



**CITY OF LEBANON  
LEBANON, PENNSYLVANIA**

**AUDIT REPORT**

**DECEMBER 31, 2018**

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CITY OF LEBANON

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## INDEPENDENT AUDITOR'S REPORT

September 25, 2019

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

### Report on Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

To the Honorable Mayor and City Council  
City of Lebanon

error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinions

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

#### Emphasis of Matter

As discussed in Notes 1 and 18 to the financial statements, the City of Lebanon has adopted the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement modifies the accounting for the City's other postemployment benefits. As a result, the beginning governmental activities net position has been restated. 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 on pages 4 through 22 and the schedules of changes in net pension liability, related ratios, and investment returns - pension plans; schedules of employer contributions - pension plans; schedule of the City's net OPEB liability and related ratios; schedule of City OPEB contributions; and notes to required supplementary information on pages 81 through 88 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 the Honorable Mayor and City Council  
City of Lebanon

to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fiduciary fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019, 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.

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

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018**

This section of the City of Lebanon's ("the City") annual financial report presents a narrative overview and analysis of the City's performance for the year ended December 31, 2018. 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, 2018.

***FINANCIAL HIGHLIGHTS***

- The City's Real Estate Millage Rate remained the same at 4.581 mills for 2018. 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 3, 2018 and drew down \$50,000 against the authorized amount. The note was paid off in December 2018 as required.
- The City's long- term debt remained the same at \$155,000 as of December 31, 2018.
- The City created a Capital Reserve Fund ("CRF") in 2011 with community contributions. In 2014, money was budgeted from the general fund and in addition, \$1.5 million was received in November of 2014, which represented a safety incentive payment from the Norfolk Southern Railroad Company for the closing of the at-grade railroad crossings in conjunction with the 9<sup>th</sup> & 10<sup>th</sup> Street Bridges Over the Norfolk Southern Railroad Project. This money was designated for the purchase of public works and public safety vehicles and equipment. In 2016, \$492,787 was transferred from the general fund representing a partial settlement from the EIT litigation. This amount included a \$40,000 budgeted transfer to reserves for capital projects. In 2017, \$481,101 was transferred into the capital reserves representing EIT litigation payments from W. Cornwall Township and Cornwall Borough; and in 2018, \$100,000 was transferred into the CRF. As of December 31, 2018, the CRF balance was \$927,961 with a due from receivable from the general fund of Self Contained Breathing Apparatus ("SCBA") \$267,273 + (2018 Budget transfer) \$100,000. Both transfers were made in July 2019.
- 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, reducing 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 of excess carryover to balance the budget. In 2015, 2016, 2017, and again in 2018, we performed better than budget, and the excess carryover did not need to be used.

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of the following three 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 postemployment 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.

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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 differs 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 resources 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.

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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, 2018, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$18,101,959. Key components of this change are summarized in Table A-1.

**Table A-1 Condensed Statement of Net Position**

	<b>Governmental Activities</b>		<b>% Change</b>
	<b>2018</b>	<b>2017</b>	
<b>Assets</b>			
Current and Other Assets	\$ 20,486,122	\$ 17,980,611	13.93%
Capital Assets	49,670,009	51,052,358	-2.71%
<b>Total Assets</b>	<b>70,156,131</b>	<b>69,032,969</b>	<b>1.63%</b>
<b>Deferred Outflows of Resources</b>	<b>7,773,488</b>	<b>1,756,249</b>	<b>342.62%</b>
<b>Liabilities</b>			
Long-term Liabilities	52,667,174	43,320,742	21.57%
Other Liabilities	1,273,989	1,284,748	-0.84%
<b>Total Liabilities</b>	<b>53,941,163</b>	<b>44,605,490</b>	<b>20.93%</b>
<b>Deferred Inflows of Resources</b>	<b>5,886,497</b>	<b>4,648,237</b>	<b>26.64%</b>

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

**Table A-1 Condensed Statement of Net Position**

(cont'd)	<b>Governmental Activities</b>		<b>% Change</b>
	<b>2018</b>	<b>2017</b>	
<b>Net Position</b>			
Net investment in Capital Assets	49,515,009	50,897,358	-2.72%
Restricted	2,341,841	2,513,076	-6.81%
Unrestricted (Deficit)	(33,754,891)	(31,874,943)	5.90%
Total Net Position	<u>\$ 18,101,959</u>	<u>\$ 21,535,491</u>	<u>-15.94%</u>

The City's assets totaled \$70,156,131 at December 31, 2018. Of this amount, capital assets, including infrastructure and construction-in-progress, totaled \$49,670,009, net pension asset totaled \$3,914,661, and current and other assets totaled \$16,571,461.

Capital assets decreased \$(1,382,349) over the balance at December 31, 2017. This decrease is due to the addition of one fire vehicle, \$42,005; the addition of two new police vehicles and in-car computers, \$77,746; the addition of 46 SCBA units for the fire fighters, \$296,920; the addition of police office assets, \$6,261; offset by a net change in accumulated depreciation, \$(1,805,281). The City's net investment in capital assets totaled \$49,515,009 at December 31, 2018.

Current and other assets increased \$2,505,511 over the balance at December 31, 2017. This increase is due to an increase in cash and cash equivalents of \$1,895,272; a decrease in receivables of \$(650,737); a decrease in restricted cash of \$(39,880); a decrease in program loans and loans receivable of \$(33,532); a decrease in other miscellaneous assets of \$(115,627); and an increase in the net pension asset of \$1,450,015.

Liabilities and deferred inflows of resources totaled \$59,827,660 as of December 31, 2018. The long-term liabilities line item includes the long-term portion of a note payable, \$95,000; compensated absences, \$34,158; other postemployment liabilities, \$44,859,603; and a pension liability of \$7,678,413. The other liabilities line item includes accounts payable, \$589,854; accrued expenses, customer deposits, due to other governments, and deferred revenues, \$684,135.

Other liabilities decreased by \$10,759, which represents an increase in accounts payable of (\$13,651); and a net decrease in other deposits and accrued expenses of \$24,410.

Long-term liabilities increased by \$9,346,432, which represents an increase in the pension liability of \$3,178,689; an increase in other postemployment benefits of \$6,230,890; a decrease in long-term debt, \$60,000; and a decrease in compensated absences of \$3,147.

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

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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, \$1,339,028, \$1,268,350, and \$1,190,256 were added in 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, and 2017, respectively.

In 2018, the City adopted the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." Under the guidelines of this statement, the City has, in the year 2018, recorded the entire OPEB liability of \$44,859,603.

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 (\$33,754,891) as of December 31, 2018. 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, 2018. It shows revenues by source and expenses by function for governmental activities.

**Table A-2 Change in Net Position**

	<b>Governmental Activities</b>		<b>% Change</b>
	<b>2018</b>	<b>2017</b>	
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 1,352,135	\$ 863,027	56.67%
Operating Grants and Contributions	2,846,907	2,151,629	32.31%
Capital Grants and Contributions	-	448,569	-100.00%
General Revenues:			
Real Estate Taxes - General Levy	3,798,446	3,941,775	-3.64%
Real Estate Transfer Taxes	224,346	274,673	-18.32%
Earned Income Tax	5,476,971	5,273,242	3.86%
Local Services Tax	406,358	413,810	-1.80%
Franchise Fees	309,594	329,397	-6.01%
Fines and Forfeitures	611,876	634,345	-3.54%
Mechanical Device Tax	8,586	6,490	32.30%
Intergovernmental Revenues -			
Not Program Restricted	182,893	186,499	-1.93%
Interest, Investment Earnings, and			
Royalties	212,273	140,492	51.09%
Gain (Loss) from Asset Disposal	217	(35,681)	-100.61%
Contributions	39,050	93,620	-58.29%
Miscellaneous	96,427	193,141	-50.07%
<b>Total Revenues</b>	<b>15,566,079</b>	<b>14,915,028</b>	<b>4.37%</b>

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

**Table A-2 Change in Net Position**

(cont'd)	<b>Governmental Activities</b>		<b>% Change</b>
	<b>2018</b>	<b>2017</b>	
<b>Expenses:</b>			
General Government	1,944,509	2,219,063	-12.37%
Public Safety	13,335,816	10,417,300	28.02%
Public Works	2,987,272	1,789,760	66.91%
Culture and Recreation	492,466	578,345	-14.85%
Economic Development	224,684	450,761	-50.15%
Debt Service	14,864	14,403	3.20%
Total Expenses	<u>18,999,611</u>	<u>15,469,632</u>	<u>22.82%</u>
Change in Net Position	(3,433,532)	(554,604)	519.10%
Net Position, Beginning of Year, Restated	<u>21,535,491</u>	<u>22,090,095</u>	<u>-2.51%</u>
Net Position, End of Year	<u>\$ 18,101,959</u>	<u>\$ 21,535,491</u>	<u>-15.94%</u>

**REVENUES**

In 2018, government-wide revenues of \$15,566,079 came primarily from tax revenue and franchise fees totaling \$10,224,301, operating grants and contributions of \$2,846,907, charges for services of \$1,352,135. Tax revenues and franchise fees were .15 percent, or \$15,086, lower than in 2017 due to an increase in earned income tax; offset by decreases in real estate taxes, real estate transfer taxes, and franchise fees. There were no Capital grants and contributions in 2018.

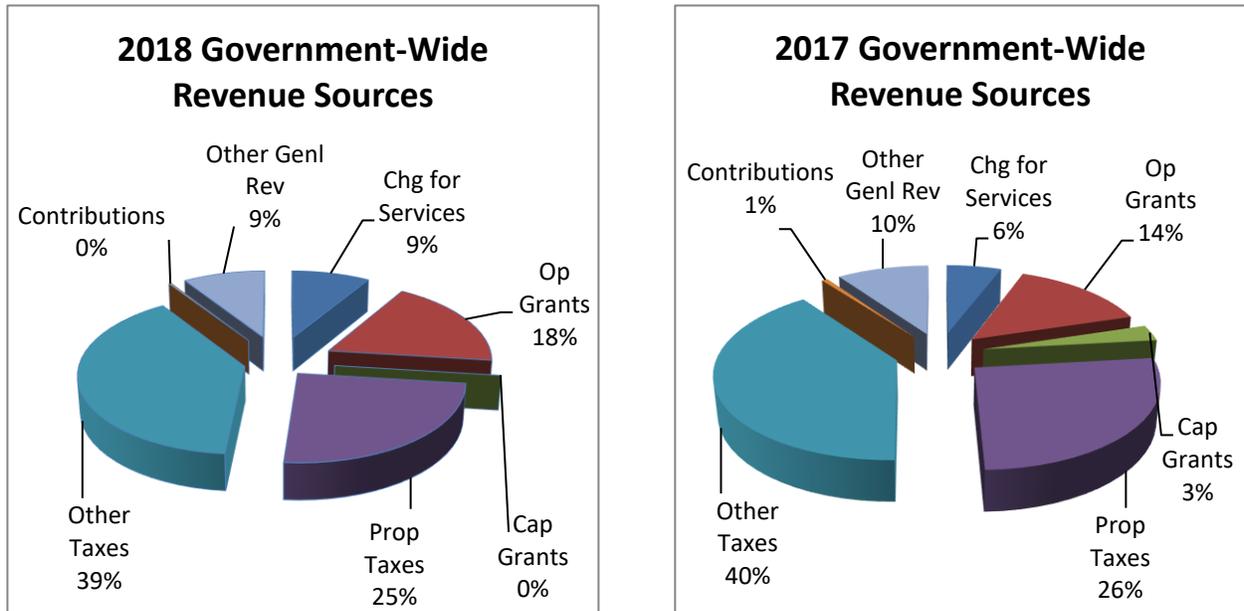
Operating grants and contributions increased \$695,278 in 2018, as compared to 2017 from a decrease in the HOME grant program, (\$65,995); a decrease in a state grant for the conversion of turf grass areas into functional storm water quality BMPs,(\$75,037); offset by an increase in the CDBG grant program \$519,429; an increase in State liquid fuel allotments of \$38,259; the receipt of a grant to purchase SCBA of \$267,273; and a net increase in all other grant programs of \$11,349.

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 increased \$71,781 in 2018, as compared to 2017, due to an increase in income from program loans, \$28,019; an increase in interest income, \$46,072; and a decrease in other revenue of (\$2,310).

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

The following chart graphically depicts the government-wide revenue sources for the fiscal years ended December 31, 2018 and December 31, 2017:



**EXPENSES**

Total expenses for all programs in 2018 were \$18,999,611. The expenses cover a range of services, with the largest being public safety at \$13,335,816 or 70.19 percent. The second largest program area was public works at \$2,987,272 or 15.72 percent. General government represented 10.23 percent, and culture and recreation, economic development, and debt service made up the remaining 3.86 percent of total expenses.

General government expenses decreased (\$274,554) in 2018, as compared to 2017, due to an increase in general administrative services of \$80,587; and offset by decreases in the allocation of health benefit expenses of (\$23,873); the allocation of pension expenses, (\$289,233); and the allocation of OPEB expenses, (\$55,000); and a net increase in other general expenses of \$12,965.

Economic development expenses decreased (\$226,077) in 2018 as compared to 2017, due to a decrease in expenses of the HOME Program, (\$164,185); a decrease in the CDBG program expenses, \$(44,084); and a net decrease in other development projects of \$(17,808).

