

CITY OF NANTICOKE

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2014

Prepared By;

**Joseph R. Aliciene & Co.
Accountants and Consultants**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of Council
City of Nanticoke
Nanticoke, Pennsylvania 18705

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund of City of Nanticoke, as of and for the year ended December 31, 2014, 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. Except as noted in the Opinion paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Management Discussion & Analysis



City of Nanticoke Pennsylvania

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City of Nanticoke Management's Discussion and Analysis December 31, 2014

Within this section of the City of Nanticoke's (the City) annual financial report, the City's management provides a narrative overview and analysis of the financial activities of the City, as of and for the fiscal year ended December 31, 2014. This discussion and analysis should be reviewed in conjunction with the City's accompanying financial statements and notes.

FINANCIAL HIGHLIGHTS

- The City had a change in net position of \$545,298 from \$5.6 million (2013) in the previous year to \$6.1 million in the current year (2014). This compares to the previous year when the change in net assets was \$1.075 million from \$4.294 million in 2012 to \$5.369 million in 2013.
- The assets of the City increased \$395,618 from \$10,383 million in the previous year to \$10,778 million in the current year.
- Total liabilities of the City decreased \$149,680 from \$4.743 million in the previous year to \$4.594 million in the current year.
- Total net position are comprised of the following:
 - 1) Invested in capital assets, net of related debt, of \$3,362 million include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - 2) Unrestricted net assets of 2.441 million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.
 - 3) Net assets restricted for Debt Service of \$381,296 are reserved by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and constraints designated by the City.

The City's governmental funds reported total ending fund balance of \$4,588 million as compared to \$4,153 million in 2013 and to \$3,081 million in 2012.

At the end of the current fiscal year, the General Fund balance was \$2,617 million. This compares to the prior year ending fund balance of \$2,084 million and the 2012 ending fund balance of \$1,259 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management Discussion & Analysis

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as makeup of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the city's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees or charges. Governmental activities include general government, public safety, public works, culture and recreation and community development. Business-type activities are sewer services. Fiduciary activities such as employee pension plans are not included in the government-wide statements since these assets are not available to fund City programs.

The City's financial reporting entity includes the funds of the City. There are no organizations for which the City is accountable (component units). The General Municipal Authority (the Authority) owns property within the City that requires maintenance. The Authority has entered into a long term lease with Luzerne County Community College for the Health Science Center building which the Municipal Authority owns. The Authority is also leasing its Lower Broadway parking lot to Luzerne County Community College.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the city's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided for management use in the form of combining statements in a separate reporting package.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available

Management Discussion & Analysis

at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives. Budgetary comparison schedules for the general fund can be found in the Required Supplementary Information section of this report. This schedule demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization. The City has no internal service funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Fiduciary funds such as the employee pension plans are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund city programs. Fiduciary fund financial statements report similarly to proprietary funds.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information* concerning the City's general fund budgetary comparison and its progress in funding its obligation to provided pension benefits to its employees. Supplementary information follows the notes to the financial statements.

Overview of Net Position

As year to year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial assets of the City as a whole. The following table provides a summary comparison of the City's net assets at December 31:

Financial Analysis of the City as a Whole

(Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amt. Chge	
	2014	2013	2014	2013	2014	2013		
Current and Other Assets	\$ 5,108	\$4,512	\$ 628	\$ 829	\$5,736	\$5,341	395	7%
Capital Assets	198	198	4,844	4,844	5,042	5,042	0	0%
Total Assets	5,306	4,831	5,472	5,673	10,778	10,383	395	4%
Long-term Liabilities	2,462	2,323	1,131	1,388	3,593	3,711	-118	-3%

Management Discussion & Analysis

Other Liabilities	743	771	257	261	1,000	1,032	(32)	-3.0%
Total Liabilities	\$3,205	\$3,094	\$1,388	\$1,649	\$4,593	\$4,743	\$(150)	-3%
Net Position:								
Invested in Capital Assets, net of related debt	(94,486)	(330,301)	3,456	3,208	3,362	2,878	484	17%
Restricted for Debt Service	381	337			381	337	44	13.0%
Unrestricted	1,814	1,730	627	694	2,441	2,424	17	1.0%
Total Net Position	2,101	1,737	4,084	3,903	6,185	5,639	546	10%
Total Liabilities & Net Position	\$5,306	\$4,831	\$5,472	\$5,551	\$10,788	\$10,383	395	4%

The City's net assets at fiscal year-end are \$6,185 million. This compares to the prior year ending fund balance (net assets) of \$5,639 million showing an increase of \$546 thousand during the current year. The assets of the City increased by 4% or \$395,618 from \$1,095,884 million in the previous year to \$10,778 million in the current year. Total liabilities of the City decreased 3% or \$(150) thousand from \$4,743 million in the previous year to \$4,594 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$3,362 million, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. Unrestricted net assets of 2,441 million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors. Net assets restricted for Debt Service of \$381,296 are reserved by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and constraints designated by the City.

The City reported a positive balance of \$4,084 million in net assets for business-type activities. This compares to the prior year ending net asset balance of \$3,903 million showing a net increase of \$181,000 during the current year. Business-type activities include the sewer fund activities. The net activity of \$181,000 was due to a decrease of liabilities resulting from a pay down of City debt, accounts payable and lease obligations on the liability side.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a positive balance of \$2,101 million in net assets for governmental activities. This compares to the prior year ending net asset balance of 1,737 showing an increase of \$364,000 thousand during the current year. The net activity of \$2,101 million is comprised of a net increase in accounts receivable, and taxes receivable of \$32,552; and a decrease in mortgage receivable of \$6,808 on the asset side; and offset by an increase of accounts payable of \$27,245; and an decrease of notes payable of \$202,759

Challenging economic factors continue to affect the City's governmental activities. The City's governmental activities rely heavily on property and earned income taxes. Continuation of operating expense increases are projected as revenue growth forecasts remains stagnant or declines slightly.

Management Discussion & Analysis

Summary of Government Wide – Statements of Activities (Dollars are in Thousands)

	2014	2013	2014	2013	2014	2013	Amt. Chg.	% Chg.
	Gov's Type	Gov's Type	Busines Type	Busines Type	Total	Total		
Revenues								
Charges for Services	\$948	\$1,011	\$570	\$572	\$1,518	\$1,582	-64	-4%
Grants & Contributions	746	733	0	0	746	733	13	2%
Property Taxes	1,753	1,418	0	0	1,753	1,418	335	24%
Other Local Taxes for General Purposes	2,880	3,233	0	0	2,880	3,233	-353	-11%
Grants, Etc	5	0	0	0	5	0	5	100%
Misc Gen. Purpose Rev	422	546	0	0	422	546	-124	-23%
Investment Earnings	1	3	0	0	1	3	-2	-67%
Sale of Assets	0	0	0	0	0	0	0	0%
Total Revenue	\$6,755	\$6,952	\$570	\$572	\$7,325	\$7,524	199	3%
Total Expense	\$6,390	\$7,968	\$ 389	\$ 269	\$6,779	\$8,237	\$-1	-1%
Net Activity	\$365	\$-1	\$181	\$303	\$546	\$-713	\$198	-2%

Summary of Government Wide – Statements of Activities (cont) (Dollars are in Thousands)

	2014	2013	2014	2013	2014	2013	Amt. Chg.	% Chg.
Net Activity	\$365	\$-1	\$181	\$303	\$546	\$-713	\$198	-2%
Prior Period Adj	-	-	-	-	-	-	-	-
Change in Net Assets	0	0	0	0	0	0	0	0
Net Assets - Beginning	1,736	694	3,903	3,600	5,639	4,294	1,345	64%

Management Discussion & Analysis

Net Assets - Ending	\$2,101	\$693	\$4,084	\$3,903	\$4,840	\$ 6,185	\$1,543	25%

Total expenses of the City increased \$80,938 Thousand or 1% from \$7,845,660 million in 2012 to \$7,926,598 million. The net activity of \$2,786 million can be attributed to a decreases in community development (grant funded projects) these increases were offset by a various increases and decreases in other categories. Specifically, General Government expense decreased \$92,447; Public Safety expense increased \$4,032; Refuse expense increased \$19,088; Public Works decreased \$56,510; Parks and Recreation decreased \$32,799; and Interest expense increased \$9,581.

Comparison of Current vs. Prior Year Expenditures				
(Dollars are in Thousands)				
Expenses	2014	2013	Amt. Chg.	% Chg.
Gen Gov.'t & Admin	\$853	\$713	\$140	20%
Public Safety	3,570	3,060	510	17%
Sanitation	977	1,019	(42)	-4%
Public Works	755	597	158	26%
Community Development	194	2,214	(2,020)	-91%
Parks & Recreation	31	22	9	41%
Unallocated EE Benefits	0	0	(0)	0%
Other	6	0	6	100%
Interest of LT Debt	4	10	(6)	-60%
Sewage	444	191	253	43%
Non-operating Exp	194	114	-(17)	-15%
Total Expenses	\$6,779	\$7,906	-\$1,127	-14%

General Revenue increased 1% from \$5,187,266 million \$ to \$5,112,669 million in 2013.

Comparison of Current vs. Prior Year Revenues				
(Dollars are in Thousands)				
General Revenue:	2014	2013	Amt. Chg.	% Chg.
Charges for Services	\$1,517	\$1,011	(10)	1%
Grants & Contributions	746	2,874	383	15%
Property Taxes	1,753	1,127	(292)	-21%
Other Local Taxes for General Purposes	2,880	2,439	(340)	-12%
Other Grants	5	210	68	48%
Investment Earnings	1	1	-5	-83%
Misc General Purpose Revenues	422	0	-502	-100%
Other	-	-	-	0%
Total General Revenue	\$7,324	\$7,662	\$(338)	-4%

Management Discussion & Analysis

Business Type Activities

A 8% decrease of \$65,000 was realized for business type activities for 2014 over 2013.

