 |
| Inactive plan members entitled to, but not yet receiving benefits | 5 |
| Active plan members | 25 |
| | 85 |

Plan Benefits.

Benefit terms were established under the 2005 agreement between PMRS and the City, changes to benefit terms can only occur by modification of this agreement. Major provisions of the 2005 agreement include the following:

Membership for full-time employees of the Municipality is mandatory. Membership for part-time employees, seasonal employees, and temporary employees is prohibited, as is membership for individuals paid only on a fee basis. Benefits vest after 5 years of credited service. A member shall be eligible for a retirement benefit upon attainment of retirement age, which shall be sixty-five (60) years of age. Early retirement is given if a member has been involuntarily terminated after 8 years of credited service or has separated voluntarily after 20 years of service. For early retirement, benefits will be actuarially reduced for each year or partial year thereof that the early retirement takes place prior to age 60.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Non-Uniform Defined Benefit Plan (Continued)

A. Plan Description (Continued)

Plan Benefits (continued)

The basic annual benefit shall be equal to 1.25% of the member's final salary multiplied by all years of credited service. Effective January 1, 2008 the basic annual benefit shall be equal to 1.50% of the member's final salary multiplied by all years of credited service. The final salary shall be the greater of the final one year of compensation, or the average of the final five consecutive years of employment.

The plan also provides death benefits for active and retired employees, as well as disability benefits for active employees.

The plan does allow for cost-of-living adjustments to an employee's retirement allowance subsequent to the employee's retirement date, if eligible.

B. Contributions

Required contributions to the plan are governed by the 2005 agreement. The PMRS Board will actuarially determine the normal cost of the benefits provided under the contract (2005 agreement) and any liability associated with the actuarial experience of such benefits which shall be contributed annually by the City. If applicable, any additional amount which shall be contributed annually toward a reserve account for the disability allowances, which may be payable in accordance with the contract (2005 agreement), shall also be determined and charged to the City. The amounts so determined shall be computed in accordance with the requirements of Act 205 of 1984, the Municipal Pension Plan Fund Standard and Recovery Act, and Act 15 of 1974, the Pennsylvania Municipal Retirement Law, and subsequent amendments to either Act. Members shall contribute five percent of their compensation to fund the annuity.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Non-Uniform Defined Benefit Plan (Continued)C. Net Pension Liability

The components and changes in the City's net pension liability for the plan for the year ended December 31, 2014 were as follows:

| | Increase (Decrease) | | |
|---------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Beginning of year | \$ 9,780,519 | \$ 12,407,834 | \$ (2,627,315) |
| Service Cost | 120,482 | - | 120,482 |
| Interest Cost | 526,648 | - | 526,648 |
| Changes of Benefit Terms | - | - | - |
| Changes for Experience | (111,693) | - | (111,693) |
| Changes of Assumptions | - | - | - |
| Contributions - Employer | - | 2,547 | (2,547) |
| Contributions - Member | - | 48,710 | (48,710) |
| Net Investment Income | - | 680,522 | (680,522) |
| Benefit Payments, including | | | |
| Refunds of Member Contributions | (659,997) | (659,997) | - |
| Administrative Expense | - | (27,595) | 27,595 |
| Net Changes | (124,560) | 44,187 | (168,747) |
| End of year | \$ 9,655,959 | \$ 12,452,021 | \$ (2,796,062) |

Detailed information about the pension plan's fiduciary net position is available in the separately issued PMRS financial report.

D. Pension Expense and Deferred Inflows of Resources

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

| | Deferred Inflows of Resources |
|---|--|
| Difference Between Expected and Actual Experience | \$ 55,846 |
| Difference Between Projected and Actual Investment Earnings | 6,322 |
| Total | \$ 62,168 |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Non-Uniform Defined Benefit Plan (Continued)D. Pension Expense and Deferred Outflows and Inflows of Resources (continued)

The total pension expense recognized in 2015 for the plan was \$(104,032). The deferred inflows of resources will be recognized in pension expense as follows:

| Year Ended December 31: | Deferred Inflows of Resources |
|----------------------------|--|
| 2016 | \$ (57,426) |
| 2017 | (1,580) |
| 2018 | (1,580) |
| 2019 | (1,582) |
| 2020 | - |
| Thereafter | - |
| Total | <u>\$ (62,168)</u> |

E. Actuarial Methods and Assumptions

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the liabilities from an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary Increases: | Age/Merit Scale including inflation, ranging from 3.00% to 8.30% |
| Investment Rate of Return | 5.50%, compounded annually, net of expenses |
| Postretirement Cost of Living Increase: | 3.00%, subject to plan limitations |

Mortality rates Pre-Retirement were based on the RP-2000 Scale with 1 year set back for males and 5 year set back for females. Mortality rates Post-Retirement were based on the RP-2000 Sex-Distinct Mortality Table. The current mortality assumptions, while not reflecting projections for improvements are subject to experience review every four years at which time recommendations of changes to reflect changes in experience over those expected from the tables applied over the five year period preceding the experience analysis are received and reviewed by the Board. Such experience is required by State statute.