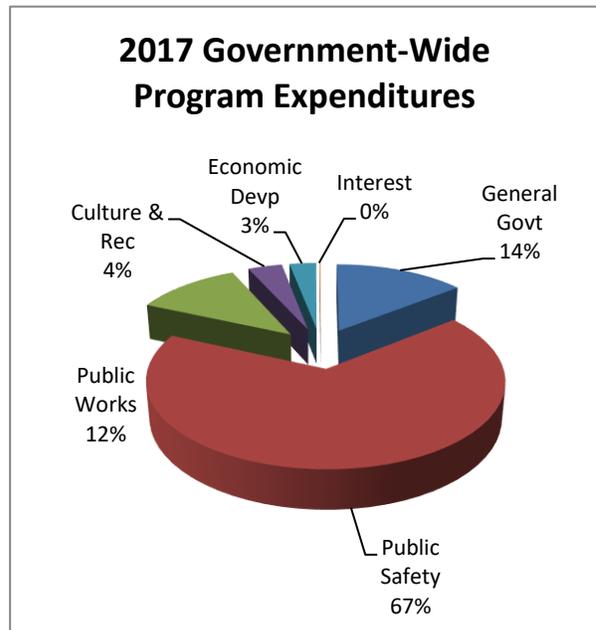
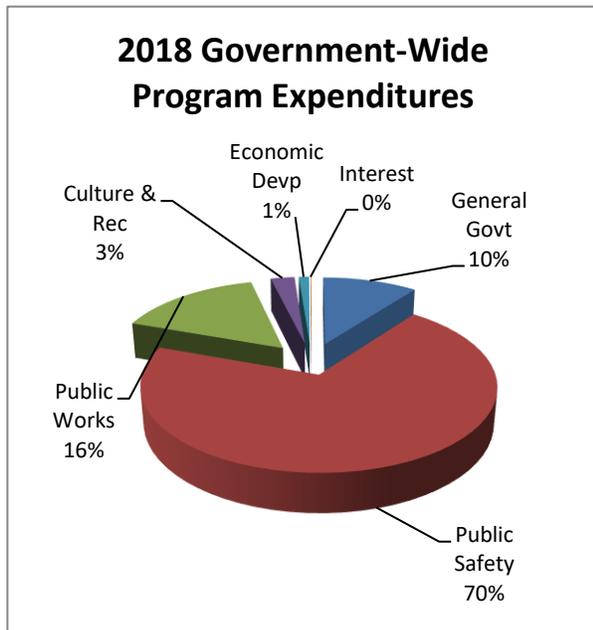
**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

Public safety expenses increased \$2,918,516 in 2018, as compared to 2017, due to an increase in overall police expenses, \$380,115; an increase in overall fire expenses, \$338,840; an increase in the pension funding for police and fire, \$270,703; a decrease in the allocation of health benefits, (261,518); an increase in the allocation of pension and other postemployment expenses of \$2,202,499; and a decrease in other expenses of (\$12,123).

Culture and recreation expenses decreased (\$85,879) in 2018, as compared to 2017, due to a decrease in the expense of operating the pool at Coleman Memorial Park, \$(116,069); and a decrease in expenses at Stoeever's Dam, \$(6,296). In addition, depreciation expense has increased \$3,485; and all other expenses increased \$33,001.

Public works expenses increased \$1,197,512 in 2018, as compared to 2017; due to an increase in expenses related to projects from the CDBG program, \$417,088; an increase in expenses in the Liquid Fuel Fund, \$428,013; an increase in storm water expenses, \$125,730; an overall increase in operating expenses, including winter maintenance of \$50,234, paving of \$34,542, traffic operations of \$29,932, and a net of \$7,056 for the rest of the operation departments; and a net increase in other expenses of \$104,917.

The following chart graphically depicts the government-wide program expenditures for the fiscal years ended December 31, 2018 and 2017:



**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

**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, 2018.

**Net Cost of Governmental Activities**

Program:	Total Cost of Services	Charges For Services	Operating Grants and Contributions	Net Operating Cost of Services	Capital Grants	Net Cost of Services
General Government	\$ 1,944,509	\$ (26,248)	\$ (19,713)	\$ 1,898,548	\$ -	\$ 1,898,548
Public Safety	13,335,816	(738,634)	(733,002)	11,864,180	-	11,864,180
Public Works	2,987,272	(582,672)	(876,287)	1,528,313	-	1,528,313
Culture and Recreation	492,466	(4,581)	-	487,885	-	487,885
Economic Development	224,684	-	(1,217,905)	(993,221)	-	(993,221)
Debt Service	14,864	-	-	14,864	-	14,864
Total Expenses	<u>\$ 18,999,611</u>	<u>\$ (1,352,135)</u>	<u>\$ (2,846,907)</u>	<u>\$ 14,800,569</u>	<u>\$ -</u>	<u>\$ 14,800,569</u>

The City relied on real estate taxes, earned income taxes, and other general revenues, or \$11,366,820, to fund almost 59.9 percent of its governmental activities in 2018. Taxes and franchise fees of \$10,224,301 accounted for 89.95 percent of general revenues in 2018.

**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, and a permanent 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

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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, 2018 and 2017 were as follows:

	2018	2017	Changes from 2017 to 2018
Revenues:			
Taxes	\$ 10,077,461	\$ 10,252,295	\$ (174,834)
Licenses and Permits	615,985	616,970	(985)
Fines and Forfeitures	611,876	634,345	(22,469)
Interest and Rents	212,273	140,492	71,781
Intergovernmental	3,029,801	2,786,697	243,104
Charges for Services	1,077,504	575,454	502,050
Contributions	39,050	93,620	(54,570)
Miscellaneous	96,427	193,141	(96,714)
Transfers in	196,000	577,101	(381,101)
Proceeds of Long-term Debt	50,000	50,000	-
Sale of Capital Assets	217	9,275	(9,058)
Total Revenues	<u>\$ 16,006,594</u>	<u>\$ 15,929,390</u>	<u>\$ 77,204</u>

The variances in the fund financial statements are materially the same as the variances in the government-wide financial statements. Please see pages 7 through 10 for the variance analysis for government-wide financial statements.

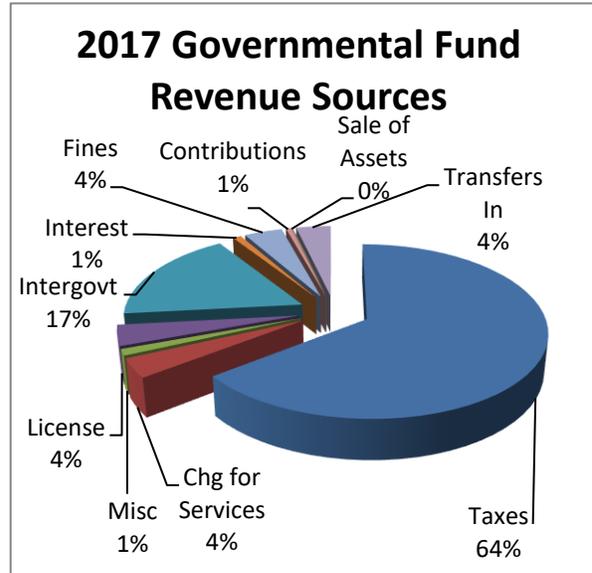
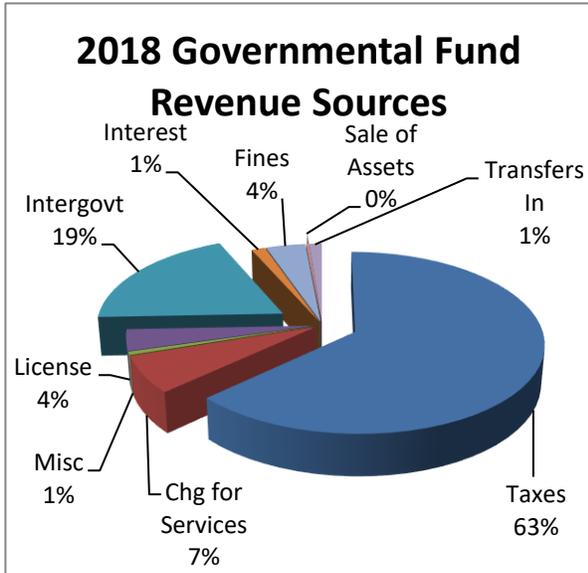
The variance in the fund tax revenue, (\$174,834) differs from the variance in the government tax revenue, (\$15,086), primarily due to the recognition, in the government-wide statements, of both EIT and Real Estate Tax revenue which is accrued but uncollected.

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 licenses and permits revenues, excluding the franchise tax, or \$306,391 as a charge for service.

The following chart graphically depicts the governmental funds revenue sources for the fiscal years ended December 31, 2018 and 2017:

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**



**Governmental Fund Expenditures**

Governmental fund expenditures and other financing uses at December 31, 2018 and 2017 were as follows:

	2018	2017	Changes from 2017 to 2018
Expenditures:			
General Government	\$ 879,955	\$ 817,604	\$ 62,351
Public Safety	9,879,716	8,795,400	1,084,316
Public Works	2,691,150	1,725,133	966,017
Culture and Recreation	361,920	555,629	(193,709)
Economic Development	219,021	443,506	(224,485)
Miscellaneous	362,780	-	362,780
Debt Service	64,864	64,403	461
Transfers Out	196,000	577,101	(381,101)
<b>Total Expenditures</b>	<b>\$ 14,655,406</b>	<b>\$ 12,978,776</b>	<b>\$ 1,676,630</b>

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

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

items. Please see pages 7 through 10 for the variance analysis for government-wide financial statements.

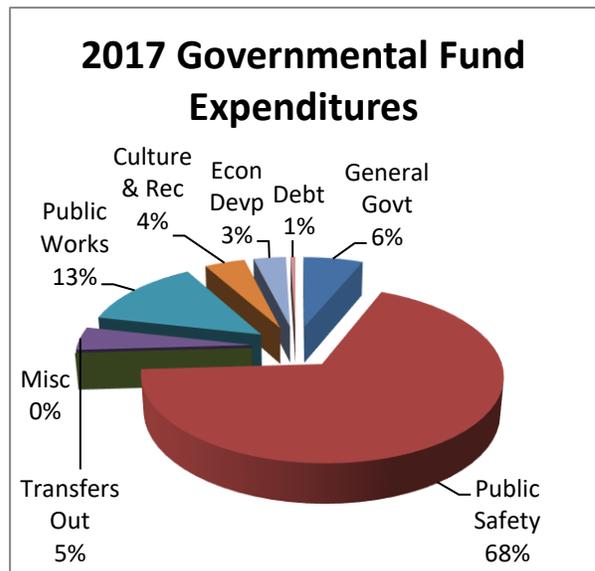
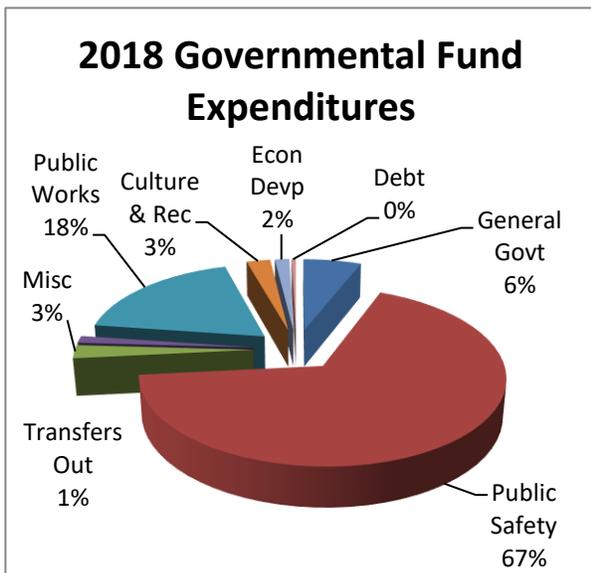
The variance in public works is primarily due to an increase in the expenditures for the Liquid Fuel Fund, \$428,013; an increase in expenditures for the CDBG program, \$417,088; and a net increase in other public works expenses, \$120,916.

The variance in public safety is primarily due to the increase in the purchase of capital assets, \$260,182; an increase in Police Department expenditures, \$380,115; an increase in Fire Department expenditures, \$338,840; and a net increase in other public safety expenses of \$105,179.

The variance in culture and recreation is primarily due to the decrease in the expenditures for the pool at Coleman Memorial Park, (\$116,069); and a net decrease in other culture and recreation expenses, (\$77,640).

The variance in economic development is due primarily to the decrease in expenditures in the home grant program, (\$164,185); a decrease in the expenditures in the CDBG grant program, (\$44,084), and a net decrease in other economic development expenses of (\$16,216).