Comparison of Current vs. Prior Year Revenues					
(Dollars are in Thousands)					
	2014	2013		Amount Change	% Change
Charges for Services				(\$63)	-1%
Sanitation	\$948	\$1011		(2)	-7%
Sewage	570	572			
Total Charges for Services	\$1,517	1,583		\$(65)	-8%

Charges for Services decreased 11% from \$1,460 to \$1,297 in 2014.

Comparison of Current vs. Prior Year Expenses					
(Dollars are in Thousands)					
	2014	2013		Amount Change	% Change
Sanitation	\$977	\$1,000		\$(23)	-2%
Sewage	126	381		(255)	-33%
Non-operating Exp Sewer	194	79		115	24%
Total Expenses	\$1,297	\$1,460		\$(163)	-11%

Financial Analysis of the City's Funds

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased by \$533,000 from \$2,084 to \$2,617 million. Key factors contributing to this increase include \$533,000 excess of revenues over expenditures. A balanced budget and cost control efforts are key in the City's financial recovery. General Fund net assets and cash flow analysis reflect the City's continuing need to finance operations, at the current levels, through short term borrowing. This is the second time the City has had a positive General fund balance in several years. The positive fund balance comes as a result of a property tax increase.

The Debt Service Fund has a fund balance of \$381,000. Excess of revenue over expenditures was \$45,000 for 2014.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Fund

The City's Proprietary Fund shares the financing and operations of the City's sewer system in the government-wide statements.

Management Discussion & Analysis

General Fund Budgetary Highlights

Actual revenues were approximately \$366,779 more than budgeted at \$5.2 million as compared to a budgeted amount of \$4.8 million. Taxes were \$143,000 over budget; intergovernmental state and local revenue was \$130,000 over budget; and Other Income was \$94,000 over budget.

Actual expenditures were approximately \$166,000 less than budgeted at \$4.6 million as compared to a budgeted amount of \$4.8 million.

The General Fund adopted budget was not amended during the 2013 fiscal year. Revenues less expenses exceed budget by \$532,773. Excess of revenues over expenditures were positive in 2010, 2011, 2012 and 2013, thus reversing the negative trend of prior years.

Long-Term Debt

At the end of the fiscal year, the City had total debt outstanding of \$ 1,646,389 million.

Debt Schedule								
(Dollars are in Thousands)								
	Gov.'t Activities		Business Type Activities		Total		Amt.	%
	2014	2013	2014	2013	2014	2013	Change	Change
General Obligation Bonds	\$168	\$151	\$1,388	\$1,636	\$1,556	\$1,787	(\$231)	-13%
Muni Financial Recovery Loans	90	310	0	0	\$90	\$310	(220)	-71%
Total	258	461	1,388	1,636	1,646	2,097	(451)	-84%

Economic Environment and Next Year's Budgets and Rates

As a result of relatively stagnant revenues, rising expenditures and borrowing to meet operational expenses, the City faced an approximately \$1.200 million structural deficit in 2006. On May 25, 2006, the City was declared a financially distressed municipality by the Pennsylvania Department of Economic and Community Development (DCED) under the Provisions of the Act, DCED retained a Recovery Plan Coordinator to develop a fiscal recovery plan for the City.

The City was limited in its revenue potential as revenue sources did not provide sufficient resources to fund operations at current levels. The City is mature, with limited availability of space for housing growth, and personal incomes are not increasing at any measurable rate. Personnel costs are fixed as a result of union and/or contract commitments.

In December 2007, the City Council adopted a Recovery Plan designed to enable the City to restore fiscal health. A key component of the plan was to increase in the City's Earned Income Tax (EIT) to 1.5% for residents and to limit long term borrowing. The tax rate increases needed to be approved annually by the Luzerne County Court of Common Pleas. The increased tax revenue was a significant component in enabling the City to address the \$1.200 million structural deficit.

A Revised Recovery plan was adopted in 2010, outlining the City's exit strategy from Act 47. The exit strategy consisted of a change in the form of government from 3rd Class City to Home Rule Municipality, thus allowing the City to restructure the tax rate limits to better suit the City's requirements. In November of 2011, the voters accepted the Home Rule Charter which became effective on January 5, 2012.

Management Discussion & Analysis

An amendment to the Revised Recovery plan was adopted in 2012 as a result of the transition in form of government to home rule. This amendment to the Recovery Plan updated projections for the next three years based on the new form of government. The amended Recovery Plan is an updated road map of the City's strategy to exit from Act 47.

The City has made significant progress over the past seven years by balancing the budget; paying down debt; and implementing cost cutting measures where appropriate. 2008 Expenditures were budgeted at \$4,415 million (prior to other financing sources/uses) in comparison to 2009 budgeted expenditures of \$3,916 million; 2010 budgeted expenses of \$4,095 million; 2011 budgeted expenses of \$4,341 million, 2012 budgeted expenses of \$3.9 million, 2013 budgeted expense of 4.9 million and 2014 budgeted expense of 4.6 million.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related law and regulations, and demonstrate the City's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Mayor of the City Of Nanticoke at 15 East Ridge Street, Nanticoke, PA, 18634.

Richard Wlatterowski, Mayor

CITY OF NANTICOKE
GOVERNMENTWIDE STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and Investments	\$ 3,954,949	\$ 875,478	\$ 4,830,427
Receivables:			
Ad Valorem Taxes	750,220	-	750,220
Other Taxes	100,535	-	100,535
Accounts	-	-	-
Accrued Interest	1,500	-	1,500
Grants	43,152	-	43,152
Mortgage	247,880	(247,880)	-
Due from Internal Parties	10,169	-	10,169
Prepaid Expenses	-	-	-
Amount to be Provided for Retirement of Long-Term Debt	-	-	-
Capital Assets:			
Equipment	225,990	117,477	343,467
Sewer System	-	4,844,474	4,844,474
Accumulated Depreciation	(28,250)	(117,477)	(145,727)
TOTAL ASSETS	<u>\$ 5,306,145</u>	<u>\$ 5,472,072</u>	<u>\$10,778,217</u>
<u>LIABILITIES</u>			
<u>LIABILITIES:</u>	\$ 117,937	\$ -	\$ 117,937
Accrued Payroll	-	-	-
Payables:	42,003	219	42,222
Accounts	-	-	-
TAN	-	-	-
Accrued Interest	-	-	-
Current Portion of long term debt	-	-	-
Other	-	-	-
Due To External Parties	-	-	-
Due to Other Government	-	-	-
Accrued Admin Fee	101,405	-	101,405
Revenue Received in Advance	1,015	-	1,015
Other	-	-	-
Non Current Liabilities			
Due within one year	128,389	257,000	385,389
Note Payable	33,837	-	33,837
Lease Payable	34,823	-	34,823
Compensated Absences	283,653	-	283,653
Other Post Employment Benefits-Current	-	-	-
Retroactive Pay	-	-	-
Due in More than one Year	130,000	1,131,000	1,261,000
Note Payable	-	-	-
Lease Payable	313,405	-	313,405
Compensated Absences	2,018,889	-	2,018,889
Other Post Employment Benefits	-	-	-
TOTAL LIABILITIES	<u>\$ 3,205,356</u>	<u>\$ 1,388,219</u>	<u>\$ 4,593,575</u>
<u>NET POSITION</u>			
Invested in net assets, net of related debt	\$ -	\$ -	\$ -
Restricted For:			
Debt Service	381,296	-	381,296
Accounts Receivable	-	-	-
Invested in Capital Assets net of Related Debt	(94,486)	3,456,474	3,361,988
Unrestricted	1,813,979	627,379	2,441,358
TOTAL NET POSITION	<u>\$ 2,100,789</u>	<u>\$ 4,083,853</u>	<u>\$ 6,184,642</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,306,145</u>	<u>\$ 5,472,072</u>	<u>\$10,778,217</u>

**CITY OF NANTICOKE
GOVERNMENTWIDE-STATEMENT OF ACTIVITIES
DECEMBER 31, 2014**

FUNCTIONS/PROGRAMS GOVERNMENTAL ACTIVITIES:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	TOTAL
General Government and Administration	\$ 852,893	-	\$ -	\$ (652,893)	\$ -	\$ (852,893)
Public Safety	3,570,365	434,388	-	(3,135,977)	-	(3,135,977)
Sanitation	977,187	-	-	(29,601)	-	(29,601)
Public Works	754,593	257,778	-	(496,815)	-	(496,815)
Community Development	194,235	-	5,104	(189,131)	-	(189,131)
Parks and Recreation	30,599	-	48,630	18,031	-	18,031
Unallocated Depreciation	-	-	-	-	-	-
Payroll Tax/related Expense	-	-	-	-	-	-
Unallocated Employee Benefits	-	-	-	(6,354)	-	(6,354)
Other	6,354	-	-	(3,907)	-	(3,907)
Interest on Long Term Debt	3,907	-	-	(4,696,647)	-	(4,696,647)
TOTAL GOVERNMENTAL ACTIVITIES	6,390,133	947,586	53,734	(4,696,647)	180,987	(4,515,660)
BUSINESS TYPE ACTIVITIES:						
Sewage	125,787	569,846	-	-	444,059	444,059
Interest	68,712	-	-	-	(68,712)	(68,712)
Nonoperating Expense	194,360	-	-	-	(194,360)	(194,360)
	388,859	569,846	-	-	180,987	180,987
TOTAL PRIMARY GOVERNMENT	\$ 6,778,992	\$ 1,517,432	\$ 53,734	\$ (4,696,647)	\$ 180,987	\$ (4,515,660)
GENERAL REVENUE:						
TAXES:						
Ad Valorem (Property Taxes)	-	-	-	1,752,790	-	1,752,790
Other Local Taxes Levied For General Purposes	-	-	-	2,879,908	-	2,879,908
Grants, Subsidies, and Contributions Not Restricted	-	-	-	5,100	-	5,100
Miscellaneous General Purpose Revenues	-	-	-	421,538	-	421,538
Investment Earnings	-	-	-	1,315	307	1,622
Total General Revenues and Transfers	-	-	-	5,060,651	307	5,060,958
CHANGE IN NET POSITION				364,004	181,294	545,298
NET POSITION BEG. OF YEAR				1,736,785	3,902,559	5,639,344
NET POSITION END OF YEAR				\$ 2,100,789	\$ 4,083,853	\$ 6,184,642