The actuarial assumptions used in the December 31, 2014 valuation were based on the PMRS Experience Study for the period covering January 1, 2005 through December 31, 2008 issued by the actuary in July 2010 as well as subsequent Board approved assumption changes.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Non-Uniform Defined Benefit Plan (Continued)F. Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|----------------------|--|
| Domestic Equities (large capitalized firms) | 25% | 3.5% |
| Domestic Equities (small capitalized firms) | 15% | 3.4% |
| International Equities (international developed markets) | 15% | 1.9% |
| International Equities (emerging markets) | 10% | 3.3% |
| Real estate | 20% | 2.7% |
| Fixed income | 15% | (.4)% |
| Total Portfolio | <u>100%</u> | |

G. Discount Rate

The discount rate used to measure the total pension liability was 5.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rates and employers will continue the historical and legally required practice of contributing to the Plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. Based on these assumptions the pension plan's projected Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Non-Uniform Defined Benefit Plan (Continued)H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 5.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.50%) or 1-percentage-point higher (6.50%) than the current rate:

| | 1% Decrease (4.50%) | Current Discount Rate (5.50%) | 1% Increase (6.50%) |
|-------------------------------|---------------------------|-------------------------------------|---------------------------|
| City's net pension liability: | \$ (1,882,433) | \$ (2,796,062) | \$ (3,586,329) |

Paid Firemen's Pension PlanA. Plan Description

Administration. The City's Paid Firemen Pension Plan is a single-employer defined benefit plan established by the City in accordance with the Third Class City Code and State statutes. The plan is governed by the City which may amend plan provisions, and which is responsible for the management of plan assets. The City has delegated the authority to manage certain plan assets to Principal Life Insurance Company. The plan is reported as a pension trust fund in the statement of fiduciary net position and changes therein. The plan does not issue stand-alone financial reports.

Plan Membership. At December 31, 2015, participants in the plan consisted of the following:

Participants:

| | |
|---|----|
| Inactive plan members or beneficiaries currently receiving benefits | 27 |
| Inactive plan members entitled to, but not yet receiving benefits | 1 |
| Active plan members | 16 |
| | 44 |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Paid Firemen's Pension Plan (continued)A. Plan Description (continued)

Plan Benefits. The benefits provided by the plan are based upon average monthly compensation, age and length of service. A summary of benefit provisions is as follows:

| | |
|-----------------------------|--|
| Normal retirement age | If hired prior to July 1, 1972, attainment age of 50 and completion of 20 years of vesting service. If hired on or after July 1, 1972, attainment age of 50 and completion of 25 years of vesting service. |
| Average compensation period | Based upon the highest 5 consecutive calendar year period of employment or upon the final rate of annual compensation as of the date of employment termination, if higher. |
| Vesting | 100% after completion of twelve years of service. |
| Normal forms of benefits | Life |
| Normal benefits | Equal to 50% of average annual compensation plus service incremental benefit. |
| Death benefit | <u>Before retirement</u> – A death benefit is payable to a participant's surviving spouse in an amount equal to 100% or to his children under age 18 in an amount equal to 50% of the benefit the participant would have been receiving had he been retired at the time of death. <u>After retirement</u> – A death benefit is payable to a participant's surviving spouse in an amount equal to 100% or to his children under age 18 in an amount equal to 50% of the amount payable to the participant at the time of the participant's death. |
| Disability benefit | <u>Service related</u> – Payable until normal retirement, death, or recovery and a deferred annuity payable at normal retirement age. Disability benefit is equal to 50% of average annual compensation. <u>Non-service related</u> – Participant has completed 10 years of vesting service. Payable until normal retirement, death, or recovery and a deferred annuity payable at normal retirement date. Disability benefit is equal to 50% of average annual compensation multiplied by the ratio, not greater than one, of the actual years of benefit service at the date of disability to the minimum required years of benefit service for normal retirement. |
| Cost of Living Adjustment | An annual cost of living adjustment is made to participants who retire between January 1, 2009 and December 31, 2017, with a maximum total cost of living increase of 10% of the initial benefit. No adjustment shall result in a monthly benefit in excess of 50% of the monthly salary being paid to a paid firefighter of the highest pay grade. |
| Service Increment | 1/40 th of such benefit amount for each year of benefit service in excess of 20 (but excluding years after attainment of age 65). The incremental benefit may not exceed \$1,200 per year. |

B. Contributions

Act 205 requires that annual contributions to the plan be based upon the plan's Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. In accordance with the plan's governing document, employees are required to contribute 5% of compensation plus \$1.00 per month to the plan. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Paid Firemen's Pension Plan (continued)B. Contributions (continued)

Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

C. Net Pension Liability

The components and changes in the plan's net pension liability for the year ended December 31, 2015 were as follows:

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|---------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at 12/31/14 | \$ 7,301,680 | \$ 6,575,398 | \$ 726,282 |
| Service Cost | 130,055 | - | 130,055 |
| Interest Cost | 586,986 | - | 586,986 |
| Changes of Benefit Terms | - | - | - |
| Changes for Experience | (13,754) | - | (13,754) |
| Changes of Assumptions | 109,555 | - | 109,555 |
| Contributions - Employer | - | 198,677 | (198,677) |
| Contributions - Member | - | 56,219 | (56,219) |
| Net Investment Income | - | (55,148) | 55,148 |
| Benefit Payments, including Refunds of Member Contributions | (380,418) | (380,418) | - |
| Administrative Expense | - | (6,200) | 6,200 |
| Net Changes | 432,424 | (186,870) | 619,294 |
| Balances at 12/31/15 | \$ 7,734,104 | \$ 6,388,528 | \$ 1,345,576 |

As of December 31, 2015, the plan fiduciary net position as a percentage of the total pension liability was 82.60%.