The following chart graphically depicts the governmental funds expenditures for the fiscal years ended December 31, 2018 and 2017:



**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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

	<u>2018 Actual</u>	<u>2018 Budget</u>	<u>2018 Variance</u>
<b>REVENUES</b>			
Taxes	\$ 10,077,461	\$ 8,851,866	\$ 1,225,595
Intergovernmental	996,822	926,673	70,149
Other Revenue	1,860,986	1,681,141	179,845
Total Revenues	<u>12,935,269</u>	<u>11,459,680</u>	<u>1,475,589</u>
<b>EXPENDITURES</b>			
General Government	879,955	940,162	60,207
Public Safety	9,470,735	9,315,973	(154,762)
Public Works	1,143,818	1,194,777	50,959
Other Expenditures	736,121	764,826	28,705
Total Expenditures	<u>12,230,629</u>	<u>12,215,738</u>	<u>(14,891)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 704,640</u>	<u>\$ (756,058)</u>	<u>\$ 1,460,698</u>

Tax revenues were better than budget due to an increase in real estate property tax collections, \$96,222; an increase in real estate transfer tax collections, \$74,346; an increase in earned income tax collections, \$1,036,042; and an increase in other tax collections, \$18,985.

Intergovernmental revenues were better than budget due to a county grant related to 2017, \$25,477; an increase in state pension aid, \$3,719; an increase in a state recycling grant, \$5,335; and a net increase in all other intergovernmental revenues, \$35,618.

Other revenues were better than budget due to an increase in license and permit collections, \$20,685; an increase in fines and forfeitures, \$39,826; an increase in building and zoning permit fees, \$33,024; an increase in interest and rents, \$49,859; and a net increase in other revenues, \$36,451.

Public safety expenditures were higher than budget due to an increase in the cost of the City's insurance premiums, (\$184,647); and a net decrease in other expenditures, \$29,885.

**CAPITAL ASSETS**

The City's capital assets, net of accumulated depreciation, included land, building, equipment, construction-in-progress, and infrastructure and totaled \$46,670,009 at December 31, 2018. The following is a summary of capital assets at December 31, 2018 and 2017:

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>
Governmental Activities:		
Land	\$ 951,802	\$ 951,802
Buildings and Improvements	8,326,272	8,326,273
Infrastructure	65,608,492	65,608,492
Machinery and Equipment	1,648,361	1,345,180
Vehicles	<u>2,974,874</u>	<u>2,886,459</u>
Total Capital Assets	\$ 79,509,801	\$ 79,118,206
Less: Accumulated Depreciation	<u>(29,839,792)</u>	<u>(28,065,848)</u>
Cost Less Accumulated Depreciation	<u>\$ 49,670,009</u>	<u>\$ 51,052,358</u>

Capital assets decreased (\$1,382,349) over the balance at December 31, 2017. This decrease is due to the addition of one fire vehicle, \$42,005; the addition of two new police vehicles and in-car computers, \$77,746; the addition of 46 SCBA units for the fire fighters, \$296,920; the addition of police office assets, \$6,261; offset by a net change in accumulated depreciation, (\$1,805,281). The City's net investment in capital assets totaled \$49,515,009 at December 31, 2018.

Depreciation expense for 2018 and 2017 totaled \$1,805,281 and \$1,792,001, 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 2018 was \$0.

In January 2018, 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 1.98 percent. The amount of \$50,000 which had been drawn down against the note was paid off in December 2018 as required.

At December 31, 2018, the City had \$155,000 of debt outstanding. The following is a summary of long-term debt for the 2018 year:

Beginning Balance, January 1, 2018	\$ 155,000
Less: Principal Payments	<u>-</u>
Balance Outstanding, December 31, 2018	<u>\$ 155,000</u>

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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

**ECONOMIC CONDITIONS AND SUBSEQUENT EVENTS**

The City continues to face fiscal challenges common to many third class cities and other urban communities across Pennsylvania and the nation: a stagnant tax base due to land-locked boundaries and the need for development, inflationary pressures on labor costs and benefits, and a high number of tax-exempt properties which reduces the revenue available to support City services. Almost 30 percent of the assessed land value within the City is tax-exempt. If these properties were taxable, the City would receive an additional \$1.54 million in taxes. The City does promote a Payment in Lieu of Taxes Program; however, only about a dozen organizations out of more than 300 properties participate with \$131,939 in receipts.

The costs of unfunded mandates and 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. Pennsylvania State Representative Frank Ryan will introduce legislation in the Pennsylvania House of Representatives to replace school property taxes; however, no changes are proposed for counties or third class cities' real estate taxes.

City Administration negotiated three collective bargaining agreements in 2017/2018. The contract agreements resulted in a savings for the City and the continuation of a modernization of the benefits. The City made inroads with addressing some of our higher personnel costs like postretirement health insurance and current employees' share of medical costs. With almost 83 percent 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 percent. Retiree benefits, including pension and healthcare benefits, have been reduced or eliminated for new hires, and the employees' share of medical costs has been increased. The City budgeted over \$1.7 million for postemployment benefits (including pensions) in 2018 and budgeted more than \$2.3 million in 2019. We anticipate that trend continuing until additional changes in the postemployment benefits can be recognized.

Regarding the funding of the healthcare plan, the City accrues an amount for medical costs based on claim experiences. Over the last three years, claim experiences have shown the need to increase the money allocated in order to cover the medical benefit we provide to our employees and retirees. In 2018, although we increased the yearly amount from \$12,000 to \$13,656 per full-time employee in each department and for retired uniform employees in the 2018 Budget; due to extraordinary high claims, the City had to transfer \$500,000 from the General Fund into the Health Care Fund. At first, we thought perhaps the \$500,000 would just be a loan from the General Fund; however, with several large active claims and the increase in claim experience over the past three years, we determined the plan would not be able to return the money in the short-term. An additional item to note is that overall claims costs (cost of services) have increased by about 60 percent from about three years ago. In the 2019 budget, we increased the annual per employee/retiree allocation to \$18,996. If

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

must be noted that with the higher allocation in 2019, the Health Care Fund has been stabilized and a reserve is slowly starting to be recognized.

Also to be recognized is the Emergency Medical Services crisis, in not only our County but in our Commonwealth. Financial woes and staffing shortages threaten the future of First Aid and Safety Patrol ("FASP"), as well as other ambulance providers. FASP reported to us in October 2018 that their organization was losing money and without immediate financial assistance would be forced to close its doors. An emergency meeting was held with other partner municipalities who are serviced by FASP. After much due diligence was performed and various meetings held, it was determined that most of the partner municipalities would financially support FASP in its 2020 budgets at \$4.00/per capita.

In 2013, the City's tax millage was lowered to 3.581 due to a county-wide reassessment. The real estate tax rate increased to 4.581 in 2015 and continues to remain at that rate in 2019.

Earned income tax is limited by the Home Rule Charter to 1.4 percent.

In 2019, City Council authorized the issuance of a tax and revenue anticipation note in the amount of \$1 million. Closing of the note occurred on January 10, 2019. 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 2.63 percent per annum. As of September of 2019, 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. The 2013-2017 American Community Survey estimates 25.1 percent of individuals are below poverty level. This number increased from the 2000 Census, which reported that 16.2 percent of individuals were below poverty level; however, the percentage has been decreasing (improving) since 2014. The average in Pennsylvania is 13.1 percent of the population. However, the City does have programs in place to address those issues. Programs include the first time homebuyer and home rehabilitation programs, both of which are funded as part of the Community Development Block Grant from the U.S. Department of Housing and Urban Development. It should be noted though that a decade ago, the City received \$1.23 million in Community Development Block Grant monies. Our FY 2019 annual allocation amounts to \$668,962 or half of what we received approximately a decade ago. CDBG funding is used to provide city services, and it supplements the general fund. Continued reductions place a heavier burden on the general fund.

The 2013-2017 American Community Survey indicates that our unemployment level decreased from the last survey of 8.3 percent to 6.9 percent. The industries with the highest number of employees in our City are educational services and healthcare and social assistance, manufacturing, 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. The average income of our households has slightly increased in the most recent years. However, over the last several years, more of our residents are relying on public assistance, food stamps, and SNAP benefits. According to the 2013-2017 American Community Survey, 32.7 percent of the households receive food stamps and SNAP benefits.

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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 partnered 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 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 was signed in 2017 for the lands to be developed with several commercial buildings. Building and zoning permits were issued in 2018 for a Dollar General, Hispanic grocery store, and medical offices. A revision to the land development plan is currently being considered by the developer for an additional multiple-commercial use complex on the site.

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. 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 onetime 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 \$1 million a year.

**CITY OF LEBANON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2018**

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 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 ("EDSP") to retain and create jobs for our residents and to bolster the tax base to support the community. DCED also gave approval to amend the contract to include completing a Preliminary Plan for a Business Improvement District ("BID"). The BID Study kicked off in December 2014 while work continued on the EDSP. The EDSP was completed in April 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 July 22, 2015. A BID Preliminary Plan was presented to the downtown stakeholders in September 2015, and a Public Hearing was held in November. City Council enacted an Ordinance in February 2016 to implement the BID. A legal challenge was filed in March 2016, and the Lebanon County Court of Common Pleas ruled in favor of the City on December 19, 2016. The Plaintiff appealed to the Commonwealth Court of Pennsylvania, and the August 4, 2017 order affirmed the lower court's decision. The Appellant filed an appeal to the Supreme Court of Pennsylvania; and on May 31, 2019, the decision was reversed and remanded to the lower court for a declaratory judgement consistent with the Supreme Court's decision that the BID is not valid. This hearing is scheduled for October 8, 2019. Regarding the other action items, over the next several years, we will continue to 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 is negotiating an Agreement of Sale on the remaining lot.

The City also continues to meet with developers to encourage investment in the City. 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 the 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, 2018**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 9,603,640
Receivables:	
Accounts	551,288
Taxes	1,951,415
Grants	235,891
Inventory	16,990
Prepaid expenses	62,746
Restricted Assets:	
Cash and cash equivalents	325,383
Total Current Assets	<u>12,747,353</u>
Noncurrent Assets:	
Conditional grants	7,756
Loans receivable	3,659,965
Program loans	156,387
Net pension asset	3,914,661
Capital assets, not being depreciated	951,802
Capital assets, being depreciated, net	48,718,207
Total Noncurrent Assets	<u>57,408,778</u>
<b>TOTAL ASSETS</b>	<u><u>70,156,131</u></u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows - OPEB	4,511,670
Deferred outflows - pension	3,261,818
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>7,773,488</u></u>

<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 77,929,619</u></u>
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**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

**LIABILITIES**

Current Liabilities:	
Accounts payable	\$ 589,853
Customer deposits	228,432
Accrued expenses and withholdings	150,671
Other liabilities	76,809
Accrued health benefits	167,019
Accrued interest	1,205
Bonds payable	60,000
Total Current Liabilities	<u>1,273,989</u>
Noncurrent Liabilities:	
Bonds payable	95,000
Accrued compensated absences	34,158
Net OPEB liability	44,859,603
Net pension liability	7,678,413
Total Noncurrent Liabilities	<u>52,667,174</u>
<b>TOTAL LIABILITIES</b>	<u>53,941,163</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows - pension	2,128,767
Long-term receivables - revolving loan funds	3,757,730
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u><u>5,886,497</u></u>

**NET POSITION**

Net investment in capital assets	49,515,009
Restricted	2,341,841
Unrestricted (Deficit)	<u>(33,754,891)</u>
<b>TOTAL NET POSITION</b>	<u><u>18,101,959</u></u>

<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u><u>\$ 77,929,619</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF LEBANON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES:</b>					
General governmental	\$ 1,944,509	\$ 26,248	\$ 19,713	\$ -	\$ (1,898,548)
Public safety	13,335,816	738,634	733,002	-	(11,864,180)
Public works	2,987,272	582,672	876,287	-	(1,528,313)
Culture and recreation	492,466	4,581	-	-	(487,885)
Economic development	224,684	-	1,217,905	-	993,221
Interest on long-term debt	14,864	-	-	-	(14,864)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>18,999,611</b>	<b>1,352,135</b>	<b>2,846,907</b>	<b>-</b>	<b>(14,800,569)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 18,999,611</b>	<b>\$ 1,352,135</b>	<b>\$ 2,846,907</b>	<b>\$ -</b>	<b>(14,800,569)</b>

<b>GENERAL REVENUES:</b>					
Property taxes levied for general purposes					3,798,446
Real estate transfer taxes					224,346
Earned income taxes					5,476,971
Local services taxes					406,358
Mechanical device taxes					8,586
Franchise fees					309,594
Fines and forfeitures					611,876
Interest and rents					212,273
Intergovernmental revenues - not restricted					182,893
Gain on sale of capital assets					217
Contributions					39,050
Miscellaneous					96,427
<b>TOTAL GENERAL REVENUES</b>					<b>11,367,037</b>
<b>CHANGE IN NET POSITION</b>					<b>(3,433,532)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>					<b>21,535,491</b>
<b>NET POSITION, END OF YEAR</b>					<b>\$ 18,101,959</b>