See Notes to Financial Statements
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CITY OF NANTICOKE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	Governmental Fund Types					Totals Governmental Funds	
	General Fund	Special Revenue	DCED Fund	Refuse Fund	Debt Service Fund		Highway Aid Fund
Cash and Investments	\$ 1,684,666	\$ 1,145,714	\$ 239,904	\$ 483,146	\$ 376,549	\$ 24,970	\$ 3,954,949
Accounts Receivable	59,246	41,289					100,535
Grant Funds Receivable		1,500					1,500
Taxes Receivable	803,984				1,731		803,984
Due from Other Funds	477,814	9,956			10,169		489,501
Prepaid Expenses							10,169
Mortgage Receivable							-
Other							-
TOTAL ASSETS	\$ 3,025,710	\$ 1,198,459	\$ 239,904	\$ 483,146	\$ 388,449	\$ 24,970	\$ 5,360,638
LIABILITIES & FUND BALANCE							
LIABILITIES:							
Accounts Payable	\$ 19,181	\$ 3,400	\$ 12,268		\$ 7,154		\$ 42,003
Accrued Expense	117,937						117,937
Leases Payable	1,731	115,876	10,710	113,303			241,620
Due to Other Funds							1,015
Due to Other Governments	1,015			101,405			370,225
Due to Library	268,820						-
Revenue Received in Advance							-
General Obligation Bonds Payable							-
Other	\$ 408,684	\$ 119,276	\$ 22,978	\$ 214,708	\$ 7,154	\$ -	\$ 772,800
TOTAL LIABILITIES	\$ -	\$ -	\$ -	\$ -	\$ 381,295	\$ 24,970	\$ 381,295
FUND BALANCE:							
Assigned Debt Service	2,617,026	1,079,183	216,926	268,438	-	-	4,206,543
Unassigned	2,617,026	1,079,183	216,926	268,438	381,295	24,970	4,587,838
TOTAL FUND BALANCE	\$ 3,025,710	\$ 1,198,459	\$ 239,904	\$ 483,146	\$ 388,449	\$ 24,970	\$ 5,360,638
TOTAL LIABILITIES & FUND BALANCES							

CITY OF NANTICOKE

**Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position
DECEMBER 31, 2014**

Total Fund Balances - governmental Funds		\$ 4,587,838
Amounts reported for governmental activities in the statement of net assets are different because:		
Other Assets used in governmental activities that are not financial resources and therefore are not reported as assets in governmental funds are as follows:		
Mortgage Recievable		43,152
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 225,990 and the accumulated depreciation is \$ 28,250.		
		197,740
Property Taxes receivable will be collected this year but are not available soon enough to pay the current period's expenditures and therefore are deferred in the funds. (\$268,820-\$53,764. provision for uncollectible.)		
		215,056
Long Term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year end consist of the following:		
Notes Payable	\$ 258,389	
Capital Leases Payable	33,844	
Compensated Absences	348,222	
Other Post employment Benefits	<u>2,302,542</u>	<u>(2,942,997)</u>
TOTAL NET POSITIONS (DEFICIT)-Governmental Activity		<u>\$ 2,100,789</u>

CITY OF NANTICOKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Governmental Fund Types					Totals Governmental Funds
	General Fund	Special Revenue	DCED Fund	Refuse Fund	Debt Service Fund	
REVENUES:						
Taxes	\$ 4,263,076	\$ -	\$ -	\$ 947,586	\$ 240,657	\$ 4,503,733
Charges for Services	-	-	-	-	-	947,586
Fines, Forfeitures and Costs	49,961	-	-	-	-	49,961
Interest	538	317	43	213	158	1,337
License and Permits	278,996	-	-	-	-	278,996
Intergovernmental-State and Local Sources	431,310	-	22,349	28,860	-	711,437
Intergovernmental-Federal	163,385	31,385	11,317	-	-	31,385
Other	54,999	96,657	33,709	976,659	240,815	229,701
Total Revenue	\$ 5,187,266	\$ 96,657	\$ 33,709	\$ 976,659	\$ 240,815	\$ 6,754,136
EXPENDITURES:						
General Government	\$ 852,893	\$ -	\$ -	\$ -	\$ -	\$ 852,893
Public Safety	3,307,191	-	-	977,187	-	3,307,191
Sanitation	-	-	-	-	-	977,187
Public Works	457,456	-	45,389	-	-	754,593
Community Development	-	-	-	-	-	194,235
Parks and Recreation	30,599	-	-	-	-	30,599
Debt Service and Bond Payments	-	-	-	-	196,157	196,157
Insurance	-	-	-	-	-	-
Payroll related expenses	-	-	-	-	-	-
Unallocated employee benefits	-	-	-	-	-	-
Other	6,354	-	-	-	-	6,354
Total Expenditures	\$ 4,654,493	\$ 148,846	\$ 45,389	\$ 977,187	\$ 196,157	\$ 6,319,209
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 532,773	\$ (52,189)	\$ (11,680)	\$ (528)	\$ 44,658	\$ 434,927
OTHER FINANCING SOURCES (USES)						
General Obligation Notes	-	-	-	-	-	-
Insurance Proceeds	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-
Interfund Transfers in (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 532,773	\$ (52,189)	\$ (11,680)	\$ (528)	\$ 44,658	\$ 434,927
Fund Balance (Deficit) - Beginning	\$ 2,084,253	\$ 1,131,372	\$ 228,605	\$ 268,966	\$ 336,638	\$ 4,152,911
FUND BALANCE (DEFICIT) - ENDING	\$ 2,617,026	\$ 1,079,183	\$ 216,925	\$ 268,438	\$ 381,296	\$ 4,587,838

See Notes to Financial Statements
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CITY OF NANTICOKE

**Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to Statement of Activities
DECEMBER 31, 2014**

\$ 434,927

Total net change in fund balances - governmental Funds

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

Because some property taxes will not be collected for several months
after the City's year end, they are not considered as "available" revenues
in the governmental funds. Deferred revenues were reduced by this amount
during the year.

Capital Outlays are reported in governmental funds as expenditures. However in the
statement of activities, the cost of these assets is allocated over their estimated
useful life as depreciation expense. This is the amount by which depreciation
expense (\$5,650) exceeds capital outlays \$ 0) in the period.

Repayment of bond principal and capital leases is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of assets

235,815

In the statement of activities, certain operating expenses compensated absences (sick
leave & vacations) and special termination benefits (early retirement) are measured
by the amounts earned during the year. In the governmental funds, however,
expenditures are measured by the amount of financial resources used (essentially,
the amounts actually paid.)

	<u>(earned) Paid</u>	
Compensated Absences	18,799	
Other Post Employment Healthcare	<u>(318,729)</u>	(299,930)

Mortgage principal payments received are reported as income in the fund financial statements;
However, the payment reduces mortgage receivable in the Statement of Net Position.

(6,808)

\$ 364,004

CHANGE IN NET ASSETS-Governmental Activities

**CITY OF NANTICOKE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	Business Type Activities
	Enterprise Fund
	Sewer Fund
	<u> </u>
ASSETS:	
Cash and Investments	\$ 875,478
Machinery & Equipment	117,477
Sewer System	4,844,474
Accumulated Depreciation	(117,477)
TOTAL ASSETS	<u>\$ 5,719,952</u>
LIABILITIES:	
CURRENT LIABILITIES	219
Accounts Payable	247,880
Due to other Funds	
NONCURRENT LIABILITIES	
Portion Due or Payable within one year	\$ 257,000
Note Payable	
Due in more than one year	1,131,000
Note Payable	
TOTAL LIABILITIES	<u>1,636,099</u>
NET POSITION	\$ 3,456,474
Invested in Capital Assets, Net of Related Debt	627,379
Unrestricted (Deficit)	\$ 4,083,853
TOTAL NET POSITION	<u> </u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 5,719,952</u></u>

CITY OF NANTICOKE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	Business Type Activities
	Enterprise Fund
	Sewer Fund
	<u> </u>
OPERATING REVENUES:	
Sewer User Fees	\$ 569,846
	<u> </u>
TOTAL OPERATING REVENUES	<u>569,846</u>
OPERATING EXPENSES:	
Supplies and Materials	193,871
Personal Services	125,786
Depreciation	-
Other Operating Expenses	491
TOTAL OPERATING EXPENSES	<u>320,148</u>
OPERATING INCOME (LOSS)	<u>249,698</u>
NONOPERATING REVENUES (EXPENSES):	
Investment Income	307
Refund of prior years expenses	-
Interest Expense	(68,712)
Amortization	-
TOTAL NONOPERATING REVENUES (EXPENSES):	<u>(68,405)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	181,293
Interfund Transfers in/(out)	<u> </u>
CHANGES IN NET POSITION	181,293
TOTAL NET POSITION-Beginning of Year	<u>3,902,559</u>
TOTAL NETPOSITION -End of Year	<u>\$ 4,083,852</u>

CITY OF NANTICOKE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

Business Type Activities
Enterprise Fund
Sewer Fund

CASH FLOWS FROM OPERATION ACTIVITIES

Received from User Charges	\$ 569,846
Cash Payments to Employees for Services	(125,786)
Cash Payment to Suppliers for Goods and Services	(81,171)
Cash Payments for Other	-
NET CASH USED BY OPERATING ACTIVITIES	<u><u>362,889</u></u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Nonoperating Revenue Received-Federal	-
Nonoperating Revenue Received-State	-
Refund of prior year expenses	-
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u><u>-</u></u>