CITY OF LEBANON
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Paid Firemen's Pension Plan (continued)D. Pension Expense and Deferred Outflows and Inflows of Resources

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference Between Expected and Actual Experience | \$ - | \$ 11,003 |
| Changes in Assumptions | 87,644 | - |
| Difference Between Projected and Actual Investment Earnings | 457,550 | - |
| Total | <u>\$ 545,194</u> | <u>\$ 11,003</u> |

The total pension expense recognized in 2015 for the plan was \$283,780. The deferred outflows of resources and the deferred inflows of resources will be recognized in pension expense as follows:

| Year Ended December 31: | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|----------------------------|---|--|
| 2016 | \$ 136,298 | \$ (2,751) |
| 2017 | 136,298 | (2,751) |
| 2018 | 136,298 | (2,751) |
| 2019 | 136,300 | (2,750) |
| 2020 | - | - |
| Thereafter | - | - |
| Total | <u>\$ 545,194</u> | <u>\$ (11,003)</u> |

E. Actuarial Methods and Assumptions

The City's net pension liability for the plan was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the liability from an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.25% |
| Salary Increases | 5.00%, including inflation |
| Investment Rate of Return | 8.00%, including inflation |
| Postretirement Cost of Living Increase: | 4.00%, subject to plan provisions and limitations |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Paid Firemen's Pension Plan (continued)

E. Actuarial Methods and Assumptions (continued)

Mortality rates were based on the RP2000 Table projected to 2015 using Scale AA.

The actuarial assumptions used in the January 1, 2015 valuation were based on past experience under the plan and reasonable future expectations which represent our best estimate of anticipated experience under the plan. A recent actuarial experience study was not performed.

F. Investments

The pension trust fund investments are stated at fair value determined by the trustee. Investments that do not have an established market are reported at estimated fair value.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|------------------------------|---|
| Domestic Equity | | |
| Large Cap | 33.00% | 6.58% |
| Mid Cap | 4.00% | 7.39% |
| Small Cap | 4.00% | 7.39% |
| International Equity | 12.00% | 7.59% |
| Fixed Income | 37.00% | 2.65% |
| Balanced/Blend | 10.00% | 3.56% |
| Cash | 0.00% | 0.75% |

G. Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Paid Firemen's Pension Plan (continued)H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the plan, calculated using the discount rate of 8.00%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|------------------------------|---------------------------|-------------------------------------|---------------------------|
| Plan's net pension liability | \$ 2,186,239 | \$ 1,345,576 | \$ 635,317 |

I. Rate of return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, for the plan was -0.87 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

J. Deferred Retirement Option Program (DROP)

A participant who was hired on or after January 1, 1995 and who is eligible for a normal retirement benefit can elect to participate in the DROP for a maximum 3 year period. A participant hired prior to January 1, 1995 and who is eligible for a normal retirement benefit can elect to participate in the DROP during the periods July 1, 2015 through December 31, 2015 and July 1, 2016 through December 31, 2016 only for a maximum 3 year period. Termination of employment is required at the end of the DROP period.

The monthly benefit is held in a separate interest-bearing account until it is distributed as a lump sum payment upon termination of employment. Interest to the DROP account is credited at the actual rate earned but will not be less than 0.0% nor more than 4.5%. After termination of employment, the biweekly benefit is payable for life. The accrued benefit is as of the date of participation in the DROP and no additional service will be earned after entry into the DROP.

As of December 31, 2015, three plan members were participating in the DROP and are considered retired for pension purposes. The DROP account balances as of December 31, 2015 are \$40,148.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Police Pension PlanA. Plan Description

Administration. The City's Police Pension Plan is a single-employer defined benefit plan established by the City in accordance with the Third Class City Code and State statutes. The plan is governed by the City which may amend plan provisions, and which is responsible for the management of plan assets. The plan is reported as a pension trust fund in the statement of fiduciary net position and changes therein. The plan does not issue stand-alone financial reports.

Plan Membership. At December 31, 2015, participants in the plan consisted of the following:

Participants:

| | |
|---|----|
| Inactive plan members or beneficiaries currently receiving benefits | 50 |
| Inactive plan members entitled to, but not yet receiving benefits | 1 |
| Active plan members | 41 |
| | 92 |

Plan Benefits. The benefits provided by the plan are based upon average monthly compensation, age and length of service. A summary of benefit provisions is as follows:

| | |
|-----------------------------|--|
| Normal retirement age | If hired prior to July 11, 1966, a participant is eligible for normal retirement after completion of 20 years of vesting service. If hired on or after July 11, 1966, a participant is eligible for normal retirement after attainment of age 50 and completion of 25 years of vesting service. |
| Average compensation period | Based upon the highest consecutive 60 months of employment or base salary plus longevity plus shift differential received during the 12 months immediately preceding the date of retirement, if higher. |
| Vesting | 100% after completion of twelve years of service. |
| Normal forms of benefits | Life |
| Normal benefits | Equal to 50% of average annual compensation plus service incremental benefit. |
| Death benefit | <u>Before retirement</u> – A death benefit is payable to a participant's surviving spouse in an amount equal to 100% or to his children under age 18 in an amount equal to 50% of the benefit the participant would have been receiving had he been retired at the time of death. <u>After retirement</u> – A death benefit is payable to a participant's surviving spouse in an amount equal to 100% or to his children under age 18 in an amount equal to 50% of the amount payable to the participant at the time of the participant's death. |
| Disability benefit | <u>Service related</u> – Disability benefit is equal to 50% of average annual compensation. The disability pension is reduced by Worker's Compensation. <u>Non-service related</u> – Participant has completed 10 years of vesting service. Disability benefit is equal to 50% of average annual compensation multiplied by the ratio, not greater than one, of the actual years of service at the date of disability to the minimum required years of benefit service for normal retirement. The monthly disability pension is reduced by Worker's Compensation. |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Police Pension Plan (Continued)A. Plan Description (Continued)*Plan Benefits (continued)*