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

**CITY OF LEBANON  
BALANCE SHEET - GOVERNMENT FUNDS  
DECEMBER 31, 2018**

	General	Community Development Block Grant	HOME	Capital Reserve	Non-major	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 5,409,232	\$ 157,835	\$ 55,773	\$ 927,961	\$ 2,949,208	\$ 9,500,009
Receivables:						
Accounts	547,949	175	85	500	2,229	550,938
Taxes	1,951,415	-	-	-	-	1,951,415
Grants	11,836	96,218	61,893	-	65,944	235,891
Conditional grants	-	-	-	-	7,756	7,756
Loans	-	1,200,501	1,862,103	-	597,361	3,659,965
Program loans	-	37,503	28,884	-	90,000	156,387
Inventory	16,990	-	580	-	53,443	16,990
Due from other funds	232,417	4,749	-	367,273	-	658,462
Prepaid expenditures	62,746	-	-	-	-	62,746
Restricted Assets:						
Cash and cash equivalents	278,313	-	-	-	47,070	325,383
<b>TOTAL ASSETS</b>	<u>8,510,898</u>	<u>1,496,981</u>	<u>2,009,318</u>	<u>1,295,734</u>	<u>3,813,011</u>	<u>17,125,942</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	375,727	34,488	-	8,978	170,660	589,853
Customer deposits	226,447	985	-	-	1,000	228,432
Accrued expenses and withholdings	147,002	2,544	-	-	1,125	150,671
Unearned revenue - other	500	-	-	500	75,459	76,459
Due to other funds	368,863	65,833	1,544	-	222,222	658,462
<b>TOTAL LIABILITIES</b>	<u>1,118,539</u>	<u>103,850</u>	<u>1,544</u>	<u>9,478</u>	<u>470,466</u>	<u>1,703,877</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - property taxes	283,857	-	-	-	-	283,857
Unavailable revenue - other taxes	447,125	-	-	-	-	447,125
Unavailable revenue - receivables	-	1,201,089	1,862,103	-	694,538	3,757,730
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>730,982</u>	<u>1,201,089</u>	<u>1,862,103</u>	<u>-</u>	<u>694,538</u>	<u>4,488,712</u>
<b>FUND BALANCES</b>						
Nonspendable	79,736	-	-	-	-	79,736
Restricted	-	192,042	145,671	-	2,004,128	2,341,841
Assigned	1,729,611	-	-	1,286,256	643,879	3,659,746
Unassigned	4,852,030	-	-	-	-	4,852,030
<b>TOTAL FUND BALANCES</b>	<u>6,661,377</u>	<u>192,042</u>	<u>145,671</u>	<u>1,286,256</u>	<u>2,648,007</u>	<u>10,933,353</u>

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

**CITY OF LEBANON  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO  
STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

**TOTAL GOVERNMENTAL FUND BALANCES** \$ 10,933,353

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

The net pension asset is not a financial resource and, therefore, is not reported in the funds. 3,914,661

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 49,670,009

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. (63,388)

Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds. 730,982

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

Accrued interest	\$	(1,205)	
Bonds payable		(155,000)	
Compensated absences		(34,158)	
Net OPEB liability		(44,859,603)	
Net pension liability		<u>(7,678,413)</u>	(52,728,379)

Deferred inflows and outflows related to the City's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes of benefit terms, and changes of assumptions. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows - OPEB		4,511,670	
Deferred outflows - pension		3,261,818	
Deferred inflows - pension		<u>(2,128,767)</u>	<u>5,644,721</u>

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 18,101,959

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

**CITY OF LEBANON  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General	Community Development Block Grant	HOME	Capital Reserve	Non-major	Total
<b>REVENUES</b>						
Taxes	\$ 10,077,461	-	-	-	-	\$ 10,077,461
Licenses and permits	615,985	-	-	-	-	615,985
Fines and forfeitures	611,876	-	-	-	-	611,876
Interest and rents	83,609	33,145	60,513	8,126	26,880	212,273
Intergovernmental	996,822	868,671	81,460	267,273	815,575	3,029,801
Charges for services	516,366	-	-	-	561,138	1,077,504
Contributions	-	150	1,123	39,050	-	39,050
Miscellaneous income	33,150	-	-	62,004	-	96,427
<b>TOTAL REVENUES</b>	<u>12,935,269</u>	<u>901,966</u>	<u>143,096</u>	<u>314,449</u>	<u>1,465,597</u>	<u>15,760,377</u>
<b>EXPENDITURES</b>						
Current:						
General government	879,955	-	-	-	-	879,955
Public safety	9,470,735	99,944	-	290,182	18,855	9,879,716
Public works	1,143,818	519,970	-	-	1,027,362	2,691,150
Culture and recreation	308,477	53,443	-	-	-	361,920
Economic development	-	124,966	81,460	-	12,595	219,021
Miscellaneous	362,780	-	-	-	-	362,780
Debt service:						
Principal	50,000	-	-	-	-	50,000
Interest	14,864	-	-	-	-	14,864
<b>TOTAL EXPENDITURES</b>	<u>12,230,629</u>	<u>798,323</u>	<u>81,460</u>	<u>290,182</u>	<u>1,058,812</u>	<u>14,459,406</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>704,640</u>	<u>103,643</u>	<u>61,636</u>	<u>24,267</u>	<u>406,785</u>	<u>1,300,971</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from sale of fixed assets	217	-	-	-	-	217
Proceeds from tax anticipation notes	50,000	-	-	-	-	50,000
Transfers in	96,000	-	-	100,000	-	196,000
Transfers out	(100,000)	(96,000)	-	-	-	(196,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>46,217</u>	<u>(96,000)</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>50,217</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>750,857</u>	<u>7,643</u>	<u>61,636</u>	<u>124,267</u>	<u>406,785</u>	<u>1,351,188</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>5,910,520</u>	<u>184,399</u>	<u>84,035</u>	<u>1,161,989</u>	<u>2,241,222</u>	<u>9,582,165</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 6,661,377</u>	<u>\$ 192,042</u>	<u>\$ 145,671</u>	<u>\$ 1,286,256</u>	<u>\$ 2,648,007</u>	<u>\$ 10,933,353</u>

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

**CITY OF LEBANON  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 1,351,188

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,805,281) exceeded capital outlays (\$422,932). (1,382,349)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred inflows of resources decreased by this amount this year. (162,754)

The issuance of long-term debt (e.g. loans payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Debt issued - tax anticipation note	\$ (50,000)	
Debt repayments - tax anticipation note	<u>50,000</u>	-

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. (31,761)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for the transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, assets are not recognized in governmental funds unless they represent current financial resources but are recognized in the statement of activities as they accrue. The following differences, therefore, occurred between the statement of activities and the governmental funds.

Compensated absences	3,147	
OPEB expense	(2,842,938)	
Pension expense	<u>(368,065)</u>	<u>(3,207,856)</u>

**CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES** \$ (3,433,532)

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

**CITY OF LEBANON  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original and Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes	\$ 8,851,866	\$ 10,077,461	\$ 1,225,595
Licenses and permits	595,300	615,985	20,685
Fines and forfeitures	572,050	611,876	39,826
Interest and rents	41,461	83,609	42,148
Intergovernmental	926,673	996,822	70,149
Charges for services	464,830	516,366	51,536
Miscellaneous income	7,500	33,150	25,650
<b>TOTAL REVENUE</b>	<u>11,459,680</u>	<u>12,935,269</u>	<u>1,475,589</u>
<b>EXPENDITURES</b>			
Current:			
General government	940,162	879,955	60,207
Public safety	9,315,973	9,470,735	(154,762)
Public works	1,194,777	1,143,818	50,959
Culture and recreation	353,241	308,477	44,764
Miscellaneous	397,800	362,780	35,020
Debt service:			
Principal	5,785	50,000	(44,215)
Interest	8,000	14,864	(6,864)
<b>TOTAL EXPENDITURES</b>	<u>12,215,738</u>	<u>12,230,629</u>	<u>(14,891)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(756,058)</u>	<u>704,640</u>	<u>1,460,698</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of fixed assets	-	217	217
Proceeds from tax anticipation notes	-	50,000	50,000
Transfers in	93,000	96,000	3,000
Transfers out	(100,000)	(100,000)	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>(7,000)</u>	<u>46,217</u>	<u>53,217</u>
<b>NET CHANGE IN FUND BALANCE</b>	(763,058)	750,857	1,513,915
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>5,910,520</u>	<u>5,910,520</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 5,147,462</u>	<u>\$ 6,661,377</u>	<u>\$ 1,513,915</u>

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

**CITY OF LEBANON  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
DECEMBER 31, 2018**

<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 103,631
Accounts receivable	<u>350</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 103,981</u></b>
<b>LIABILITIES AND NET POSITION</b>	
Current Liabilities:	
Accrued health benefits	\$ 167,019
Unearned revenue	<u>350</u>
<b>TOTAL LIABILITIES</b>	<b><u>167,369</u></b>
<b>NET DEFICIT</b>	
Unrestricted	<u>(63,388)</u>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b><u>\$ 103,981</u></b>

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

**CITY OF LEBANON  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

OPERATING REVENUES	
Charges for services	\$ 2,911,980
Interest income	1,019
Miscellaneous income	<u>3,710</u>
TOTAL OPERATING REVENUES	<u>2,916,709</u>
OPERATING EXPENSES	
Employee benefits	<u>2,948,470</u>
TOTAL OPERATING EXPENSES	<u>2,948,470</u>
OPERATING LOSS	(31,761)
NET DEFICIT, BEGINNING OF YEAR	<u>(31,627)</u>
NET DEFICIT, END OF YEAR	<u><u>\$ (63,388)</u></u>

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

**CITY OF LEBANON  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from users	\$ 2,911,980
Payments to suppliers	(2,989,785)
Miscellaneous revenue	3,710
Interest income	<u>1,019</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(73,076)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(73,076)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>176,707</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 103,631</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (31,761)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Decrease (Increase) in assets:	
Accounts receivable	(350)
Increase (Decrease) in liabilities:	
Accounts payable	(88,250)
Accrued health benefits	46,935
Unearned revenue	<u>350</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (73,076)</u></u>

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

**CITY OF LEBANON  
STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
DECEMBER 31, 2018**

<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 1,852,405
Investments	22,396,585
Accounts receivable	<u>18,803</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 24,267,793</u></b>
 <b>LIABILITIES AND NET POSITION</b>	
Current Liabilities:	
Accounts payable	\$ 196,300
Escrow - DROP funds	<u>46,320</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 242,620</u></b>
 <b>NET POSITION</b>	
Net position restricted for pensions	<u>24,025,173</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 24,267,793</u></b>

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

**CITY OF LEBANON  
STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

ADDITIONS	
Contributions:	
Employee	\$ 196,484
Employer	199,917
Commonwealth	<u>692,592</u>
Total Contributions	<u>1,088,993</u>
INVESTMENT INCOME (LOSS)	
Interest and dividends	454,185
Net depreciation in fair value of investments	<u>(1,634,206)</u>
Total Investment Loss	(1,180,021)
Less investment expenses	<u>116,592</u>
Net Investment Loss	<u>(1,296,613)</u>
TOTAL ADDITIONS	<u>(207,620)</u>
DEDUCTIONS	
Administrative costs	4,592
Refunded contributions	15,840
Retirement benefits	<u>1,918,307</u>
TOTAL DEDUCTIONS	<u>1,938,739</u>
CHANGE IN NET POSITION	(2,146,359)
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	<u>26,171,532</u>
End of year	<u><u>\$ 24,025,173</u></u>

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lebanon ("the City") have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles, which are set forth primarily in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* ("GASB Codification"). The more significant of these accounting policies are as follows:

Financial Reporting Entity

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

The GASB Codification 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. Based on the application of these criteria, the City is considered to be an independent reporting entity.

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

Entity-wide and Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City.

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

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.

Fund Accounting

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

***Governmental Fund Types***

Governmental 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

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

**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 assigned to expenditures for particular purposes. The following special revenue funds are included in the governmental fund financial statements as non-major funds: Police Special Revenue Fund, Public Works Special Revenue Fund, Parks Special Revenue Fund, Elm Street Rehab Fund, Bridge Over Norfolk South Right of Way Fund, Debt Service Fund, Liquid Fuels Fund, Schropp Estate Fund, Lauther Trust Fund, Act 137 Fund, Hazel Dyke Fund, State Housing and Redevelopment Assistance Fund, Rental Rehab Fund, Enterprise Zone Fund, Stormwater Management Fund, 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.

**Deposits and Investments**

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

Investments for the City are reported at fair value or net asset value as discussed in Note 2.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

Inventories and Prepaid Items

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

Capital Assets

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

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

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

Compensated Absences

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

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

The City's non-uniformed, union employees earn sick leave according to requirements outlined in their master agreement. Permanent, full-time hourly wage employees receive a lump sum

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

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.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 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 legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet, and revenue is recognized.

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 intact.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

*Restricted Fund Balances* – 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 available for consumption or not restricted in any manner.

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

Net Position

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 and 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."

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

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.

Accounting Estimates

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

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes reports 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category under the accrual and modified basis of accounting: deferred outflows related to pensions and deferred outflows related to OPEB.

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 future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City has three items that qualify for reporting in this category under the accrual and modified accrual basis of accounting: deferred inflows related to pension, unavailable tax revenue, and certain long-term receivables for the revolving loans.

Implementation of GASB Statement

During the year ended December 31, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, with the objective of improving the accounting and financial reporting of state and local governments for other postemployment benefits. It requires that state and local governments recognize and record the actuarially determined net other postemployment benefits liability.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

Budgetary Information

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

- 1) 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.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) 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.
- 7) If the Mayor objects to the budget as a whole or to any of the individual modifications, 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.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

- 8) 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.
- 9) 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.
- 10) 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.
- 11) If Council has adopted a budget by December 1, 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 changes vetoed by the Mayor.
- 12) 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 2018, there were no revisions to the legally adopted budget.