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Principal Paid on Debt	(248,000)
Interest Paid on Debt	(68,712)
Principal Paid on Lease	-
Interest Paid on Leases	-
Acquisition of Capital Assets	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u><u>(316,712)</u></u>

CASH FLOWS FROM INVESTMENT ACTIVITIES

Interest on Investments	<u>307</u>
-------------------------	------------

NET DECREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	46,484
	<u>828,994</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u><u>\$ 875,478</u></u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES

Operating Income or Loss	\$ 249,698
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities</i>	-
Depreciation	-
Donated Commodities	-
<i>Changes in Assets and Liabilities</i>	-
Prepaid Expenses	-
Fixed Assets	-
Receivables	-
Inventories	(12,596)
Payables	-
Current Liabilities	125,787
Due to other funds	<u>125,787</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ 362,889</u></u>

NONCASH NON CAPITAL FINANCING ACTIVITIES

**CITY OF NANTICOKE
FIDUCIARY FUND TYPE-PENSION FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

ASSETS	Police Pesion Trust Fund	Fireman Pesion Trust Fund	Non Uniform Pension Trust Fund	Total Fiduciary Funds
Cash	\$ -	\$ -	\$ -	\$ -
Investments	4,387,990	2,518,160	613,748	7,519,898
Due from Police Plan	-	-	-	-
Benefits Paid in Advance	23,496	14,586	-	38,082
Recievable Member Contribution	2,692	1,802	-	4,494
Total Contributions	<u>\$ 4,414,178</u>	<u>\$ 2,534,548</u>	<u>\$ 613,748</u>	<u>\$ 7,562,474</u>
 LIABILITIES				 \$ -
Due To Fire Plan	\$ -	-	-	-
Other Current Liabilities	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 NET POSITION				 <u>\$ 7,562,474</u>
Held in trust for pension benefits	<u>\$ 4,414,178</u>	<u>\$ 2,534,548</u>	<u>\$ 613,748</u>	<u>\$ 7,562,474</u>
TOTAL NET POSITION	<u>\$ 4,414,178</u>	<u>\$ 2,534,548</u>	<u>\$ 613,748</u>	<u>\$ 7,562,474</u>

CITY OF NANTICOKE
 FIDUCIARY FUNDS-PENSION FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 DECEMBER 31, 2014

ADDITIONS	Police Pesion Trust Fund	Fireman Pesion Trust Fund	Non Uniform Pension Trust Fund	Total Fiduciary Funds
Contributions	\$ 92,680	\$ 54,362	\$ 40	\$ 147,082
Employer	38,410	17,188	15,123	70,721
Employee	-	-	-	-
State	105,990	75,009	35,871	216,870
State Aid	-	-	-	\$ 69,506
Appreciation (Depreciation) in Fair Value of Invest.	(15,599)	85,105	-	33,219
Interest	-	-	33,219	132,029
Dividend	132,029	-	-	-
Other	-	-	-	-
Other-Transfer tfrom Fireman Plan	-	-	-	-
Total Additions	<u>\$ 353,510</u>	<u>\$ 231,664</u>	<u>\$ 84,253</u>	<u>\$ 669,427</u>
DEDUCTIONS	\$ 34,648	\$ -	\$ -	\$ 34,648
Investment Expense	34,648	-	-	34,648
Pension Benefits	301,995	158,749	70,874	531,618
Administrative Expense	-	1,862	320	2,182
Lumop Sum DROP Account Payments	-	149,539	-	149,539
Refund of Member Contributions	-	5,186	8,391	13,577
Allocated Insurance Premiums	-	-	376	376
Other	(20,927)	51,653	-	30,726
Other-State Aid Deposited in Incorrect Fund	-	-	-	-
Total Deductions	<u>\$ 315,716</u>	<u>\$ 366,989</u>	<u>\$ 79,961</u>	<u>\$ 762,666</u>
Change in Net Assets	37,794	(135,325)	4,292	(93,239)
Net Assets At the Beginning of Year	<u>\$ 4,376,384</u>	<u>\$ 2,669,873</u>	<u>\$ 609,455</u>	<u>\$ 7,655,712</u>
Net Assets End of Year End of Year	<u>\$ 4,414,178</u>	<u>\$ 2,534,548</u>	<u>\$ 613,747</u>	<u>\$ 7,562,473</u>

The City of Nanticoke

Notes to Financial Statements

December 31, 2014

Note 1 - Description of the City and Reporting Entity

The voters of the City approved the establishment of a Government Study Commission (GSC) at the May 2010 primary election. The GSC, comprised of seven citizens of the City, chose to write a home charter for the City and submitted that proposed Charter to the City's electorate at the November 2011 general election. The proposed Home Rule Charter was approved by the voters.

Under the Home Rule Charter, the City will now be governed by a mayor-council form of government, with the appointment of a professional Manager to run the day-to-day operations of the City. Under PA law, there can be no limits on the rates of taxation in a home rule charter. While the City's charter does have an annual limit on total revenue increases, the City will be able to continue to levy the increased EIT rate of 1.5%, and there is no limit on the real estate mileage the City may levy.

The Home Rule Charter also provides for a formal budget process, mandates an independent auditor, and provides for other fiscal management requirements. The City provides public safety, health and welfare, sanitation, public works, culture and recreation, community development, and general administrative services for its residents.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the City are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component Units

The City's basic financial statements include the accounts of all City's' operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- ◆ the organization is legally separate (can sue and be sued in their own name)
- ◆ the City holds the corporate powers of the organization
- ◆ the City appoints a voting majority of the organization's board
- ◆ the City is able to impose its will on the organization
- ◆ the organization has the potential to impose a financial benefit/burden on the City
- ◆ there is fiscal dependency by the organization on the City.

In conformity with accounting principles, generally accepted in the United States of America, the following entities have been considered for inclusion in the financial reporting entity as a discretely presented component unit:

1. The Housing Authority of the City of Nanticoke.
2. The General Municipal Authority of the City of Nanticoke.

The Two were determined to be legally separate and not required to be included in the City's financial statements as discretely presented component units, but are considered related parties for disclosure purposes.

Note 2 - Summary of Significant Accounting Policies

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The City of Nanticoke

Notes to Financial Statements

December 31, 2014

Note 2 - Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds and discretely presented component units. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end, along with the discretely presented component units. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and discretely presented component units. The City has only one proprietary fund. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. Basis of Accounting

These financial statements are presented using accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City uses the financial reporting model required by the provisions of GASB Statement No 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

C. Measurement Focus

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met. Fiduciary funds nor component units that are fiduciary in nature are not included in the Government Wide financial statements.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectable within the current period or soon enough after to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 2 - Summary of Significant Accounting Policies (continued)

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Operating revenues for the proprietary fund are charges to customers for sewer services. Principal operating expenses are the costs of providing goods or services and include depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. Restricted resources are used first to fund appropriations or only after the unrestricted resources are depleted.

D. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Debt Service Fund

Accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies property taxes restricted for the retirement of general obligation bonds, interest, and judgments. This fund reports taxes collected to service debt.

Special Revenue, CDBG, Refuse, Highway Aid

Established as a special revenue fund for the City's various revenues.

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of net income, financial position, and changes in cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the City's Proprietary Funds:

Sewer Fund

The sewer fund is used to account for the construction, financing, operation, and maintenance of the sewer system.

Fiduciary Funds

Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available for support of the City's own programs. The City has three pension trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has no agency funds.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the City Code and City procedures, the City Finance Director submits to the Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal Year commencing the following January 1. The budget must be advertised and available for public inspection before adoption. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, sanitation, public works, parks and recreation, debt service, and employee benefits and miscellaneous.
2. Public hearings are conducted to obtain taxpayer comment.
3. By December 15, the budget is approved by motion of the Council. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
4. All modifications over a certain threshold, transfers and amendments must be approved by the Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The legally adopted budgets of the City are for the General Fund and All Special Revenue Funds.
7. The Council may authorize supplemental appropriations during the year. The City's Council must approve all over expenditures of appropriations or transfers of appropriated amounts.
8. The budgetary basis of accounting for the General Fund differs from generally accepted accounting principles in that it includes certain expenditures and expenses of the Liquid Fuels Fund, CDBG Fund, and Proprietary Fund and accounts for reimbursement from these funds as operating transfers in. Such expenditures and expenses are those of the respective funds and not of the City's General Fund. The adjustments necessary to reconcile the budgetary basis with generally accepted accounting principles are not ascertainable. As a result the budgeted amounts are compared to actual amounts, not actual on budgetary basis.

F. Use of Estimates

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

G. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 2 - Summary of Significant Accounting Policies (continued)

Investments

In accordance with GASB Statement 31, investments are stated at fair value, except:

- a) Non-participating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,
- c) Investments held in 2aT-like pools (Pennsylvania Local Government Investment Trust, and the Pennsylvania Treasurer's Invest Program) are recorded at the pool's share price.

Real Estate Taxes

The City has the power to levy and collect taxes on all taxable real estate within its boundaries. Real estate is assessed by the Chief Assessor's Office of the County of Luzerne. Property taxes attach an enforceable lien on property as of January 1. Taxes paid within 60 days are given a 2% discount. Amounts paid after 120 days are subject to a 10% penalty. Tax liens are filed on the related property for taxes not remitted within three years of the due date.

Tax levies are collected by the appointed Tax Collection Agency, in their capacity as tax collector. The tax levy for 2014 was 4.8785 mills on every dollar of assessed value; 4.2514 mills for the General Fund, .6077 mills for the Debt Service Fund, and .0194 mills for the Mill Memorial Library. The total estimated assessed value of taxable property was approximately \$336,000,000.