| | |
|---------------------------|---|
| Cost of Living Adjustment | An annual cost of living adjustment is made to members who retire on or after January 1, 1999, with a maximum total cost of living increase of 10% of the initial pension. No adjustment shall result in monthly pension in excess of 50% of the monthly salary being paid to patrolmen of the highest pay grade. |
| Service Increment | 1/40 th of such benefit amount for each year of benefit service in excess of 20 (but excluding years after attainment of age 65). The incremental benefit may not exceed \$100 per month. |

B. Contributions

The Commonwealth Act 205 requires that annual contributions to the plan be based upon the plan's Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. In accordance with the plan's governing document, employees are required to contribute 5% of compensation plus \$1.00 per month to the plan. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

C. Net Pension Liability

The components and changes in the plan's net pension liability for the year ended December 31, 2015 were as follows:

| | Increase (Decrease) | | |
|---------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at 12/31/14 | \$ 19,884,828 | \$ 16,169,756 | \$ 3,715,072 |
| Service Cost | 365,275 | - | 365,275 |
| Interest Cost | 1,536,177 | - | 1,536,177 |
| Changes of Benefit Terms | - | - | - |
| Changes for Experience | (469,365) | - | (469,365) |
| Changes of Assumptions | (8,976) | - | (8,976) |
| Contributions - Employer | - | 1,201,085 | (1,201,085) |
| Contributions - Member | - | 146,783 | (146,783) |
| Net Investment Income | - | (29,616) | 29,616 |
| Benefit Payments, including | | | |
| Refunds of Member Contributions | (1,139,095) | (1,139,095) | - |
| Administrative Expense | - | (7,021) | 7,021 |
| Net Changes | <u>284,016</u> | <u>172,136</u> | <u>111,880</u> |
| Balances at 12/31/15 | <u>\$ 20,168,844</u> | <u>\$ 16,341,892</u> | <u>\$ 3,826,952</u> |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Police Pension Plan (Continued)C. Net Pension Liability (Continued)

As of December 31, 2015, the plan fiduciary net position as a percentage of the total pension liability was 81.03%.

D. Pension Expense and Deferred Outflows and Inflows of Resources

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference Between Expected and Actual Experience | \$ - | \$ 391,137 |
| Changes in Assumptions | - | 7,480 |
| Difference Between Projected and Actual Investment Earnings | 1,065,019 | - |
| Total | <u>\$ 1,065,019</u> | <u>\$ 398,617</u> |

The total pension expense recognized in 2015 for the plan was \$646,563. The deferred outflows of resources and the deferred inflows of resources will be recognized in pension expense as follows:

| Year Ended December 31: | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|----------------------------|---|--|
| 2016 | \$ 266,255 | \$ (79,724) |
| 2017 | 266,255 | (79,724) |
| 2018 | 266,255 | (79,724) |
| 2019 | 266,254 | (79,724) |
| 2020 | - | (79,721) |
| Thereafter | - | - |
| Total | <u>\$ 1,065,019</u> | <u>\$ (398,617)</u> |

E. Actuarial Methods and Assumptions

The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the liability from an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary Increases | 5.00%, including inflation |
| Investment Rate of Return | 8.00%, including inflation |
| Postretirement Cost of Living Increase: | 3.00%, subject to plan provisions and limitations |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Police Pension Plan (Continued)

E. Actuarial Methods and Assumptions (continued)

Mortality rates were based on the RP2000 Table for males and females. This table does not include projected mortality improvements.

The actuarial assumptions used in the January 1, 2015 valuations were reviewed by the City's actuary; a recent actuarial experience study was not performed.

F. Investments

The investment objective of the plan is to maintain a balanced portfolio comprised of equity, fixed income, and cash-equivalent securities, and, as such, is intended to be structured less aggressively than speculative portfolios. The pension trust fund investments are stated at fair value determined by the trustee. Investments that do not have an established market are reported at estimated fair value.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|------------------------------|---|
| Domestic Equity | 60.00% | 5.50% - 7.50% |
| Fixed Income | 35.00% | 1.00% - 3.00% |
| Cash | 5.00% | 0.00% - 1.00% |

G. Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 10: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Police Pension Plan (Continued)H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the plan, calculated using the discount rate of 8.00%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|------------------------------|---------------------------|-------------------------------------|---------------------------|
| Plan's net pension liability | \$ 6,094,576 | \$ 3,826,952 | \$ 1,869,231 |

I. Rate of return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.34 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 11: FUND BALANCES / NET POSITION CLASSIFICATIONS AND RESTRICTIONS