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

- 1) United States Treasury bills.
- 2) Short-term obligations of the United States Government or its agencies or instrumentalities.
- 3) 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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

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.

- 4) 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.
- 5) 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.
- 6) 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.
- 7) 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, the Council is permitted to combine money from more than one fund under City control for the purchase of a single investment, provided that each of the funds combined is accounted for separately, and the earnings are separately computed and recorded.

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Governmental activities	\$ 9,603,640	\$ -	\$ 9,603,640
Governmental activities, restricted	325,383	-	325,383
Fiduciary funds	<u>1,852,405</u>	<u>22,396,585</u>	<u>24,248,990</u>
Totals	<u>\$11,781,428</u>	<u>\$22,396,585</u>	<u>\$34,178,013</u>

***Deposits***

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2018, the carrying amount of the City's deposits was \$11,781,428, and the bank balance was \$11,890,529. Of the bank balance, \$322,935 was covered by federal depository insurance, and \$11,567,594 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, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Percentage of Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Government Treasuries	2.43%	<10 Years	\$ 545,040
U.S. Government Agency Obligations	0.05%	<10 Years	11,517
Corporate Bonds	0.70%	<5 Years	155,937
Equities and Equity Mutual Funds	96.82%	N/A	<u>21,684,091</u>
Total Investments			<u>\$ 22,396,585</u>

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

Interest Rate Risk

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

Credit Risk

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

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

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

Custodial Credit Risk

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 3 REAL ESTATE TAXES

Property taxes attach as an enforceable lien on property on January 1. Taxes are levied on March 1, payable under the following terms: two percent 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 ten percent penalty after June 30. The City bills and collects its own property taxes. Real estate taxes levied for 2018 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2018 and expected to be collected within the first 60 days of 2019 are recognized as revenue in 2018. 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 2018 was 4.581 mills for general purposes on a total City assessed valuation of \$858,944,500.

NOTE 4 ACCOUNTS RECEIVABLE

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

	General Fund	Community Development Block Grant Fund	HOME Fund	Capital Reserve Fund	Non-major Funds	Total
Taxes:						
Real estate	\$ 369,273	\$ -	\$ -	\$ -	\$ -	\$ 369,273
Earned income	1,462,192	-	-	-	-	1,462,192
Local services	119,950	-	-	-	-	119,950
Total Taxes	1,951,415	-	-	-	-	1,951,415
Accounts	547,949	175	85	500	2,229	550,938
Grants	11,836	96,218	61,893	-	65,944	235,891
Total Receivables	\$ 2,511,200	\$ 96,293	\$ 61,978	\$ 500	\$ 68,173	\$ 2,738,244

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 4 ACCOUNTS RECEIVABLE (cont'd)

estimates that revenues of \$1,447,958 are due to the City. The Agreement provides for the City to be repaid for those underpayments over a 10-year period. The affected municipalities and school districts had not all adopted the agreement as of the date of this report. However, the City has taken legal action in order to recover the \$1.4 million. 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. As of December 31, 2018, \$283,857 is recorded as a receivable and unavailable revenue.

NOTE 5 LOAN PROGRAMS

Conditional grants, deferred loans, and program loans totaling \$7,756, \$3,659,965, and \$156,387, respectively, have been recorded as receivables at December 31, 2018. Unearned revenues totaling \$76,459 and unavailable receivables totaling \$3,757,730 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, 2018, loans outstanding from the rehabilitation project totaled \$37,503. 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, 2018 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, 2018 for these loans totaled \$1,200,501, and the deferred balance, including finance charges and penalties, was \$1,201,089.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LOAN PROGRAMS (cont'd)

***Home Grant and Homebuyer Program***

The Home Grant Program also disburses funds in the form of loans. The principal balances outstanding at December 31, 2018 for the loans amounted to \$28,884.

In addition, the Home Grant Program and the Homebuyer Program also disburse funds in the form of deferred payment loans for low and modest-income households. The deferred payment loans are secured by a mortgage on the property. Repayment of the loan is deferred. The principal balances outstanding at December 31, 2018 for these loans totaled \$1,862,103 in the HOME Fund. Deferred inflows of resources, including finance charges and penalties, were \$1,862,103.

***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, 2018 principal balance outstanding totaled \$0 in the Enterprise Zone (non-major) fund.

The DownCity Revitalization Program also disburses funds in the form of conditional grants and deferred loans. The principal balance outstanding at December 31, 2018 for the conditional grants amounted to \$0 in the Enterprise Zone (non-major) Fund and \$3,531 in the Redevelopment Assistance Fund. The principal balance for the deferred loans amounted to \$90,000 in the Enterprise Zone (non-major) Fund, \$3,531 in the Redevelopment Assistance Fund, and \$2,633 in the ACT 137 (non-major) Fund. Deferred inflows of resources for the deferred loans totaled \$96,164.

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LOAN PROGRAMS (cont'd)

term. The principal balances outstanding at December 31, 2018 for the deferred loans totaled \$495,000 and \$98,028 for the program loans in the State Housing and Redevelopment (non-major) Fund.

State funds received through the Commonwealth of Pennsylvania 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, 2018 for the deferred loan was \$5,056 in the Elm Street (non-major) fund.

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 232,417	\$ 368,863
Community Development Block Grant Fund	4,749	65,833
HOME Fund	580	1,544
Capital Reserve	367,273	-
Non-major Funds	<u>53,443</u>	<u>222,222</u>
Totals	<u>\$ 658,462</u>	<u>\$ 658,462</u>

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

The City made the following interfund operating transfers during the year ended December 31, 2018. The transfers were made to make debt payments and reimburse the General Fund for indirect costs.

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 96,000	\$ 100,000
Capital Reserve Fund	100,000	-
Community Development Block Grant Fund	<u>-</u>	<u>96,000</u>
Totals	<u>\$ 196,000</u>	<u>\$ 196,000</u>

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 7 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities</i>				
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	8,326,273	-	-	8,326,273
Infrastructure	65,608,492	-	-	65,608,492
Machinery and equipment	1,345,180	303,181	-	1,648,361
Automotive equipment	2,886,459	119,751	(31,336)	2,974,874
Total Capital Assets Being Depreciated	<u>78,166,404</u>	<u>422,932</u>	<u>(31,336)</u>	<u>78,558,000</u>
Less accumulated depreciation	<u>(28,065,848)</u>	<u>(1,805,281)</u>	<u>31,336</u>	<u>(29,839,793)</u>
Total Capital Assets Being Depreciated, Net	<u>50,100,556</u>	<u>(1,382,349)</u>	<u>-</u>	<u>48,718,207</u>
Governmental Activities, Net	<u>\$51,052,358</u>	<u>\$ (1,382,349)</u>	<u>\$ -</u>	<u>\$ 49,670,009</u>

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

<i>Governmental Activities:</i>	
General government	\$ 1,347,997
Public safety	109,551
Public works	226,544
Culture and recreation	<u>121,189</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,805,281</u>

NOTE 8 LONG-TERM LIABILITIES

***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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM LIABILITIES (cont'd)

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, 2018 totaled \$9,080 and were paid for by the General Fund.

**General Obligation Bonds**

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

In 2004, the General Obligation Bonds, Series of 1999, were refinanced by the County issued General Obligation Bonds, Series of 2004; however, the 1999 subsidy agreement between the City and the County remained in place. The principal amount of the 2004 Bonds attributable to the City under the subsidy agreement totaled \$515,000. Principal payments 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, 2018, the City's outstanding principal balance on the 2009 Bonds was \$155,000.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
General obligation debt	\$ 155,000	\$ -	\$ -	\$ 155,000	\$ 60,000
Tax anticipation note	-	50,000	(50,000)	-	-
Compensated absences	45,660	-	(11,502)	34,158	-
Net pension liability	6,115,717	1,562,696	-	7,678,413	-
Net OPEB liability	<u>38,628,713</u>	<u>6,230,890</u>	<u>-</u>	<u>44,859,603</u>	<u>-</u>
Total Long-term Obligations	<u>\$44,945,090</u>	<u>\$7,843,586</u>	<u>\$ (61,502)</u>	<u>\$52,727,714</u>	<u>\$ 60,000</u>

CITY OF LEBANON  
NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM LIABILITIES (cont'd)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Maturities</u>
2019	\$ 60,000	\$ 5,785	\$ 65,785
2020	65,000	3,625	68,625
2021	30,000	1,188	31,188
Total	<u>\$ 155,000</u>	<u>\$ 10,598</u>	<u>\$ 165,598</u>

Payments of long-term liabilities are expected to be funded by the General Fund.

NOTE 9 FUND BALANCE

As of December 31, 2018, fund balances are composed of the following:

	<u>General Fund</u>	<u>Community Development Block Grant Fund</u>	<u>HOME Fund</u>	<u>Capital Reserve</u>	<u>Non-major Fund</u>	<u>Governmental Funds</u>
<b>Nonspendable:</b>						
Prepaid items	\$ 62,746	\$ -	\$ -	\$ -	\$ -	\$ 62,746
Inventory	16,990	-	-	-	-	16,990
Total Nonspendable	<u>79,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,736</u>
<b>Restricted:</b>						
Public safety	-	-	-	-	55,417	55,417
Public works	-	-	-	-	786,315	786,315
Culture and recreation	-	-	-	-	9,714	9,714
Economic development	-	192,042	145,671	-	1,105,612	1,443,325
Permanent	-	-	-	-	47,070	47,070
Total Restricted	<u>-</u>	<u>192,042</u>	<u>145,671</u>	<u>-</u>	<u>2,004,128</u>	<u>2,341,841</u>
<b>Assigned:</b>						
2019 budget	1,729,611	-	-	-	-	1,729,611
Redevelopment	-	-	-	-	643,879	643,879
Capital projects	-	-	-	1,286,256	-	1,286,256
Total Assigned	<u>1,729,611</u>	<u>-</u>	<u>-</u>	<u>1,286,256</u>	<u>643,879</u>	<u>3,659,746</u>
<b>Unassigned</b>	<u>4,852,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,852,030</u>
Total Fund Balance	<u>\$ 6,661,377</u>	<u>\$ 192,042</u>	<u>\$ 145,671</u>	<u>\$ 1,286,256</u>	<u>\$ 2,648,007</u>	<u>\$ 10,936,830</u>

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 10 NET INVESTMENT IN CAPITAL ASSETS

A schedule of net investment in capital assets as of December 31, 2018 is as follows:

Governmental Activities:	
Total capital assets, net	\$ 49,670,009
Less: loans/bonds payable	<u>(155,000)</u>
Total Net Investment in Capital Assets	<u>\$ 49,515,009</u>

NOTE 11 SELF-INSURED HEALTH BENEFITS

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

The aggregate stop-loss deductible is the calculated annualized amount based on the number of employees and dependents multiplied by the determination factors with a maximum of \$5,000,000 in aggregate claims covered by the plan of insurance. At December 31, 2018, the City had 151 participants in the plan. The individual stop-loss deductible for the benefit determination period is \$65,000 per employee with a maximum of \$1,000,000 in claims per individual covered by the plan of insurance.

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

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

The following summary provides aggregate information on the prior year health benefits self-insurance liability, incurred claims, and payments during the years ended December 31, 2018 and 2017, and the ending health benefits self-insurance liability at December 31, 2018 and 2017, recorded in the City's Internal Service Fund.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

Year Ended December 31,	Beginning Liability	Prior Year Incurred but Not Accrued	Incurred Claims	Payments	Ending Liability
2018	\$ 120,084	\$ -	\$2,948,470	\$2,901,535	\$ 167,019
2017	59,338	9,556	2,011,582	1,960,392	120,084

NOTE 12 NON-UNIFORMED DEFINED BENEFIT PENSION PLAN

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.

Plan Membership

Plan membership as of December 31, 2017 consisted of the following:

Active employees	28
Retirees and beneficiaries currently receiving benefits	53
Inactive members entitled to but not yet receiving benefits	<u>4</u>
Total	<u>85</u>

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:

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 NON-UNIFORMED DEFINED BENEFIT PENSION PLAN (cont'd)

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 five years of credited service. A member shall be eligible for a retirement benefit upon attainment of retirement age, which shall be 60 years of age. Early retirement is given if a member has been involuntarily terminated after eight years of credited service or has separated voluntarily after twenty 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.

The basic annual benefit shall be equal to 1.25 percent 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 percent 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.

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.

For the year ended December 31, 2018, the active employee contribution rate was 5.0 percent, and the City's contribution rate was 0.0 percent.