Compensated Absences

The City's policy in regard to accumulated sick leave is as follows:

Policemen are entitled to fifteen sick days leave each year and can accumulate unlimited sick days. Firemen are entitled to twenty-one days sick leave each year and can accumulate unlimited sick days. The City will buy back ½ of sick days up to 200 then \$35 dollars per day of the policemen and one-half of accumulated sick days up to 100 of the firemen at the then effective rate of pay of each retiree.

Painters and Allied Trades Local # 41 employees are able to accumulate sick leave at one day per month up to 120. If sick days are not used the City will buy back one-half the days accumulated when the employee retires, resigns, or is terminated for cause at their effective rate of pay.

Long Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of fund net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Equity

The following fund balance classifications describe the relative strength of the spending constraints placed for the purposes for which resources can be used.

- **Nonspendable fund balance**-amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- **Restricted fund balance**-amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance**-amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the government takes the same highest level action to remove or change the constraint.
- **Assigned fund balance**-amounts the government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which, the governing body delegates the authority.
- **Unassigned fund balance**-amounts that are available for any purpose; positive amounts are reported only in the general fund

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned and unassigned as they are needed. Also in the Statement of Net Position the following order applies: restricted and unrestricted as they are needed.

Government-wide and Proprietary Fund Financial Statements. The City classifies net position in the government-wide and proprietary fund financial statements as follows:

- **Net Investment in Capital Assets** includes the City's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The City typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- **Unrestricted Net Position** typically includes unrestricted liquid assets. The City's Board of Directors has the authority to revisit or alter this designation.

Interfund Activity

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due to/Due From other funds". Interfund balance within the governmental activities and business type activities are eliminated on the government wide statement of Net Position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of assets as "internal balances". Any residual balances outstanding between the governmental activities and external fund-type activities are reported in the government-wide statement of assets as "external balances".

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 3 - Stewardship, Compliance and Accountability

A. Compliance with Finance Related Legal and Contractual Provisions

The City has no material violations of finance related legal and contractual provisions.

B. Excess of Expenditures over Appropriations in Individual Funds

For the year ended December 31, 2014, the General Fund had an excess of revenues over expenditures in the amounts of \$532,773.

C. Budgetary Compliance

The City has a legally adopted budget for the General Fund. The City does not make budget transfers between expenditure/expense accounts.

Note 4 - Cash

Primary Government

Custodial Credit Risk- Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does have a policy for custodial credit risk. As of December 31, 2014, \$4,886,467 of the City's bank balance of \$5,396,543. was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank's trust department not in the City's name.	4,886,467
Total	\$4,886,467

Reconciliation to Financial Statements:

Uncollateralized Amount Above	\$4,886,467
Plus: Insured Amount	510,075
Less: Outstanding Checks	(526,669)
Carrying Amount-Bank Balances	4,869,873
Plus: Petty Cash	0
Total Cash Per Financial Statements	\$4,869,873

Note 5 - Investments

The permitted investment for Pennsylvania City's are defined as:

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 or share accounts of institutions insured by the F.D.I.C.; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 5 – Investments (continued)

Fiduciary Funds

As of December 31, 2014, the Nanticoke City's Firemen's Pension, Plan and Police Pension Plan, and Non-Uniform Pension Plan consisted of the following. The Non-uniform Plan's Assets with PMRS are pooled for investment purposes and do not represent specific identifiable investment securities.

Investment Type	Police Pension Fair Value	Firemen's Pension Fair Value	NonUniform's Pension Fair Value	Total
Managed Equity	\$2,987,066	\$1,631,535	\$0	\$4,618,601
Corporate Bonds	396,813	189,069	0	585,882
Government Securities	504,778	441,122	0	945,900
Pooled Fixed Income	269,168	256,434	0	525,602
Real Estate	156,560	0	0	156,560
Cash	73,605	0	0	73,605
Employees Contribution	2,692	1,802	0	4,494
Benefits Paid in Advance	23,496	14,586	0	38,082
Pa Muni Ret System	0	0	609,455	609,455
Total	\$4,414,178	\$2,534,548	\$609,455	\$7,558,181

Credit Risk. Nanticoke City targets the overall rating of its fixed income assets to be at least "BBB" by S & P or "Baa" by Moody's rating systems. See Details Below:

Investment Type	Police Pension Fair Value	Firemen's Pension Fair Value	Maturity	Rating
Corporate Bonds	\$396,813	\$189,069	Avg. of 8 Years	Avg. of BBB
Government Bonds	504,778	441,122	Avg. of 8 Years	Avg. of AA
Corp. & Govt. Bonds	0	0		
Fixed Income Fund	269,168	256,434	Avg. of 3.69 Years	AA
Total	\$1,170,759	\$886,625		

Interest Rate Risk.

As a means of limiting its exposure to fair value losses arising from rising interest rates, Nanticoke City purchases securities with laddered maturities. In line with investment policy guidelines, ladders have maturities of 12 months or less.

Concentrations of Credit Risk.

As of December 31, 2014 the City Has several individual investments of 5% or more of net assets in its Pension Funds. The Pensions are invested in managed investment accounts and annuities with various managed sub accounts. The City's three pension plans issue a stand alone financial report, which explain the various investments in great detail. For information on how to obtain a specific pension financial report see note 10.

The City of Nanticoke

Notes to Financial Statements

December 31, 2014

Note 5 – Investments (Continued)

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 security that are in the possession of an outside party. All of the following is either insured by SPIC, Commercial insurer, or evidenced by a contract with the insurance company, except nonuniformed which is run by the Pennsylvania Municipal Retirement System.

	Police	Firemen	NonUniformed	Total
NationWide	\$1,623,695	\$2,518,160	\$0	\$4,141,855
TD Ameritrade	2,764,295	0	0	2,764,295
Pa Muni Retire System	0	0	613,748	613,748
Total	\$4,387,990	\$2,518,160	\$613,748	\$7,519,898

Note 6 Capital Assets

A summary of transactions in capital assets for 2014 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Governmental Activities		
Capitalized Leased Equipment 12-31-2013	\$ 225,991	\$ 28,250
Additions/Disposals	0	0
Capitalized Leased Equipment 12-31-2014	<u>\$ 225,991</u>	<u>\$ 28,250</u>
Business-Type Activities		
Sewer System 12-31-2013	\$ 4,844,474	\$ -
Additions	<u>\$ 4,844,474</u>	<u>\$ -</u>
Sewer System 12-31-14		
Capitalized leased equipment 12-31-2013	\$ 117,477	\$ 117,477
Additions	0	0
Capitalized leased equipment 12-31-2014	<u>\$ 117,477</u>	<u>\$ 117,477</u>

There were no disposals in 2014. Amortization of business-type activities capitalized leases is reported as depreciation expense.

NOTE 7. DUE TO / FROM OTHER FUNDS AND TRANSFERS

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for payments made on its behalf or for lending/borrowing arrangements outstanding at the end of the year. General Fund interfund payables are not expected to be satisfied within one year. Interfund due from/due to of \$241,620. has been eliminated in the Statement of Net Assets to minimize the grossing up of internal balances, leaving a net amount due of \$247,880. between the governmental and business-type activities, which is reported as Due from Internal Parties. The following reports individual fund due from/due to amounts.

The City of Nanticoke

Notes to Financial Statements

December 31, 2014

NOTE 7. DUE TO / FROM OTHER FUNDS AND TRANSFERS (Continued)

City of Nanticoke		Due From	Due To
Fund Transfer Schedule			
For Year Ended 12/31/2014			
General:			
Proprietary Fund		247,880	
Due From Refuse		103,347	
Special Revenue		19,874	0
Special Revenue		96,002	
Community Development		10,710	
Community Development		0	
Debt Service			1,731
		477,813	1,731
Special Revenue:			
Refuse Fund		9,956	
General Fund		0	19,874
General Fund			96,002
		9,956	115,876
DCED Fund:			
Community Development-General			10,710
Community Development-General			0
		0	10,710
Refuse Fund:			
Due to Special Revenue			9,956
Due to General Fund			103,347
		0	113,303
Site Fund:			
Site Development-Community Development			
Site Development-General			
		0	0
Highway Aid:			
Liquid Fuels-General		0	
		0	0
Debt Service:			
General Fund		1,731	
		1,731	0
Governmental Activities		489,500	241,620
Proprietary-Community Development			247,880
Proprietary-General			247,880
Business Tye Activities		0	247,880
Total		489,500	489,500

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. They are permanent and not expected to be reimbursed. The following is a list of fund transfers.

There were no permanent transfers during 2014.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 8. Taxes Receivable

Taxes Receivable at December 31, 2014:

Earned Income	\$500,659
Real Estate Transfer	11,581
Mercantile/Business Privilege	12,193
Local Service Tax	15,703
Real Estate Taxes	<u>263,848</u>
Total Fund Financial Statements	<u>\$803,984</u>
Allowance for Uncollectible Taxes	<u>(53,764)</u>
Total Statement of Net Assets	<u><u>\$750,220</u></u>

Note 9. Mortgages Receivable

Under Urban Development, Redevelopment, Rehabilitation, and Site Development Programs, the City has loaned City residents funds to rehabilitate or improve real estate within the City. At December 31, 2014, the following amounts were owed to the City under the various programs:

Urban Development	\$4,811
Rehabilitation And Redevelopment	<u>38,340</u>
	<u><u>\$43,151</u></u>

Note 10. Pension Plans

The City maintains three defined benefit single-employer plans covering all full-time police, firemen, and Nonuniformed employees. All pension plans issue a stand-alone financial report. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal and contractual funding limitations.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 10. Pension Plans (continued)

Firemen's Pension Plan

The Firemen's Pension Plan provides retirement income and other benefits for the exclusive benefit of the members of the Fire Department, and is controlled by provisions of Ordinance # 10 of 1986 adopted pursuant to Act 317. Each full-time fireman contribute 3% of total compensation plus \$2.00 per month. No interest is credited. Municipal contributions are such amounts as actuarially required. At the discretion of Council, a portion of the State Pension Allocation may be applied to reduce any of its required contributions. The City has contributed \$129,371. of its State Pension Allocation to this fund in 2014. For detailed financial information, refer to financial management report covering the period January 1, 2014 to December 31, 2014 as prepared by AFG Pension Administration. A report could be obtained by writing to 575 Peirce Street Suite 301, Kingston, Pa 18704 or calling 570-714-0720.