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

| | General Fund | CDBG | HOME | Capital Reserve | Non-Major Funds | Total Governmental Funds |
|---------------------------|---------------------|-------------------|-------------------|--------------------|---------------------|--------------------------------|
| Nonspendable: | | | | | | |
| Other Assets | \$ 179,711 | \$ - | \$ - | \$ - | \$ - | \$ 179,711 |
| Permanent | - | - | - | - | 45,973 | 45,973 |
| Total Nonspendable | 179,711 | - | - | - | 45,973 | 225,684 |
| Restricted: | | | | | | |
| Public Safety | - | - | - | - | 38,059 | 38,059 |
| Public Works | - | - | - | - | 303,541 | 303,541 |
| Culture & Recreation | - | - | - | - | 358,112 | 358,112 |
| Economic Development | - | 177,428 | 115,643 | - | 416,558 | 709,629 |
| Total Restricted | - | 177,428 | 115,643 | - | 1,116,270 | 1,409,341 |
| Assigned: | | | | | | |
| 2016 Budget | 447,988 | - | - | - | - | 447,988 |
| City Programs | 254,587 | - | - | - | - | 254,587 |
| Capital Projects | - | - | - | 295,471 | - | 295,471 |
| Total Assigned | 702,575 | - | - | 295,471 | - | 998,046 |
| Unassigned | 1,901,778 | - | - | - | (2,418) | 1,899,360 |
| Total Fund Balance | \$ 2,784,064 | \$ 177,428 | \$ 115,643 | \$ 295,471 | \$ 1,159,825 | \$ 4,532,431 |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 11: FUND BALANCES / NET POSITION CLASSIFICATIONS AND RESTRICTIONS

The restrictions of net position included in the Fiduciary Funds are as follows:

Fiduciary Funds

Paid Firemen's Pension Trust Fund

| | |
|---|--------------|
| Amounts restricted for payment of Firemen pension benefits. | \$ 6,388,528 |
|---|--------------|

Police Pension Trust Fund

| | |
|--|------------|
| Amounts restricted for payment of Police pension benefits. | 16,341,892 |
|--|------------|

| | |
|-------------------------------------|---------------|
| Total Fiduciary Funds, Net Position | \$ 22,730,420 |
|-------------------------------------|---------------|

NOTE 12: 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 and the 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 grants. 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.

NOTE 13: POST-EMPLOYMENT BENEFIT PLAN

Plan Description. The City provides health insurance and life insurance benefits for its police officers, paid firemen, and AFSCME/management employees through its single employer defined benefit plan. The plan does not issue a publicly available financial report. The benefits of the plan are shown below:

Police – A police officer hired prior to July 11, 1966, is eligible for normal retirement after completion of 20 years of service. A police officer hired on or after July 11, 1966, is eligible for normal retirement after attainment of age 50 and completion of 25 years of service. If a police officer is disabled in the line of duty, or has completed 10 years of service and is disabled outside of the line of duty, he is eligible for a disability retirement. Upon retirement, eligible officers receive the following benefits:

- Health Insurance Benefits – The City will provide medical and prescription drug insurance coverage for retired officers hired on or before December 31, 2015, as well as their spouses. No officer or spouse of an officer hired after December 31, 2015, shall be eligible for post-retirement health care from the City in any form. It is understood that the City will have the right to take advantage of the most economical way to provide such medical and prescription drug insurance coverage.
- Life Insurance Benefits - \$5,000 term insurance coverage per retiree.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 13: POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Paid Firemen – A firefighter hired prior to July 1, 1972, is eligible for normal retirement after attainment of age 50 and completion of 20 years of service. A firefighter hired on or after July 1, 1972, is eligible for normal retirement after attainment of age 50 and completion of 25 years of service. If a firefighter is disabled in the line of duty, or has completed 10 years of service and is disabled outside of the line of duty, he is eligible for a disability retirement. Upon retirement, eligible firefighters receive the following benefits:

- Health Insurance Benefits – The City will provide medical and prescription drug insurance for retired firefighters and their spouses. Effective January 1, 2005, the following shall also apply to the surviving spouses and dependents of any bargaining unit member who retires after the effective date. This coverage shall be provided to the surviving spouse until his or her death or remarriage and to eligible dependents for the periods of their eligibility.

It is understood that the City will have the right to take advantage of the most economical way to provide such medical and prescription drug insurance coverage.

Upon reaching the age of 65, the retired firefighter and his spouse shall be required to elect Medicare (Part A&B coverage). No reimbursement shall be made for Medicare or any supplemental insurance coverage carried by the retired firefighter or his spouse.

Employees hired after January 1, 2015 shall not have their spouses covered for purposes of post-retirement health care coverage. For employees hired after January 1, 2015, the City's responsibility to pay for any portion of post-retirement health care shall cease on the 15th anniversary of the individual's retirement from the City.

All employees retiring after January 1, 2016 shall be required to have the same health care benefits as well as payment obligations as the active bargaining unit members. If there is a change to the health care plan applicable to active bargaining members then all employees retiring after January 1, 2016 shall have those changes applicable to the coverage that they receive in retirement including changes to payment obligations

- Life Insurance Benefits – \$5,000 term insurance coverage per retiree.