Net Pension Liability

The components and changes in the City's net pension liability were as follows:

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 NON-UNIFORMED DEFINED BENEFIT PENSION PLAN (cont'd)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at December 31, 2017	\$ 9,756,463	\$ 12,221,109	\$ (2,464,646)
Service cost	117,928	-	117,928
Interest cost	500,291	-	500,291
Contributions – employer	-	80	(80)
Contributions – members	-	55,749	(55,749)
Net investment income	-	663,159	(663,159)
Market value investment income	-	1,381,464	(1,381,464)
Administrative expenses	-	(32,218)	32,218
Benefit payments	(699,015)	(699,015)	-
Net changes	(80,796)	1,369,219	(1,450,015)
Balances at December 31, 2018	\$ 9,675,667	\$ 13,590,328	\$ (3,914,661)

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

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2018, the City recognized pension expense of \$(243,916) under this plan. At December 31, 2018, the City reported deferred outflows and inflows of resources related to the police pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$(1,024,620)
	\$ -	\$(1,024,620)

The deferred inflows of resources will be recognized in pension expense as follows:

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 NON-UNIFORMED DEFINED BENEFIT PENSION PLAN (cont'd)

Year Ended December 31,

2018	\$ (198,542)
2019	(196,962)
2020	(352,824)
2021	<u>(276,292)</u>
	<u>\$ (1,024,620)</u>

Actuarial Methods and Assumptions

The City's net pension liability was measured as of December 31, 2017, 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, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 3.00 percent
- Salary increases: Age/merit scale including inflation, ranging from 2.80 percent to 7.05 percent
- Investment rate of return: 5.35 percent compounded annually, net of expenses
- Post-retirement cost of living increase: 2.80 percent, subject to plan limitations

Mortality rates pre-retirement were based on the RP-2000 Scale projected fifteen years with Scale AA with a five-year setback for females. Mortality rates post-retirement were based on the RP-2000 Scale AA projected five years for males and ten years for females. 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, 2017 valuation were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 as well as subsequent Board-approved assumption changes.

Investments

The PMRS system's long-term expected rate of return on pension plan investments was determined using the building-block method in which best estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to this method:

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 NON-UNIFORMED DEFINED BENEFIT PENSION PLAN (cont'd)

- 1) Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the Board's opinion, any such asset classes are expected in the future to significantly vary from its 20-year historical returns. These nominal rates of return further assume that investment expenses will be offset by the additional return performance derived from active investment management.
- 2) The nominal rates of return by asset class are adjusted by a constant of expected future annual inflation rate of three percent to produce real rates of return.
- 3) The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are shown in the chart below.
- 4) These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study conducted by Dahab Associates, the minimum acceptable confidence level for the PMRS Board has been determined to be 70 percent.

The target allocation is in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	6.4%
Domestic equity (small capitalized firms)	15.0%	7.0%
International equity (developed markets)	15.0%	3.7%
International equity (emerging markets)	10.0%	7.9%
Real estate	20.0%	7.0%
Fixed income	15.0%	2.4%
	<u>100.0%</u>	

Based on the four-part analysis, the PMRS Board established the system's long-term expected rate of return at 7.5 percent.

In addition to determining the system's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 NON-UNIFORMED DEFINED BENEFIT PENSION PLAN (cont'd)

Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the system's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the following section, "discount rate." As of December 31, 2017, the regular interest rate was 5.25 percent.

The system's policy in regard to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

Discount Rate

While it is often common practice to establish an actuarial discount rate that is equal to the long-term expected rate of return, PMRS is required by law (Act 15 of 1974) to establish a discount rate equal to the regular interest rate. The PMRS Board establishes the regular interest rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year.

The PMRS Board considers the following five quantitative factors in establishing the regular interest rate:

- 1) Retiree plan liability as a percentage of total plan liability,
- 2) Active plan participant liability as a percentage of total plan liability,
- 3) Smoothed Pension Benefit Guarantee Corporation ("PBGC") annuity rates as a proxy for annuity purchase rates,
- 4) PMRS system long-term expected rate of return and,
- 5) PMRS administrative expenses.

The PMRS Board may then adjust the regular interest rate due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility, trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the system's investment and actuarial consultants. The discount rates adopted by the Board and used to measure the individual participating municipalities' total pension liability was 5.25 percent for the December 31, 2017 valuation.

The regular interest rate/discount rate will likely be less than the system's long-term expected rate of return. Should the system experience a prolonged period of investment returns in excess of the regular interest rate, the PMRS Board is authorized to allocate any applicable portion of such excess in accordance with PMRS Board policies in the form of excess interest as provided for in the law.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 12 NON-UNIFORMED DEFINED BENEFIT PENSION PLAN (cont'd)

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required (depletion testing), used the following assumptions: 1) member contributions will be made at the current contribution rate; 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate; and 3) the system's long-term expected rate of return will be used in the depletion testing of projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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 5.25 percent, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.25 percent) or one percentage point higher (6.25 percent) than the current rate.

	1% Decrease 4.25%	Current Rate Discount Rate 5.25%	1% Increase 6.25%
Plan's net pension liability (asset)	\$ (2,995,600)	\$ (3,914,661)	\$ (4,709,049)

NOTE 13 PAID FIREMEN'S PENSION PLAN

Plan Description

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 a pension board consisting of the Mayor, two career firefighters, and two lay members appointed by the Mayor 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.

Basis of Accounting

The plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

Plan Membership

Plan membership as of December 31, 2018 consisted of the following:

Active employees	22
Retirees and beneficiaries currently receiving benefits	24
Inactive members entitled to but not yet receiving benefits	<u>1</u>
Total	<u>47</u>

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 five 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 percent after completion of 12 years of service.

*Normal Forms of Benefits:* Life

*Normal Benefits:* Equal to 50 percent of average annual compensation plus service incremental benefit.

*Death Benefit:* A death benefit is payable to a participant's surviving spouse in an amount equal to 100 percent or to his children under age 18 in an amount equal to 50 percent of the benefit the participant would have been receiving had he been retired at the time of death.

*Service Related Disability Benefit:* Payable until normal retirement, death, or recovery and a deferred annuity payable at normal retirement age. Disability benefit is equal to 50 percent of average annual compensation.

*Non-service Related Disability Benefit:* 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 percent 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.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

*Cost of Living Adjustment:* An annual cost of living adjustment is made to participants who retire between January 1, 2009 and December 31, 2018, with a maximum total cost of living increase of 10 percent of the initial benefit. No adjustment shall result in a monthly benefit in excess of 50 percent of the monthly salary being paid to a paid firefighter of the highest pay grade.

*Service Increment:* 1/40<sup>th</sup> 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.

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 five percent of compensation plus \$1 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.

Net Pension Liability

The components and changes in the City's net pension liability were as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at December 31, 2017	\$ 8,229,239	\$ 7,355,425	\$ 873,814
Service cost	168,968	-	168,968
Interest cost	642,705	-	642,705
Contributions – employer	-	244,929	(244,929)
Contributions – members	-	56,656	(56,656)
Net investment loss	-	(335,162)	335,162
Administrative expenses	-	(5,120)	5,120
Benefit payments	(728,790)	(728,790)	-
Net changes	82,883	(767,487)	850,370
Balances at December 31, 2018	\$ 8,312,122	\$ 6,587,938	\$ 1,724,184

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

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

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2018, the City recognized pension expense of \$408,414 under this plan. At December 31, 2018, the City reported deferred outflows and inflows of resources related to the police pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 608,887	\$ -
Changes of assumptions	32,408	-
Net difference between expected and actual experience	<u>-</u>	<u>(136,977)</u>
	<u>\$ 641,295</u>	<u>\$ (136,977)</u>

The deferred inflows of resources will be recognized in pension expense as follows:

Year Ended December 31,

2019	\$ 214,522
2020	80,970
2021	51,953
2022	<u>156,873</u>
	<u>\$ 504,318</u>

Actuarial Methods and Assumptions

The City's net pension liability was measured as of December 31, 2018, 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 January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.25 percent
- Salary increases: 5.00 percent, including inflation
- Investment rate of return: 8.00 percent, including inflation
- Post-retirement cost of living increase: 4.00 percent, subject to plan provisions and limitations

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

Mortality rates were based on the RP2000 Table projected to 2017 using Scale AA.

The actuarial assumptions used in the January 1, 2017 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.

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, 2018 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)	28.0%	6.44%
Domestic equity (mid cap)	3.0%	7.22%
Domestic equity (small cap)	2.0%	7.22%
International equity	17.0%	7.26%
Fixed income	43.0%	2.93%
Balanced/blend	7.0%	3.32%
Cash	0.0%	0.75%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was eight percent. 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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

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

investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 eight percent, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (seven percent) or one percentage point higher (nine percent) than the current rate.

	1% Decrease 7%	Current Rate Discount Rate 8%	1% Increase 9%
Plan's net pension liability (asset)	\$ 2,631,353	\$ 1,724,184	\$ 956,719

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, for the plan was -4.72 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 deferred retirement option plan ("DROP") for a maximum three-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 three-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 percent nor more than 4.5 percent. 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, 2018, no plan members were participating in the DROP and are considered retired for pension purposes. The DROP account balances as of December 31, 2018 are \$0.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN

Plan Description

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 a pension board consisting of the Mayor, three police officers, and three lay members appointed by the Mayor 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.

Basis of Accounting

The plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments of the plan are reported at fair value.

Plan Membership

Plan membership as of December 31, 2018 consisted of the following:

Active employees	37
Retirees and beneficiaries currently receiving benefits	46
Inactive members entitled to but not yet receiving benefits	<u>1</u>
Total	<u>84</u>

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 percent after completion of 12 years of service.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

*Normal Forms of Benefits:* Life

*Normal Benefits:* Equal to 50 percent of average annual compensation plus service incremental benefit.

*Death Benefit:* A death benefit is payable to a participant's surviving spouse in an amount equal to 100 percent or to his children under age 18 in an amount equal to 50 percent of the benefit the participant would have been receiving had he been retired at the time of death.

*Service Related Disability Benefit:* Disability benefit is equal to 50 percent of average annual compensation. The disability pension is reduced by Worker's Compensation.

*Non-Service Related Disability Benefit:* Participant has completed 10 years of vesting service. Disability benefit is equal to 50 percent 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.

*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 percent of the initial pension. No adjustment shall result in monthly pension in excess of 50 percent of the monthly salary being paid to patrolmen of the highest pay grade.

*Service Increment:* 1/40<sup>th</sup> 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.

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 five percent of compensation plus \$1 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.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

Net Pension Liability

The components and changes in the City's net pension liability were as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at December 31, 2017	\$ 22,442,017	\$ 18,816,107	\$ 3,625,910
Service cost	380,672	-	380,672
Interest cost	1,774,992	-	1,774,992
Contributions – employer	-	647,580	(647,580)
Contributions – members	-	140,012	(140,012)
Net investment loss	-	(955,605)	955,605
Administrative expenses	-	(4,642)	4,642
Benefit payments	(1,154,615)	(1,154,615)	-
Net changes	<u>1,001,049</u>	<u>(1,327,270)</u>	<u>2,328,319</u>
Balances at December 31, 2018	<u>\$ 23,443,066</u>	<u>\$ 17,488,837</u>	<u>\$ 5,954,229</u>

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

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2018, the City recognized pension expense of \$1,096,156 under this plan. At December 31, 2018, the City reported deferred outflows and inflows of resources related to the police pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$2,386,923	\$ (617,983)
Changes of assumptions	233,600	(2,992)
Net difference between expected and actual experience	-	(346,195)
	<u>\$2,620,523</u>	<u>\$ (967,170)</u>

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

The deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	
2019	\$ 566,283
2020	300,031
2021	297,832
2022	<u>489,207</u>
	<u>\$ 1,653,353</u>

Actuarial Methods and Assumptions

The City's net pension liability was measured as of December 31, 2018, 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 January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 3.00 percent
- Salary increases: 5.00 percent, including inflation
- Investment rate of return: 8.00 percent, including inflation
- Post-retirement cost of living increase: 3.00 percent, subject to plan provisions and limitations

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rate for annuitants projected seven years and rates for non-annuitants projected fifteen years using Scale AA to reflect mortality improvement.

The actuarial assumptions used in the January 1, 2017 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.

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.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

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, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	60.0%	5.50% - 7.50%
Fixed income	35.0%	1.00% - 3.00%
Cash	5.0%	0.00% - 1.00%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was eight percent. 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.

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 eight percent, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (seven percent) or one percentage point higher (nine percent) than the current rate.

	1% Decrease 7%	Current Rate Discount Rate 8%	1% Increase 9%
Plan's net pension liability	\$ 8,559,793	\$ 5,954,229	\$ 3,770,347

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 14 POLICE PENSION PLAN (cont'd)

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, for the plan was -4.72 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program (DROP)

An active member who has met the eligibility requirements for normal retirement may elect to participate in the deferred retirement option plan ("DROP") for a period of not less than 12 months nor more than 36 months.

The bi-weekly pension shall be calculated as of the date of participation in the DROP and shall be accumulated with investment earnings in the DROP account with the annual investment return on the DROP account being not less than zero percent nor more than 4.5 percent. The DROP account shall be distributed in a lump sum at retirement.

As of December 31, 2018, one plan member was participating in the DROP and is considered retired for pension purposes. The DROP account balance as of December 31, 2018 was \$93,076.

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in the preceding notes, the City has established benefits for eligible employees to have healthcare benefits provided after retirement. A description of eligibility and benefits for the three classes of employees is listed below.

**Police**

A police officer is eligible for normal retirement after completion of 20 years of service. If a police officer is disabled in the line of duty, or has completed ten 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 healthcare from the City in

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (cont'd)

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, including requiring the retired officer to:

- 1) Obtain such medical and prescription drug insurance coverage at any place of post-retirement employment if such coverage is available and essentially equivalent to that offered by the City and if such insurance is available at a cost to the retired officer that is less than the City's cost at the time.
- 2) Take advantage of Medicare or Medicaid coverage; however, any cost to the retired officer will be paid by the City. The City will not pay the cost of any additional insurance coverage elected by the retired officer.