At December 31, 2014 net assets available for benefits was \$2,518,160 with Nationwide Life Insurance annuity contract investments of \$2,518,160. exceeding 5% of the Firemen's Pension Plan available for pension benefits. The annuity contract contains individually managed sub accounts. The investments are not required to be categorized because either:

- They are insured by SPIC
- They are evidenced by contracts with insurance companies
- They are not considered a security as defined by GASB No 3.

Normal retirement requirement is 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on the highest 5 years of employment or pay at retirement, if higher), plus an incremental pension equal to 1/40 of the base pension benefit for each year in excess of 20 and before age 65. The maximum incremental pension is \$100 per month. The Plan also includes late retirement, death benefit, and disability retirement provisions. A member's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to the benefit accrued to the date of termination. Membership consist of the following at December 31, 2014:

Active Employees	9
Retirees and beneficiaries	
currently receiving benefits	8
Terminated Employees entitled to	
benefits but not yet receiving them	0
Total	17

A schedule of funding progress, contributions, and other data is provided as Required Supplementary Information (RSI).

Basis of Accounting

The 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 are recognized when due, in accordance with ACT 205, as amended by Act 189. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 10. Pension Plans (continued)

Police Pension Plan

The Police Pension Plan provides retirement income and other benefits for the exclusive benefit of members of the Police Department, and is controlled by provisions of Ordinance # 17 of 1989 adopted pursuant to Act 317. Each full-time policeman contributes 4% month of his compensation plus \$2.00 per month. No interest is credited. At the discretion of Council, a portion of the State Pension Allocation may be applied to reduce any actuarial liability, the obligation of the City, or employee contributions. The City has contributed \$198,670. of its State Pension Allocation to this fund in 2014. For detailed financial information, refer to financial management report covering the period January 1, 2014 to December 31, 2014 as prepared by AFG Pension Administration. A report could be obtained by writing to 575 Peirce Street Suite 301, Kingston, Pa 18704 or calling 570-714-0720.

At December 31, 2014 net assets *available* for benefits was \$4,387,990. with the following concentrations exceeding 5% of the Police Pension Plan available for pension benefits:

Nationwide	\$1,623,695
TD Ameritrade	\$2,764,295

The investments are not required to be categorized because either:

- They are insured by SPIC
- They are evidenced by contracts with insurance companies
- They are not considered a security as defined by GASB No 3.

Normal retirement requirement is 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death, continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on highest 6 consecutive years of employment or pay at retirement, if higher), plus a service increment (1.25% of average monthly pay per years of service in excess of 20 and before age 65), plus a one-time cost of living adjustment of \$50 per month after one year of retirement. The Plan also includes death benefit and disability retirement provisions. A member's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to 2.5% of average monthly pay per year of service completed by the member. Membership consist of the following at December 31, 2014:

Active Employees	13
Retirees and beneficiaries	
currently receiving benefits	16
Terminated Employees entitled to	
benefits but not yet receiving them	0
Total	29

A schedule of funding progress, contributions and other data is provided as Required Supplementary Information (RSI).

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period which the contributions are due. Employer contributions are recognized when due, in accordance with ACT 205, as amended by Act 189. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange.

The City of Nanticoke

Notes to Financial Statements

December 31, 2014

Note 10. Pension Plans (continued)

Non-Uniform Pension Plan

The Nanticoke City non-uniformed pension plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 15 of 2003 adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. The City has contributed \$35,871. of its State Pension Allocation to this fund in 2014. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). The CAFR is available on the PMRS Website at www.pMrs.state.pa.us. A Copy can be obtained by contacting PMRS accounting Office at PO Box 1165, Harrisburg, PA 17108-1165.

Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation.

In accordance with the plan's governing Ordinance, members are required to contribute 3% of compensation to the plan. Membership consist of the following at December 31, 2014:

Active Employees	12
Retirees and beneficiaries currently receiving benefits	2
Terminated Employees entitled to benefits but not yet receiving them	0
Total	<u>14</u>

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.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period which the contributions are due. Employer contributions 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.

Valuation of Investments

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

A schedule of funding progress, contributions, and other data is provided as Required Supplementary Information(RSI).

Note 11. Long-Term Debt

2004 General Obligation Note

In March 2004, the City issued a general obligation note in the amount of \$1,000,000. Proceeds were used to retire the then outstanding Tax and Revenue Anticipation notes and for various unpaid General Fund liabilities. The Note was paid in March of 2014.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 11. Long-Term Debt (continued)

2005 General Obligation Notes

In July 2005, the City issued its \$3,155,000 aggregate principle amount General Obligation Notes, Series of 2005, for the purposes of currently refunding the City's outstanding 1999 Guaranteed Sewer Revenue Bonds and paying the costs of issuance. The interest rate is 4.2% and the Note matures in 2019. This debt is recorded in the Proprietary Fund (as were the 1999 Bonds). The City believes the use of Fund revenue for payment of these Series of 2005 Notes is consistent with the Note documents and the approval from the Commonwealth for these Notes. The filing for approval from the Commonwealth included a self liquidating report stating that sewer revenues would be applied to service these Notes. The approval of the Commonwealth contemplates sewer revenues being applied to the payment of principal and interest on these notes.

In June 2005, the City issued a \$700,000 General Obligation Note, Series of 2005, for the purposes of retiring its 1996 Note and its 1998 Series A Bonds; paying the costs of issuance; and for various unpaid City liabilities. The interest rate is 4.2% and the Note matures in 2015.

Municipal Financial Recovery Loan

In August 2006, the City borrowed \$700,000 from the Commonwealth of Pennsylvania, acting through the Department of Economic and Community Development, under the Municipalities Financial Recovery Act. The loan is non-interest bearing. Principal payments of \$35,000 are due semiannually beginning in February 2007 and ending in August 2016.

In October 2007 the City borrowed \$200,000 from the Commonwealth of Pennsylvania, acting through the Department of Economic and Community Development, under the Municipalities Financial Recovery Act. The loan is non-interest bearing. Principal payments of \$20,000 are due annually ending 2019.

Long term debt is presented in the financial statements as follows:

	<i>Outstanding Balance 12/31/2013</i>	<i>Issued or Additions</i>	<i>Payments Retirements</i>	<i>Outstanding Balance 12/31/2014</i>	<i>Interest Paid This Year</i>	<i>Due Within One Year</i>
Governmental						
2004 Note	30,565		30,565	0	254	-
2005 Note	120,583		82,194	38,389	3,653	38,389
2006 Recovery Loan	210,000		70,000	140,000		70,000
2007 Recovery Loan	100,000		20,000	80,000		20,000
	\$ 461,148	\$ -	\$ 202,759	258,389	3,907	128,389

The City of Nanticoke

Notes to Financial Statements

December 31, 2014

Note 11. Long-Term Debt (continued)

Long-term Debt Service Requirements: (Governmental Activities)

Year	Series of 2005	Recovery Loan 2006	Recovery Loan 2007	Total
2015	38,389	70,000	20,000	128,389
2016		70,000	20,000	90,000
2017			20,000	20,000
2018			20,000	20,000
	\$0	\$38,389	\$140,000	\$80,000
				\$258,389

Year	Principal	Interest	Total
2015	128,389	521	128,910
2016	90,000		90,000
2017	20,000		20,000
2018	20,000	0	20,000
	\$258,389	\$521	\$258,910

Long-term Debt Service Requirements: (Business Type Activities)

Year	Principal	Interest	Total
			0
2015	257,000	58,296	315,296
2016	266,000	47,502	313,502
2017	275,000	36,330	311,330
2018	289,000	24,870	313,870
2019	301,000	12,642	313,642
	\$1,388,000	\$179,640	\$1,567,640

	Outstanding Balance 12/31/2013	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2014	Interest Paid This Year	Due Within One Year
<i>Business Type</i>						
<i>2007 Recovery Loan</i>	1,636,000	-	248,000	1,388,000	68,712	257,000
	\$ 1,636,000	\$ -	\$ 248,000	1,388,000	68,712	257,000

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 11. Long-Term Debt (continued)

Capitalized Leases

In December 2009, the city entered a financial lease agreement to acquire a fire truck for which will be paid out of the general fund. The agreement requires 7 annual payments of \$37,150. of principal and interest with a final payment in May 2015. The fire truck was capitalized in the Statement of Net Assets.

Year	Principal	Interest	Total
2015	35,043	2,107	37,150
	<u>\$35,043</u>	<u>\$2,107</u>	<u>\$37,150</u>

Capitalized leases are presented in the Statement of Net Assets as follows:

	Outstanding Balance 12/31/2013	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2014	Interest Paid This Year	Due Within One Year
<i>Governmental</i>						
2009 Firetruck Lease	66,893	-	31,850	35,043	4,094	35,043
	<u>\$ 66,893</u>	<u>\$ -</u>	<u>\$ 31,850</u>	<u>35,043</u>	<u>4,094</u>	<u>35,043</u>

Compensated Absences

Compensated absences' represents the estimated liability for employees accrued vacation and sick leave for which employees are required to be paid upon termination. The retirement of this liability is paid from the general fund.

	Balance 12/31/2013	Net Increases (Decrease)	Balance 12/31/2014	Due Within One Year
Compensated Absences	\$ 367,027	\$ 10,030	\$ 377,057	\$ 37,706

Post-Employment Benefits

Effective for Calendar year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement 45 "Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions (OPEB)" prospectively (no beginning Net OPEB Obligation).