AFSCME and Management Employees

- Health Insurance Benefits – The City shall provide a health benefit plan for retirees between the ages of 60 and 64 and their spouses, contingent upon the following conditions:
 1. Retiree must retire from the City with 20 years of service and be at least age 60, and no more than age 64.
 2. The benefit ceases when retiree reaches age 65 or receives Medicare, whichever comes first; coverage for retiree's spouse ceases when retiree reaches age 65 or receives Medicare, whichever comes first.
 3. It is understood that the City will have the right to take advantage of the most economical way to provide such medical and prescription drug insurance coverage.
 4. The retiree is required to contribute toward the cost of said coverage at the same rate paid twice monthly by active employees. Retiree's shall pay \$15 twice monthly for their health insurance coverage. Any retiree who has dependents covered under the health insurance program shall pay \$25 twice monthly for coverage.
- Life Insurance Benefits - \$2,000 term insurance coverage per retiree.

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 13: POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Funding Policy. The contribution requirements of the City are established and may be amended by resolution of the City Council. The Plan does not require any contributions from Police and Firemen members. AFSCME and management employees are required to contribute at the same rate paid twice monthly by active employees. The City funds the plan on a pay-as-you-go basis.

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 were estimated by the actuary using an implicit rate subsidy for retirees. For 2015, the City contributed an estimated \$764,503 to the plan for current premiums.

Annual OPEB Cost and Net OPEB Obligation. The Township's annual other postemployment benefit (OPEB) 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Plan:

| | |
|---|----------------------|
| Annual Required Contribution (ARC) | \$ 2,254,335 |
| Interest on Net OPEB Obligation | 414,007 |
| Adjustment on ARC | <u>(564,811)</u> |
| Annual OPEB Cost | 2,103,531 |
| Contributions Made | <u>(764,503)</u> |
| Increase in Net OPEB Obligation | 1,339,028 |
| Net OPEB Obligation - Beginning of Year | <u>9,200,147</u> |
| Net OPEB Obligation - End of Year | <u>\$ 10,539,175</u> |

The net OPEB obligation is liquidated by the general fund.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|----------------------------------|-----------------------------|---|------------------------------------|
| 12/31/15 | \$ 2,103,531 | 36.34% | \$ 10,539,175 |
| 12/31/14 | \$ 1,904,648 | 39.96% | \$ 9,200,147 |
| 12/31/13 | \$ 1,924,357 | 37.52% | \$ 8,056,682 |

CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 13: POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Funded Status and Funding Progress. As of January 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$23,784,520 and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,784,520. The covered payroll was \$5,343,863, and the ratio of the UAAL to the covered payroll was 445.08%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return, which is the expected long-term investment yield on the investments that are expected to be used to finance the payments of benefits, and a health care cost trend rate of 6% in 2015, and 5.5% in 2016 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and after based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized using the level dollar method over a period of 30 years on an open basis.

NOTE 14: 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 the 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 (CONTINUED)
 DECEMBER 31, 2015

NOTE 15: RESTATEMENT OF NET POSITION / CHANGE IN ACCOUNTING PRINCIPLE

The City recorded the cumulative effect of applying the provisions of GASB Statement No. 68 and Statement No. 71 as a restatement of beginning net position as of January 1, 2015. Net position as of January 1, 2015 was decreased by \$1,811,492. The effect on beginning balances for calendar year 2015 is as follows:

| Description | December 31, 2014, as Previously Reported | Beginning Balance Restatement | January 1, 2015, as Restated |
|----------------------------------|---|-------------------------------------|---------------------------------|
| Statement of Net Position | | | |
| Net Pension Liability | \$ - | \$ (1,811,492) | \$ (1,811,492) |
| Net Position | <u>\$ 52,756,105</u> | <u>\$ (1,811,492)</u> | <u>\$ 50,944,613</u> |

NOTE 16: SUBSEQUENT EVENTS

On January 1, 2016, the City issued a Tax Revenue Anticipation Note (the "Note"), Series of 2016 in the principal amount of \$1,000,000, bearing an interest rate of 1.25%. Both principal and interest on the Note are due December 31, 2016.

REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF LEBANON
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 8,807,956 | \$ 8,807,956 | \$ 9,017,300 | \$ 209,344 |
| Licenses and Permits | 521,500 | 521,500 | 564,580 | 43,080 |
| Fines and forfeitures | 505,150 | 505,150 | 555,948 | 50,798 |
| Interest and Rents | 127,030 | 127,030 | 48,713 | (78,317) |
| Intergovernmental | 878,122 | 878,122 | 1,014,036 | 135,914 |
| Charges for Services | 411,957 | 411,957 | 537,667 | 125,710 |
| Developers Contributions | - | - | 27,092 | 27,092 |
| Miscellaneous Income | 7,125 | 7,125 | 70,667 | 63,542 |
| Total Revenues | 11,258,840 | 11,258,840 | 11,836,003 | 577,163 |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 947,995 | 947,995 | 992,478 | (44,483) |
| Public Safety | 9,607,001 | 9,607,001 | 9,289,873 | 317,128 |
| Public Works | 1,155,969 | 1,155,969 | 1,020,702 | 135,267 |
| Culture and Recreation | 471,411 | 471,411 | 466,414 | 4,997 |
| Economic Development | - | - | 5,896 | (5,896) |
| Debt Service | | | | |
| Principal | 15,000 | 15,000 | 65,000 | (50,000) |
| Interest | 15,735 | 15,735 | 14,851 | 884 |
| Total Expenditures | 12,213,111 | 12,213,111 | 11,855,214 | 357,897 |
| Excess of Revenues Over Under Expenditures | (954,271) | (954,271) | (19,211) | 935,060 |
| Other Financing Sources (Uses) | | | | |
| Operating Transfers In | 95,000 | 95,000 | 137,530 | 42,530 |
| Operating Transfers Out | - | - | (5,829) | (5,829) |
| Tax Revenue Anticipation Note Proceeds | - | - | 50,000 | 50,000 |
| Proceeds from Sale of Capital Assets | 2,500 | 2,500 | 97,402 | 94,902 |
| Total Other Financing Sources | 97,500 | 97,500 | 279,103 | 181,603 |
| Excess of Revenues and Other Financing Sources (Uses) Over (Under) Expenditures | \$ (856,771) | \$ (856,771) | \$ 259,892 | \$ 1,116,663 |