Life Insurance Benefits:

Life insurance benefits shall be \$5,000 term insurance coverage per retiree.

**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 ten 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 coverage 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, including requiring the retired firefighter to obtain such medical and prescription drug insurance coverage at any place of post-retirement employment, if available, for himself and his spouse, or by taking advantage of Medicare or Medicaid 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.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Life Insurance Benefits:

Life insurance benefits shall be \$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, including requiring the retiree to obtain such medical and prescription drug insurance coverage at any place of post-retirement employment, if available, for himself and his spouse, or taking advantage of Medicare or Medicaid coverage. AFSCME covered employees retired after January 1, 2015 shall be required to take the healthcare plan offered by a subsequent employer regardless of cost.
- 4) The retiree is required to contribute toward the cost of said coverage at the same rate paid twice monthly by active employees. Retirees shall pay \$30 twice monthly for their health insurance coverage. Any retiree who has dependents covered under the health insurance program shall pay \$50 twice monthly for coverage.
- 5) Employees hired after January 1, 2017 are not entitled to any post-employment health care.

Life Insurance Benefits:

Life insurance benefits shall be \$2,000 term insurance coverage per retiree.

**Actuarial Assumptions**

Discount Rate

The discount rate used to measure the total OPEB liability was 3.16 percent based on S&P Municipal Bond 20-Year High Grade Rate Index at January 1, 2018.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Salary

An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, annual salary increases are assumed to be five percent.

Withdrawal

The table below shows rates of withdrawal at selected ages.

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	5.50%	35	2.50%	50	0.00%
25	5.00%	40	1.00%	55	0.00%
30	4.00%	45	0.50%	60	0.00%

Mortality

Mortality rates are based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected seven years and rates for non-annuitants projected fifteen years using Scale AA to reflect mortality improvement.

Disability

SOA 1987 Group LTD for Police and Paid Firemen, no disability was assumed for AFSCME and Management employees

Retirement

*Police and Firemen* – Latest of age 53, age at the completion of 28 years of service, or age on the valuation date

*AFSCME and Management Employees* – Latest of age 60, age at the completion of 20 years of service, or age on the valuation date

Percent of Eligible Retirees Electing Coverage in Plan

One hundred percent of police and paid firemen and fifty percent of AFSCME and management employees are assumed to elect coverage.

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Percent Married at Retirement

Sixty percent of employees electing coverage at retirement are assumed to be married and have a spouse covered by the plan.

Spouse Age

Wives are assumed to be two years younger than their husbands.

Per Capita Claims Cost

The per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. The resulting costs are as follows:

<u>Age</u>	<u>Males</u>	<u>Females</u>
45 - 49	\$ 8,162	\$ 11,788
50 - 54	10,810	13,322
55 - 59	13,166	13,940
60 - 64	17,181	16,014
65+	8,432	8,432

Retiree Contributions

Retiree contributions are not assumed to increase.

Life Insurance

It is assumed that the annual cost to provide life insurance varies by age. The assumed cost is equal to the amount of coverage times the applicable mortality factor contained in the valuation mortality table.

Healthcare Cost Trend Rate

The healthcare cost trend rate is 6.00 percent in 2018 and 5.50 percent in 2019 through 2021. Rates gradually decrease from 5.40 percent in 2022 to 3.80 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Actuarial Value of Assets

Equal to the market value of assets

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (cont'd)

Participant Data

Based on census information as of January 1, 2018

Sensitivity Analysis

The following presents the net OPEB liability, calculated using the valuation discount rate of 3.16 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease 2.16%	Current Rate Discount Rate 3.16%	1% Increase 4.16%
Total OPEB liability	\$ 53,282,102	\$ 44,859,603	\$ 38,231,611
Fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 53,282,102</u>	<u>\$ 44,859,603</u>	<u>\$ 38,231,611</u>

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate of 6.0 percent, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower each year or one percentage point higher each year than the current rate.

	1% Decrease	Current Rate Healthcare Trend Rate	1% Increase
Total OPEB liability	\$ 37,454,917	\$ 44,859,603	\$ 54,487,494
Fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 37,454,917</u>	<u>\$ 44,859,603</u>	<u>\$ 54,487,494</u>

Changes in Total OPEB Liability

Total OPEB liability as of January 1, 2017	\$ 38,628,713
Service cost	1,332,803
Interest on OPEB obligation	1,459,988
Changes of benefit terms	393,240
Changes of assumptions	4,168,577
Benefit payments	<u>(1,123,718)</u>
Total OPEB liability as of January 1, 2018	<u>\$ 44,859,603</u>

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (cont'd)

The amount of OPEB expense recognized by the City was \$4,019,746 for the year ended December 31, 2018. An amount of \$1,176,808 is reported as deferred outflows of resources resulting from the City's benefit payments subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. At December 31, 2018, the City reported deferred outflows of resources relating to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 3,334,862	\$ -
Contributions subsequent to the date of measurement	<u>1,176,808</u>	<u>-</u>
Total	<u>\$ 4,511,670</u>	<u>\$ -</u>

Deferred outflows of resources due to the change in assumptions will be recognized in OPEB expense as follows:

<u>Year Ending December 31,</u>	
2019	\$ 833,715
2020	833,715
2021	833,715
2022	<u>833,717</u>
	<u>\$ 3,334,862</u>

NOTE 16 COMMITMENTS AND CONTINGENCIES

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

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

CITY OF LEBANON

NOTES TO FINANCIAL STATEMENTS

NOTE 17 RISK MANAGEMENT

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

NOTE 18 PRIOR PERIOD ADJUSTMENTS

The City has decreased its January 1, 2018 net position in the governmental activities by \$24,507,214 due to the effects of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The City recorded a beginning deferred outflow for OPEB contributions of \$1,123,718 and a beginning net OPEB liability of \$38,628,713. The previously reported \$12,997,781 OPEB obligation liability as of December 31, 2017 is no longer recognized due to the change in accounting principle.

NOTE 19 SUBSEQUENT EVENTS

The City has evaluated all subsequent events through September 25, 2019, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LEBANON  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY, RELATED RATIOS,  
AND INVESTMENT RETURNS - PAID FIREMEN'S PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION**

	2018	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>					
Service cost	\$ 168,968	\$ 160,922	\$ 136,558	\$ 130,055	\$ 118,290
Interest on total pension liability	642,705	625,033	612,383	586,986	554,125
Differences between expected and actual experience	-	(206,783)	-	(13,754)	-
Changes of assumptions	-	16,171	-	109,555	-
Benefit payments	(728,790)	(417,405)	(431,744)	(380,418)	(358,004)
Net change in total pension liability	<u>82,883</u>	<u>177,938</u>	<u>317,197</u>	<u>432,424</u>	<u>314,411</u>
Total pension liability, beginning	8,229,239	8,051,301	7,734,104	7,301,680	6,987,269
Total pension liability, ending (a)	<u>\$ 8,312,122</u>	<u>\$ 8,229,239</u>	<u>\$ 8,051,301</u>	<u>\$ 7,734,104</u>	<u>\$ 7,301,680</u>
<b>FIDUCIARY NET POSITION</b>					
Contributions - employer	\$ 244,929	\$ 192,543	\$ 188,936	\$ 198,677	\$ 198,453
Contributions - employee	56,656	55,730	48,031	56,219	56,959
Investment income net of investment expenses	(335,162)	987,018	354,208	(55,148)	330,128
Benefit payments	(728,790)	(417,405)	(431,744)	(380,418)	(358,004)
Administrative expenses, including refunds of member contributions	(5,120)	(5,000)	(5,420)	(6,200)	-
Net change in fiduciary net position	<u>(767,487)</u>	<u>812,886</u>	<u>154,011</u>	<u>(186,870)</u>	<u>227,536</u>
Fiduciary net position, beginning	7,355,425	6,542,539	6,388,528	6,575,398	6,347,862
Fiduciary net position, ending (b)	<u>\$ 6,587,938</u>	<u>\$ 7,355,425</u>	<u>\$ 6,542,539</u>	<u>\$ 6,388,528</u>	<u>\$ 6,575,398</u>
Net pension liability [(a) - (b)]	<u>\$ 1,724,184</u>	<u>\$ 873,814</u>	<u>\$ 1,508,762</u>	<u>\$ 1,345,576</u>	<u>\$ 726,282</u>
Plan fiduciary net position as a percentage of the total pension liability	79.26%	89.38%	81.26%	82.60%	90.05%
Covered payroll	\$ 1,343,395	\$ 1,353,115	\$ 1,326,573	\$ 1,477,038	\$ 1,439,664
Net pension liability as a percentage of covered payroll	128.35%	64.58%	113.73%	91.10%	50.45%

**Note on Cumulative Information**

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**CITY OF LEBANON  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY, RELATED RATIOS,  
AND INVESTMENT RETURNS - POLICE PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION**

	2018	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>					
Service cost	\$ 380,672	\$ 362,545	\$ 383,539	\$ 365,275	\$ 401,230
Interest on total pension liability	1,774,992	1,703,187	1,596,665	1,536,177	1,511,035
Changes of benefit terms	-	-	483,994	-	-
Differences between expected and actual experience	(316,238)	(316,238)	-	(469,365)	-
Changes of assumptions	(1,154,615)	389,332	-	(8,976)	-
Benefit payments	(1,001,049)	(1,141,720)	(1,188,131)	(1,139,095)	(1,028,301)
Net change in total pension liability	1,001,049	997,106	1,276,067	284,016	883,964
Total pension liability, beginning	22,442,017	21,444,911	20,168,844	19,884,828	19,000,864
Total pension liability, ending (a)	<u>\$ 23,443,066</u>	<u>\$ 22,442,017</u>	<u>\$ 21,444,911</u>	<u>\$ 20,168,844</u>	<u>\$ 19,884,828</u>
<b>FIDUCIARY NET POSITION</b>					
Contributions - employer	\$ 647,580	\$ 629,410	\$ 668,402	\$ 1,201,085	\$ 998,520
Contributions - employee	140,012	135,512	138,509	146,783	138,165
Investment income net of investment expenses	(955,605)	2,361,667	882,284	(29,616)	969,692
Benefit payments	(1,154,615)	(1,141,720)	(1,188,131)	(1,139,095)	(1,033,149)
Administrative expenses, including refunds of member contributions	(4,642)	(6,718)	(5,000)	(7,021)	(8,926)
Net change in fiduciary net position	(1,327,270)	1,978,151	496,064	172,136	1,064,302
Fiduciary net position, beginning	18,816,107	16,837,956	16,341,892	16,169,756	15,105,454
Fiduciary net position, ending (b)	<u>\$ 17,488,837</u>	<u>\$ 18,816,107</u>	<u>\$ 16,837,956</u>	<u>\$ 16,341,892</u>	<u>\$ 16,169,756</u>
Net pension liability [(a) - (b)]	<u>\$ 5,954,229</u>	<u>\$ 3,625,910</u>	<u>\$ 4,606,955</u>	<u>\$ 3,826,952</u>	<u>\$ 3,715,072</u>
Plan fiduciary net position as a percentage of the total pension liability	74.60%	83.84%	78.52%	81.03%	81.32%
Covered payroll	\$ 2,758,883	\$ 2,650,719	\$ 2,561,105	\$ 2,987,438	\$ 2,629,816
Net pension liability as a percentage of covered payroll	215.82%	136.79%	179.88%	128.10%	141.27%

**Note on Cumulative Information**

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**CITY OF LEBANON**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY, RELATED RATIOS,**  
**AND INVESTMENT RETURNS - NON-UNIFORMED PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION**

	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>				
Service cost	\$ 117,928	\$ 107,331	\$ 115,513	\$ 120,482
Interest on total pension liability	500,291	522,320	517,087	526,648
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	-	(165,021)	(60,039)	(111,693)
Changes of assumptions	-	211,211	89,605	-
Benefit payments	(699,015)	(609,389)	(628,114)	(659,997)
Net change in total pension liability	<u>(80,796)</u>	<u>66,452</u>	<u>34,052</u>	<u>(124,560)</u>
Total pension liability, beginning	9,756,463	9,690,011	9,655,959	9,780,519
Total pension liability, ending (a)	<u>\$ 9,675,667</u>	<u>\$ 9,756,463</u>	<u>\$ 9,690,011</u>	<u>\$ 9,655,959</u>
<b>FIDUCIARY NET POSITION</b>				
Contributions - employer	80	20	80	2,547
Contributions - PMRS assessment	55,749	55,009	53,326	48,710
Contributions - employee	2,044,623	1,062,703	(99,324)	680,522
Investment income net of investment expenses	(699,015)	(609,389)	(628,114)	(659,997)
Benefit payments	(32,218)	(35,036)	(30,187)	(27,595)
Administrative expenses, including refunds of member contributions	1,369,219	473,307	(704,219)	44,187
Net change in fiduciary net position	<u>12,221,109</u>	<u>11,747,802</u>	<u>12,452,021</u>	<u>12,407,834</u>
Fiduciary net position, beginning	<u>\$ 13,590,328</u>	<u>\$ 12,221,109</u>	<u>\$ 11,747,802</u>	<u>\$ 12,452,021</u>
Fiduciary net position, ending (b)	<u>\$ (3,914,661)</u>	<u>\$ (2,464,646)</u>	<u>\$ (2,057,791)</u>	<u>\$ (2,796,062)</u>
Plan fiduciary net position as a percentage of the total pension asset	140.46%	125.26%	121.24%	128.96%
Covered payroll	\$ 1,115,132	\$ 1,100,187	\$ 1,066,518	\$ 1,116,776
Net pension asset as a percentage of covered payroll	-351.05%	-224.02%	-192.94%	-250.37%

**Note on Cumulative Information**

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**CITY OF LEBANON  
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PAID FIREMEN'S PENSION PLAN  
REQUIRED SUPPLEMENTARY INFORMATION**

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2009	\$ 117,357	\$ 117,357	-	\$ 1,291,602	9.09%
2010	106,388	106,388	-	1,235,481	8.61%
2011	177,369	177,369	-	1,254,922	14.13%
2012	97,758	97,758	-	1,311,964	7.45%
2013	102,870	102,870	-	1,365,404	7.53%
2014	198,453	198,453	-	1,439,664	13.78%
2015	198,677	198,677	-	1,477,038	13.45%
2016	188,936	188,936	-	1,326,573	14.24%
2017	192,543	192,543	-	1,353,115	14.23%
2018	244,929	244,929	-	1,343,395	18.23%

**Notes to Schedule:**

*Valuation Date:*

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

*Methods and Assumptions Used to Determine Contribution Rates:*

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
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	Normal retirement age, or age on valuation date, if greater
Mortality	RP 2000 table combine mortality table projected to 2017 using scale AA

*Changes in Assumptions:*

In 2015, the mortality assumption was changed from the RP-200 Table to the RP-2000 Table projected to 2015 using Scale AA. In 2017 the mortality assumption was change to the RP-2000 Table projected to 2017 using Scale AA.