Program Description:

As defined by City Policy, the City makes available health care benefits to all employees who retire from the City and who are eligible to receive benefits, through a single employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance or until age 65 if eligible for Medicare to eligible retirees, their spouses and dependents through the City's group health plan, which covers both active and retired members. Benefit provisions are established by management

Note 11. Long-Term Debt (continued)

Post-Employment Benefits (Continued)

Funding Policy:

Police Officers:

A Police Officer who was hired prior to January 1, 2009, and retires after attainment of age 50 and completion of 20 years of service shall be entitled to receive medical, prescription drug, dental and vision coverage for himself and his spouse until age 65. Upon attaining Medicare eligibility, the retired Officer or spouse is entitled to the deductible not covered by Medicare. Current retirees over age 65 incorrectly receiving the Medicare supplement plan will be switched to a Medicare replacement plan.

Officers retiring prior to January 1, 2009 do not contribute toward coverage. Officers retiring on or after January 1, 2009 but prior to January 1, 2013 will contribute toward coverage until Medicare eligibility based upon a percentage of the increased medical and prescription drug costs from the premiums effective in September 2009, as follows: 0% of future increases in cost for those retiring in 2009, 10% of future increases in cost for those retiring in 2010, 20% of future increases in cost for those retiring in 2011, and 30% of future increases in cost for those retiring in 2012. Officers retiring on or after January 1, 2013 will contribute toward coverage until Medicare eligibility up to an annual cap of \$500 for single coverage, \$1,100 for two-party coverage, \$750 for parent/child coverage, and \$1,500 for family coverage. The City pays the full cost for dental and vision coverage.

In the event that a Police Officer hired prior to January 1, 2009 becomes disabled in the line of duty, the Officer shall receive continued medical, prescription drug, dental and vision coverage for himself and his spouse for their lifetimes. Disability Retirees contribute to the coverage based on the retirement provisions above. Upon attaining Medicare eligibility, the retired Officer or spouse is entitled to the deductible not covered by Medicare.

In the event that a retired Officer dies while receiving benefits, the surviving spouse may continue receiving benefits for life. The surviving spouse would contribute toward coverage based on the contributions made by the retired Officer prior to his death.

A Police Officer hired on or after January 1, 2009 shall not be entitled to postemployment medical benefits.

Fire Fighters:

A Fire Fighter who was hired prior to January 1, 2009 and retires after attainment of age 50 and completion of 20 years of service shall be entitled to receive medical, prescription drug, dental and vision coverage for himself and his spouse until age 65. Upon attaining Medicare eligibility, the retired Fire Fighter or spouse is entitled to the deductible not covered by Medicare. Current retirees over age 65 incorrectly receiving the Medicare supplement plan will be switched to a Medicare replacement plan.

Fire Fighters retiring prior to January 1, 2009 do not contribute toward coverage. Fire Fighters retiring on or after January 1, 2009 but prior to January 1, 2013 will contribute toward coverage until Medicare eligibility based upon a percentage of premiums paid for medical and prescription drug coverage, as follows: 0% of premiums for those retiring in 2009, 2.5% of premiums for those retiring in 2010, 5% of premiums for those retiring in 2011, and 7.5% of premiums for those retiring in 2012. Fire Fighters retiring on or after January 1, 2013 will contribute toward coverage until Medicare eligibility up to an annual cap of \$500 for single coverage, \$1,100 for two-party coverage, \$750 for parent/child coverage, and \$1,500 for family coverage. The City pays the full cost for dental and vision coverage.

In the event that a Fire Fighter hired prior to January 1, 2009 becomes disabled in the line of duty, the Fire Fighter shall receive continued medical, prescription drug, dental and vision coverage for himself and his spouse for their lifetimes. Disability Retirees contribute to the coverage based on the retirement provisions above. Upon attaining Medicare eligibility, the retired Fire Fighter or spouse is entitled to the deductible not covered by Medicare.

In the event that a Fire Fighter hired prior to January 1, 2009 is killed in the line of duty, the surviving spouse and dependents shall continue to receive coverage for a period not to exceed five years. The surviving spouse would contribute toward coverage based on the contributions made by the active Fire Fighter prior to his death. Benefits shall terminate if the spouse remarries or if substantially similar benefits are made available, free of charge, from any other source.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 11. Long-Term Debt (continued)

In the event that a retired Fire Fighter dies while receiving benefits, the surviving spouse may continue receiving benefits for life. The surviving spouse would contribute toward coverage based on the contributions made by the retired Fire Fighter prior to his death.

A Fire Fighter hired on or after January 1, 2009 shall not be entitled to postemployment medical benefits.

Under the provisions of GASB Statement 45, employees who will be required to contribute the full aged based cost for coverage for the City's Health Plan do not receive an Other Post Employment Benefit. Accordingly, only those employees who are eligible to participate in the Retiree Health Program are included in the valuation results described below.

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other post employment benefit (OPEB) cost (expense) for the Retiree Health Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's Annual OPEB cost for the year, the amount estimated contributed to the plan, and changes in the City's net OPEB obligation.

	General Fund
Annual required contribution (ARC)	\$ 634,899
Interest on Net OPEB obligation	89,272
Adjustment to annual required contribution (ARC)	<u>(121,789)</u>
Annual OPEB cost	602,382
Contributions Made	<u>(283,653)</u>
Estimated increase in Net OPEB Obligation	318,729
Net OPEB Obligation-Beginning of year	<u>1,983,813</u>
Net Opeb Obligation-End of Year	<u>\$ 2,302,542</u>

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 11. Long-Term Debt (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 614,266	38.68%	\$ 1,635,489
2013	\$ 608,091	42.72%	\$ 1,983,813
2014	\$ 602,382	47.09%	\$ 2,302,542

Funded Status and Funding Progress:

As of January 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,547,459, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,306,279, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 501.06 %.

Actuarial values of the program involve estimates of the value of reported amounts and assumption's of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the City chose to close its program as of December 31, 2014 and to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero.

Actuarial Methods and Assumptions:

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

In the January 1, 2012, actuarial valuation, the individual entry-age normal method was used. The actuarial assumptions include a 4.5% investment rate of return, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .5 per year to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Both rates include a 3% inflation assumption. The City's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a closed period. The remaining amortization period at December 31, 2014 was 15 years.

The City of Nanticoke
Notes to Financial Statements
December 31, 2014

Note 12. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for such situations. Any settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 13. Tax Collection

The City appointed an outside tax collection agency to collect municipal and school City property and per capita taxes.

Note 14. Contingencies

Property Tax:

Property tax assessment appeals are regularly encountered during the course of each fiscal year. As of the date of this report the ultimate outcome of these property tax assessment appeals are not readily ascertainable. The City is unable to access and quantify the potential liability; therefore, it has elected not to record any expense or liability on the accompanying basic financial statements of the City at fiscal year end December 31, 2014.

Litigation:

As of December 31, 2014, The City is involved in various legal issues, which are classified as being in various stages of the legal process. Currently, it is not possible for The City to speculate as to the possible outcome of this litigation or to the financial consequences of any adverse judgment by the Courts in the pending actions. Therefore, The City has not accrued any potential liability that may be incurred as a result of any adverse judgment relative to any outstanding litigation.

Grant Programs:

The City participates in numerous state and federal grant programs. Various rules and regulations of the grantor agencies govern these programs. Cost charged to the respective grant programs, are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that The City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2014 may be impaired. In the opinion of The City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision for such contingencies has been recorded on the accompanying basic financial statements of the city at fiscal year-end December 31, 2014.

The City of Nanticoke

Notes to Financial Statements

December 31, 2014

Note 15. Recovery Plan Act 47(See Note at Bottom of Page)

The December 31, 2009 audit report contained an explanatory paragraph citing a going concern. In recent years the City had experienced operating deficits, defaults on loans, and has issued long-term debt to fund prior deficits and current operations.

Recent General Fund deficiencies of revenues under expenditures (i.e. operating deficits) have been approximately:

Year	Operating Deficit
2000	\$298,800
2001	\$197,300
2002	\$249,700
2003	\$392,500
2004	\$457,200
2005	\$297,500
2006	\$693,400
2007	\$520,500
2008	\$34,100.

As a result of this financial situation, the City requested a consultative evaluation under the Municipalities financial Recovery Act 47 of 1987, as amended (the Act)

In April 2006, such evaluation; based on an analysis of the City's financial condition, tax base, service levels, debt burden; socio-economic and demographic trends, and administrative and financial management practices; resulted in a recommendation that the City be declared distressed. Also in April 2006, a public hearing was conducted by the Governor's City for Local Government Services.

On May 25, 2006, the City was declared a financially distressed municipality by the Pennsylvania Department of Economic and Community Development (DCED) under the Provisions of the Act, DCED retained a Recovery Plan Coordinator to develop a fiscal recovery plan for the City.

In December 2006, the Recovery Plan Coordinator completed a plan, which City Council subsequently adopted, designed to enable the City to restore fiscal health, provide operational stability and to begin infrastructure improvements.

Key plan provisions:

- Increase the City's earned income tax rate from .5 percent to 1.5 percent, a portion of which is to be dedicated to capital improvements.
- Expedite debt reduction with a resultant reduction in the debt service millage rate.
- Review cost of providing certain services and adjust fees accordingly.
- Maximize revenue collection efforts.
- Improve accounting and financial management procedures.
- Implement cost containment provisions relative to personnel, goods, and services.
- Explore the possibility of adoption of a Home Rule Charter and/or an Optional Plan of government.

On August 24, 2015 the City came out of Recovery Plan Act 47.