CITY OF LEBANON
 Schedule of Changes in the Net Pension Liability and Related Ratios - Last 10 Years - Non-Uniform Pension

| | 2014 |
|---|-------------------------|
| Total pension liability | |
| Service Cost | \$ 120,482 |
| Interest | 526,648 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | (111,693) |
| Changes of assumptions | - |
| Benefit payments, including refunds of employee contributions | (659,997) |
| Net change in total pension liability | (124,560) |
| Total pension liability - beginning | 9,780,519 |
| Total pension liability - ending (a) | \$ 9,655,959 |
| Plan fiduciary net position | |
| Contributions - employer | \$ 2,547 |
| Contributions - employee | 48,710 |
| Net investment income | 680,522 |
| Benefit payments, including refunds of employee contributions | (659,997) |
| Administrative expense | (27,595) |
| Other | - |
| Net change in plan fiduciary position | 44,187 |
| Plan fiduciary net position - beginning | 12,407,834 |
| Plan fiduciary net position - ending (b) | \$ 12,452,021 |
| City's net pension liability - ending (a) - (b) | \$ (2,796,062) |
| Plan fiduciary net position as a percentage of the total pension liability | 128.96% |
| Covered - employee payroll | \$ 1,116,776 |
| City net pension liability as a percentage of covered - employee payroll | -250.37% |

The City adopted GASB 68 on a prospective basis in 2015, therefore only one year of information is available.

CITY OF LEBANON

Schedule of Changes in the Net Pension Liability and Related Ratios - Last 10 Years - Fire Pension

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Total pension liability | | |
| Service Cost | \$ 130,055 | \$ 118,290 |
| Interest | 586,986 | 554,125 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | (13,754) | - |
| Changes of assumptions | 109,555 | - |
| Benefit payments, including refunds of employee contributions | (380,418) | (358,004) |
| Net change in total pension liability | <u>432,424</u> | <u>314,411</u> |
| Total pension liability - beginning | <u>7,301,680</u> | <u>6,987,269</u> |
| Total pension liability - ending (a) | <u>\$ 7,734,104</u> | <u>\$ 7,301,680</u> |
| | | |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 198,677 | \$ 198,453 |
| Contributions - employee | 56,219 | 56,959 |
| Net investment income | (55,148) | 330,128 |
| Benefit payments, including refunds of employee contributions | (380,418) | (358,004) |
| Administrative expense | (6,200) | - |
| Other | - | - |
| Net change in plan fiduciary position | <u>(186,870)</u> | <u>227,536</u> |
| Plan fiduciary net position - beginning | <u>6,575,398</u> | <u>6,347,862</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 6,388,528</u> | <u>\$ 6,575,398</u> |
| | | |
| City's net pension liability - ending (a) - (b) | <u>\$ 1,345,576</u> | <u>\$ 726,282</u> |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability | 82.60% | 90.05% |
| | | |
| Covered - employee payroll | \$ 1,477,038 | \$ 1,439,664 |
| | | |
| City net pension liability as a percentage of covered - employee payroll | 91.10% | 50.45% |

The City adopted GASB 67 on a prospective basis in 2014, therefore only two years of information is available.

CITY OF LEBANON

Schedule of Changes in the Net Pension Liability and Related Ratios - Last 10 Years - Police Pension

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Total pension liability | | |
| Service Cost | \$ 365,275 | \$ 401,230 |
| Interest | 1,536,177 | 1,511,035 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | (469,365) | - |
| Changes of assumptions | (8,976) | - |
| Benefit payments, including refunds of employee contributions | (1,139,095) | (1,028,301) |
| Net change in total pension liability | <u>284,016</u> | <u>883,964</u> |
| Total pension liability - beginning | <u>19,884,828</u> | <u>19,000,864</u> |
| Total pension liability - ending (a) | <u>\$ 20,168,844</u> | <u>\$ 19,884,828</u> |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 1,201,085 | \$ 998,520 |
| Contributions - employee | 146,783 | 138,165 |
| Net investment income | (29,616) | 969,692 |
| Benefit payments, including refunds of employee contributions | (1,139,095) | (1,033,149) |
| Administrative expense | (7,021) | (8,926) |
| Other | - | - |
| Net change in plan fiduciary position | <u>172,136</u> | <u>1,064,302</u> |
| Plan fiduciary net position - beginning | <u>16,169,756</u> | <u>15,105,454</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 16,341,892</u> | <u>\$ 16,169,756</u> |
| City's net pension liability - ending (a) - (b) | <u>\$ 3,826,952</u> | <u>\$ 3,715,072</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 81.03% | 81.32% |
| Covered - employee payroll | \$ 2,987,438 | \$ 2,629,816 |
| City net pension liability as a percentage of covered - employee payroll | 128.10% | 141.27% |

The City adopted GASB 67 on a prospective basis in 2014, therefore only two years of information is available.