**CITY OF LEBANON  
SCHEDULE OF EMPLOYER CONTRIBUTIONS - POLICE PENSION PLAN  
REQUIRED SUPPLEMENTARY INFORMATION**

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2009	\$ 823,905	\$ 823,905	-	\$ 2,516,550	32.74%
2010	827,932	827,932	-	*	*
2011	834,634	834,634	-	2,452,990	34.03%
2012	818,503	818,503	-	*	*
2013	974,213	974,213	-	2,612,769	37.29%
2014	998,520	998,520	-	2,629,816	37.97%
2015	1,201,085	1,201,085	-	2,987,438	40.20%
2016	668,402	668,402	-	2,561,105	26.10%
2017	629,410	629,410	-	2,650,719	23.74%
2018	647,580	647,580	-	2,758,883	23.47%

\* Information unavailable due to biennially required Act 205 report.

**Notes to Schedule:**

*Valuation Date:*

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

*Methods and Assumptions Used to Determine Contribution Rates:*

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	18 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	3.00%
Salary increases	5.00%
Investment rate of return	8.00%
Retirement age	Attainment of age 53 and completion of 25 years of service
Mortality	RP 2000 table. This table does not include projected mortality improvements.

*Changes in Benefit Terms:*

Added deferred retirement option plan effective July 1, 2016

**CITY OF LEBANON  
SCHEDULE OF EMPLOYER CONTRIBUTIONS - NON-UNIFORMED PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION**

<u>Fiscal Year Ended December 31,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a Percentage of Covered Payroll</u>
2015	\$ -	2,547	\$ (2,547)	\$ 1,116,776	0.23%
2016	-	80	(80)	1,066,518	0.01%
2017	-	20	(20)	1,100,187	0.00%
2018	-	80	(80)	1,115,132	0.01%

\* Information prior to 2015 was not available

**Notes to Schedule:**

*Valuation Date:*

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. Therefore, the actuarially determined contribution for calendar 2017 is based upon the January 1, 2015 actuarial valuation.

*Methods and Assumptions Used to Determine Contribution Rates:*

Actuarial cost method	Entry age
Amortization period	Level dollar based upon the amortization periods in Act 2015
Asset valuation method	Based upon the municipal reserves
Discount rate	5.50%
Inflation	3.00%
Salary increases	Age-related scale with merit and inflation component
COLA increases	3.00% for those eligible for a COLA
Pre-retirement mortality	Males - RP 2000 with one-year set back, Females - RP 2000 with five-year set back
Post-retirement mortality	Sex distincy RP-200 combined healthy mortality
Mortality	RP 2000 table. This table does not include projected mortality improvements.

**CITY OF LEBANON  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS**

	MEASUREMENT DATE
	January 1, 2018
TOTAL OPEB LIABILITY	
Service cost	\$ 1,332,803
Interest on total OPEB liability	1,459,988
Changes of benefit terms	393,240
Changes of assumptions	4,168,577
Benefit payments	(1,123,718)
NET CHANGE IN TOTAL OPEB LIABILITY	6,230,890
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	38,628,713
TOTAL OPEB LIABILITY, END OF YEAR	\$ 44,859,603
<u>PLAN FIDUCIARY NET POSITION</u>	
Contributions - employer	\$ -
Net investment income	-
Benefit payments	-
Administrative expenses	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	-
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	-
PLAN FIDUCIARY NET POSITION, END OF YEAR	\$ -
CITY'S NET OPEB LIABILITY	\$ 44,859,603
Plan fiduciary net position as a percentage of total OPEB liability	0.00%
Covered employee payroll	\$ 5,372,369
City's net OPEB liability as a percentage of covered payroll	835.01%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**CITY OF LEBANON  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CITY OPEB CONTRIBUTIONS**

Year	Actuarial Determined Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contribution as a Percentage of Payroll
2018	\$ -	\$ -	\$ -	\$ 5,372,369	0.00%

**Notes to Schedule:**

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

*Valuation Date:*

January 1, 2018

*Methods and Assumptions Used*

Actuarial cost method  
Asset valuation method  
Discount rate  
Healthcare trend rates

Entry age normal  
Market value  
3.16%  
6.0% in 2018, 5.5% 2019 through 2021. Rate gradually decrease from 5.4% in 2022 to 3.8% in 2075.

## **SUPPLEMENTARY INFORMATION**

**CITY OF LEBANON  
COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
DECEMBER 31, 2018**

	Paid Firemen's Pension	Police Pension	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ -	\$ 1,852,405	\$ 1,852,405
Investments	6,587,938	15,808,647	22,396,585
Accounts receivable	-	18,803	18,803
<b>TOTAL ASSETS</b>	<b>\$ 6,587,938</b>	<b>\$ 17,679,855</b>	<b>\$ 24,267,793</b>
<b>LIABILITIES AND NET POSITION</b>			
Current Liabilities:			
Escrow - DROP funds	\$ -	\$ 46,320	\$ 46,320
Accounts payable	-	196,300	196,300
<b>TOTAL LIABILITIES</b>	-	242,620	242,620
<b>NET POSITION</b>			
Net position restricted for pensions	6,587,938	17,437,235	24,025,173
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 6,587,938</b>	<b>\$ 17,679,855</b>	<b>\$ 24,267,793</b>

**CITY OF LEBANON  
COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Paid Firemen's Pension</u>	<u>Police Pension</u>	<u>Total</u>
ADDITIONS			
Contributions:			
Employee	\$ 56,594	\$ 139,890	\$ 196,484
Employer	175,361	24,556	199,917
Commonwealth	<u>69,568</u>	<u>623,024</u>	<u>692,592</u>
Total Contributions	<u>301,523</u>	<u>787,470</u>	<u>1,088,993</u>
INVESTMENT INCOME (LOSS)			
Interest and dividends	61	454,124	454,185
Net depreciation in fair value of investments	<u>(322,265)</u>	<u>(1,311,941)</u>	<u>(1,634,206)</u>
Total Investment Loss	(322,204)	(857,817)	(1,180,021)
Less investment expenses	<u>18,016</u>	<u>98,576</u>	<u>116,592</u>
Net Investment Loss	<u>(340,220)</u>	<u>(956,393)</u>	<u>(1,296,613)</u>
TOTAL ADDITIONS	<u>(38,697)</u>	<u>(168,923)</u>	<u>(207,620)</u>
DEDUCTIONS:			
Administrative costs	-	4,592	4,592
Refunded contributions	-	15,840	15,840
Retirement benefits	<u>728,790</u>	<u>1,189,517</u>	<u>1,918,307</u>
TOTAL DEDUCTIONS	<u>728,790</u>	<u>1,209,949</u>	<u>1,938,739</u>
CHANGE IN NET POSITION	(767,487)	(1,378,872)	(2,146,359)
NET POSITION RESTRICTED FOR PENSIONS			
Beginning of year	<u>7,355,425</u>	<u>18,816,107</u>	<u>26,171,532</u>
End of year	<u>\$ 6,587,938</u>	<u>\$ 17,437,235</u>	<u>\$ 24,025,173</u>

## **SINGLE AUDIT**



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

September 25, 2019

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lebanon, Lebanon, Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City of Lebanon ("the City"), and have issued our report thereon dated September 25, 2019.

Internal Control Over Financial Reporting

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

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

To the Honorable Mayor and City Council  
City of Lebanon

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

#### Compliance and Other Matters

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

#### Purpose of This Report

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

  
BARBACANE, THORNTON & COMPANY LLP



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

September 25, 2019

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

Report on Compliance for Each Major Federal Program

We have audited the City of Lebanon's ("the City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City's Community Development Block Grants and Entitlement Grants based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about

To the Honorable Mayor and City Council  
City of Lebanon

whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants and Entitlement Grants occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for City's Community Development Block Grants and Entitlement Grants. However our audit does not provide a legal determination of City's compliance.

#### Opinion on Major Federal Program

In our opinion, the City of Lebanon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

#### Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

To the Honorable Mayor and City Council  
City of Lebanon

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

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

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

CITY OF LEBANON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

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

Unmodified

Internal control over financial reporting:

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

*Federal Awards*

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

Yes  No

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

14.218

Community Development Block Grants/  
Entitlement Grants

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

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

CITY OF LEBANON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

**PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**CITY OF LEBANON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

FEDERAL GRANTOR PROJECT TITLE	FEDERAL CFDA NUMBER	SOURCE CODE	PROJECT AWARD OR PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED REVENUE 01/01/2018	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED REVENUE 12/31/2018	PASSED THROUGH TO SUB-RECIPIENTS
<b>U.S. Department of Housing and Urban Development</b>											
Community Development Block Grants/Entitlement Grants	14.218	D	B-14-MC-42-0021	01/01/14-09/01/21	\$ 659,269	\$ 72,700	\$ 12,320	\$ 60,380	\$ 60,380	\$ -	-
Community Development Block Grants/Entitlement Grants	14.218	D	B-15-MC-42-0021	01/01/15-09/01/22	618,522	16,123	10,663	7,026	7,026	1,566	-
Community Development Block Grants/Entitlement Grants	14.218	D	B-16-MC-42-0021	01/01/16-09/01/23	617,453	202,311	25,041	177,270	177,270	-	-
Community Development Block Grants/Entitlement Grants	14.218	D	B-17-MC-42-0021	01/01/17-09/01/24	620,933	366,668	-	383,636	383,636	16,968	-
Community Development Block Grants/Entitlement Grants	14.218	D	B-18-MC-42-0021	01/01/18-09/01/25	667,861	162,675	-	240,359	240,359	77,684	-
Total CFDA #14.218					667,861	820,477	48,024	868,671	868,671	96,218	-
Passed through the PA Department of Community and Economic Development											
HOME Investment Partnership Program	14.239	I	C000064045	07/13/16-07/12/19	350,000	74,196	54,629	81,460	81,460	61,893	-
Total CFDA #14.239					350,000	74,196	54,629	81,460	81,460	61,893	-
Total U.S. Department of Housing and Urban Development						894,673	102,653	950,131	950,131	158,111	-
<b>U.S. Department of Justice:</b>											
Bulletproof Vest Partnership Program	16.607	D	N/A	04/01/17-08/31/19	4,413	3,713	-	3,713	3,713	-	-
Bulletproof Vest Partnership Program	16.607	D	N/A	04/01/18-08/31/20	3,600	-	-	2,475	2,475	2,475	-
Total CFDA #16.607					8,013	3,713	-	6,188	6,188	2,475	-
U.S. Department of Transportation:											
Passed through North Central Highway Safety Network											
State and Community Highway Safety - Buckle Up	20.600	I	N/A	10/1/17-09/30/18	15,000	9,037	1,817	8,044	8,044	824	-
Total CFDA #20.600					15,000	9,037	1,817	8,044	8,044	824	-
<b>U.S. Department of Homeland Security:</b>											
Assistance to Firefighters Grant	97.044	D	EMW-2016-FO-03114	07/01/17-12/31/18	267,273	267,273	-	267,273	267,273	-	-
Total CFDA #97.044					267,273	267,273	-	267,273	267,273	-	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ 1,174,696	\$ 1,174,696	\$ 104,470	\$ 1,231,636	\$ 1,231,636	\$ 161,410	-

Source Codes:

I - Indirect Funding  
D - Direct Funding

CITY OF LEBANON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF ACCOUNTING

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

NOTE B FEDERAL EXPENDITURES

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

NOTE C INDIRECT COST

The City has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended December 31, 2018, there were no indirect costs included in the schedule of expenditures of federal awards.