CITY OF LEBANON
Schedule of Employer Contributions - Last 10 Years - Non-Uniform Pension

| | 2015 |
|--|-------------|
| Actuarially determined contribution | \$ - |
| Contributions in relation to the actuarially determined contribution | 2,547 |
| Contribution deficiency (excess) | \$ (2,547) |
| Covered - employee payroll | 1,116,776 |
| Contributions as a percentage of covered - employee payroll | 0.23% |

* Information prior to 2014 was not available.

Notes to Schedule

Valuation date: January 1, 2011

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | N/A |
| Asset valuation method | Based upon the municipal reserves |
| Inflation | 3.00% |
| Salary increases | Age related scale with merit and inflation component |
| Investment rate of return | 5.50% |
| Pre-Retirement Mortality | Males - RP2000 with 1 year set back Females - RP-2000 with 5 year set back |
| Post-Retirement Mortality | Sex distinct RP-2000 Combined Healthy Mortality |

Note > The City adopted GASB 68 on a prospective basis in 2015, therefore only one year of information is presented.

CITY OF LEBANON
Schedule of Employer Contributions - Last 10 Years - Fire Pension

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | * | * |
|--|------------|------------|------------|-----------|------------|------------|------------|------------|------|------|
| | | | | | | | | | 2007 | 2006 |
| Actuarially determined contribution | \$ 198,677 | \$ 198,453 | \$ 102,870 | \$ 97,758 | \$ 177,369 | \$ 106,388 | \$ 117,357 | \$ 112,004 | | |
| Contributions in relation to the actuarially determined contribution | 198,677 | 198,453 | 102,870 | 97,758 | 177,369 | 106,388 | 117,357 | 112,004 | | |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered - employee payroll | 1,477,038 | 1,439,664 | 1,365,404 | 1,311,964 | 1,254,922 | 1,235,481 | 1,291,602 | 1,129,502 | | |
| Contributions as a percentage of covered - employee payroll | 13.45% | 13.78% | 7.53% | 7.45% | 14.13% | 8.61% | 9.09% | 9.92% | | |

* Information prior to 2008 was not available.

Notes to Schedule

Valuation date: January 1, 2013

Actuarially determined contribution rates are calculated as of January 1, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 12 years |
| Asset valuation method | 5 year smoothed value, not to exceed 120% or be less than 80% of market value. |
| Inflation | 2.25% |
| Salary increases | 5.00% |
| Investment rate of return | 8.00%, net of investment expenses |
| Retirement age | Normal retirement age, or age on valuation date, if greater. |
| Mortality | RP-2000 Combined Mortality Table, male and female, unprojected. |

Changes to assumptions.

Effective 2015: Mortality assumption was changed from the RP-2000 Table to the RP-2000 Table projected to 2015 using Scale AA.

City of Lebanon

Schedule of Employer Contributions - Last 10 Years - Police Pension

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Actuarially determined contribution | \$ 1,201,085 | \$ 998,520 | \$ 974,213 | \$ 818,503 | \$ 834,634 | \$ 827,932 | \$ 823,905 | \$ 650,940 | \$ 640,274 | \$ 626,418 |
| Contributions in relation to the actuarially determined contribution | 1,201,085 | 998,520 | 974,213 | 818,503 | 834,634 | 827,932 | 823,905 | 650,940 | 640,274 | 626,418 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered - employee payroll | 2,987,438 | 2,629,816 | 2,612,769 | * | 2,452,990 | * | 2,516,550 | * | 2,463,065 | * |
| Contributions as a percentage of covered - employee payroll | 40.20% | 37.97% | 37.29% | * | 34.03% | * | 32.74% | * | 26.00% | * |

* Information not available

Notes to Schedule

Valuation date: January 1, 2013

Actuarially determined contribution rates are calculated as of January 1, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 8 years |
| Asset valuation method | Market value of assets as determined by the trustee. |
| Inflation | 4.00% |
| Salary increases | 5.00% |
| Investment rate of return | 8.00% |
| Retirement age | Attainment age of 53 and completion of 25 years of service. |
| Mortality | RP2000 Table. This table does not include projected mortality improvements. |

Benefit changes.

None since 1/1/13.

CITY OF LEBANON
SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years

| | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| <u>POLICE PENSION PLAN</u> | | |
| Annual money-weighted rate of return, net of investment expense | 0.34% | 3.64% |
| <u>FIRE PENSION PLAN</u> | | |
| Annual money-weighted rate of return, net of investment expense | -0.87% | 5.36% |

The City adopted GASB 67 on a prospective basis in 2014, therefore only two years of information is available.

CITY OF LEBANON
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
 YEAR ENDED DECEMBER 31, 2015

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|---------------------------------|--------------------------|---------------------------|---|
| 1/1/2010 | \$ - | \$ 22,857,486 | \$ 22,857,486 | 0% | \$ 5,180,346 | 441% |
| 1/1/2012 | - | 21,131,960 | 21,131,960 | 0% | 5,032,844 | 420% |
| 1/1/2015 | - | 23,784,520 | 23,784,520 | 0% | 5,343,863 | 445% |