<<<< SUPPLEMENTARY INFORMATION >>>>

**The City of Nanticoke
Police Retirement Trust
(Defined Benefit)
Required Supplementary Information
(UNAUDITED)**

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Value of Assets	Liability (AAL)	AAL (UAAL)	Fund Ratio	Covered Payroll	Covered Payroll
1/1/1997	3,210,502	2,859,687	(350,815)	112%	413,813	-85%
1/1/1999	3,745,233	3,283,955	(461,278)	114%	529,868	-87%
1/1/2001	4,228,932	3,493,132	(735,800)	121%	515,436	-143%
1/1/2003	4,219,965	3,670,681	(549,284)	115%	548,425	-100%
1/1/2005	4,677,441	3,716,903	(960,538)	126%	512,324	-187%
1/1/2007	4,914,793	3,990,462	(924,331)	123%	603,267	-153%
1/1/2009	4,396,755	4,302,331	(94,424)	102%	684,699	-14%
1/1/2011	4,197,164	5,004,086	806,922	84%	718,630	112%
1/1/2013	3,885,347	5,413,514	1,528,167	72%	799,613	191%
1/1/2014	4,399,880					
1/1/2015	4,414,178	5,815,344	14,011,166	76%	887,820	158%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Ended	Contribution	Contributions
2001	53,907	45,907
2002	55,729	55,729
2003	48,413	53,581
2004	44,132	46,750
2005	7,220	20,650
2006	0	32,101
2007	0	0
2008	0	0
2009	4,720	29,336
2010	8,170	23,461
2011	112,411	151,123
2012	120,321	156,403
2013	193,520	193,520
2014	198,670	198,670

(1) Includes general municipal pension system State Aid

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	15
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increases	5.00%

**The City of Nanticoke
Firemen's Retirement Trust
(Defined Benefit)
Required Supplementary Information
(UNAUDITED)**

SCHEDULE OF FUNDING PROGRESS

1/1/2001	1,762,423	1,692,774	(69,649)	104%	350,625	-20%
1/1/2003	1,465,191	1,931,206	466,015	76%	380,784	122%
1/1/2005	1,831,892	2,111,246	279,354	87%	396,523	70%
1/1/2007	2,117,169	2,524,038	406,869	84%	461,184	88%
1/1/2009	2,071,624	2,930,222	858,598	71%	509,002	169%
1/1/2011	2,027,382	2,953,315	925,933	69%	499,305	185%
1/1/2013	2,282,096	3,397,666	1,115,570	67%	551,312	202%
1/1/2014	2,618,221					
1/1/2015	2,534,548	3,468,622	934,074	73%	537,960	174%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Ended	Contribution	Contributions
2001	61,395	65,609
2002	51,945	71,076
2003	78,708	78,703
2004	81,084	88,561
2005	92,013	108,128
2006	60,921	86,393
2007	64,963	124,926
2008	68,336	149,813
2009	80,505	114,553
2010	82,395	112,976
2011	150,522	175,849
2012	153,646	172,620
2013	127,021	127,021
2014	129,371	129,371

(1) Includes general municipal pension system State Aid

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	12
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	5.00%

**The City of Nanticoke
Non-Uniform Retirement Trust
(Defined Benefit)
Required Supplementary Information
(UNAUDITED)**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
1/1/2003	0	0	1	0%	0	0.00%
1/1/2005	67,688	80,141	12,453	84%	502,766	2.48%
1/1/2007	163,020	170,057	7,036	96%	395,094	1.78%
1/1/2009	266,856	234,419	(32,437)	114%	380,618	-8.52%
1/1/2011	414,037	429,376	15,339	96%	507,092	3.02%
1/1/2013	562,291	568,215	5,924	99%	444,460	1.33%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Actuarial Valuation Date Basis for Contributions	Percentage Contributed
2003	0	2001	100%
2004	33,643	2001	100%
2005	30,853	2003	100%
2006	33,364	2003	100%
2007	39,821	2005	100%
2008	34,994	2005	100%
2009	33,685	2007	100%
2010	36,383	2007	100%
2011	39,568	2009	100%
2012	39,637	2009	100%
2013	35,891	2011	100%
2014	35,871	2011	100%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar Closed
Remaining Amortization Period	6.54
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	5.50%
Projected Salary Increases	Age Related/Seniority

**The City of Nanticoke
 Retiree Health Plan
 Schedule of Funding Progress
 Required Supplementary Information
 (UNAUDITED)**

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
Gov. Activities	1/1/2012	\$0	\$6,547,459	\$6,547,459	0%	\$1,308,729	501.06%
	1/1/2009	\$0	\$5,804,124	\$5,804,124	0%	\$1,193,701	486.23%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2012
Actuarial Cost Method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining Amortization Period	15.2889
Asset Valuation Method	None
Actuarial Assumptions:	
Interest Rate	4.50%

**City of Nanticoke
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2014
Required Supplementary Information**

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 3,928,374	\$ 3,928,374	\$ 4,263,076	\$ 334,702
Fines, Forfeitures and Costs	31,308	31,308	49,961	18,653
Interest	840	840	538	(302)
License and Permits	230,425	230,425	278,996	48,571
Intergovernmental-State and Local	312,625	312,625	431,310	118,685
Intergovernmental-Federal		-	-	-
Other	316,915	316,915	163,385	(153,530)
Total Revenue	<u>\$ 4,820,487</u>	<u>\$ 4,820,487</u>	<u>\$ 5,187,266</u>	<u>\$ 366,779</u>
EXPENDITURES:				
General Government	\$ 876,976	\$ 876,976	\$ 852,893	\$ 24,083
Public Safety	3,155,455	3,155,455	3,307,191	(151,736)
Public Works	639,810	639,810	457,456	182,354
Parks and Recreation	14,000	14,000	30,599	(16,599)
Other	-	-	6,354	(6,354)
Total Expenditures	<u>\$ 4,686,241</u>	<u>\$ 4,686,241</u>	<u>\$ 4,654,493</u>	<u>\$ 31,748</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 134,246	\$ 134,246	\$ 532,773	\$ 398,527
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	\$ (134,246)	\$ (134,246)	-	134,246
Interfund Transfers in (out)	-	-	-	-
TAN	-	-	-	-
TAN	-	-	-	-
Budgetary Reserve	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ (134,246)</u>	<u>\$ (134,246)</u>	<u>\$ -</u>	<u>\$ 134,246</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 532,773	\$ 532,773
Fund Balance (Deficit) - Beginning			2,084,253	\$ 2,084,253
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,617,026</u>	<u>\$ 2,617,026</u>

City of Nanticoke
Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2014
Required Supplementary Information

	<u>Budgeted Amounts</u>		<u>Actual General Fund</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	1,500	1,500	317	(1,183)
Intergovernmental-State	699,880	699,880	9,956	(689,924)
Intergovernmental-Federal	3,982,874	3,982,874	31,385	(3,951,489)
Other	98,000	98,000	54,999	(43,001)
Total Revenue	<u>\$ 4,782,254</u>	<u>\$ 4,782,254</u>	<u>\$ 96,657</u>	<u>\$ (4,685,597)</u>
EXPENDITURES:				
Community Development	6,342,777	6,342,777	148,846	6,193,931
Total Expenditures	<u>\$ 6,342,777</u>	<u>\$ 6,342,777</u>	<u>\$ 148,846</u>	<u>\$ 6,193,931</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (1,560,523)	\$ (1,560,523)	\$ (52,189)	\$ 1,508,334
OTHER FINANCING SOURCES (USES)				
Other Sources	\$ 1,479,143	\$ 1,479,143	-	(1,479,143)
Interfund Transfers In (out)	75,000	75,000	-	(75,000)
Total Other Financing Sources (Uses)	<u>\$ 1,554,143</u>	<u>\$ 1,554,143</u>	<u>\$ -</u>	<u>\$ (1,554,143)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ (6,380)	\$ (6,380)	\$ (52,189)	\$ (45,809)
Fund Balance (Deficit) - Beginning		\$ -	\$ 1,131,372	\$ 1,131,372
FUND BALANCE (DEFICIT) - ENDING	<u>\$ (6,380)</u>	<u>\$ (6,380)</u>	<u>\$ 1,079,183</u>	<u>\$ 1,085,563</u>

City of Nanticoke
DCED Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2014
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Interest	100	100	43	(57)
Intergovernmental-State and Local	-	-	22,348	22,348
Intergovernmental-Federal	469,146	469,146	-	(469,146)
Other	80,290	80,290	11,319	(68,971)
Total Revenue	<u>\$ 549,536</u>	<u>\$ 549,536</u>	<u>\$ 33,710</u>	<u>\$ (515,826)</u>
<u>EXPENDITURES:</u>				
Community Development	549,536	549,536	45,390	504,146
Total Expenditures	<u>\$ 549,536</u>	<u>\$ 549,536</u>	<u>\$ 45,390</u>	<u>\$ 504,146</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ (11,680)	\$ (11,680)
OTHER FINANCING SOURCES (USES)				
Other Sources	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ (11,680)	\$ (11,680)
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 228,605	\$ 228,605
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,925</u>	<u>\$ 216,925</u>

**City of Nanticoke
Refuse Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2014
Required Supplementary Information**

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Interest	800	800	213	(587)
Charges for Services	912,400	912,400	947,586	35,186
Other	10,500	10,500	28,860	18,360
Total Revenue	<u>\$ 923,700</u>	<u>\$ 923,700</u>	<u>\$ 976,659</u>	<u>\$ 52,959</u>
<u>EXPENDITURES:</u>				
Sanitation	913,416	913,416	977,187	(63,771)
Total Expenditures	<u>\$ 913,416</u>	<u>\$ 913,416</u>	<u>\$ 977,187</u>	<u>\$ (63,771)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 10,284	\$ 10,284	\$ (528)	\$ (10,812)
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 10,284	\$ 10,284	\$ (528)	\$ (10,812)
Fund Balance (Deficit) - Beginning	-	-	268,966	268,966
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 10,284</u>	<u>\$ 10,284</u>	<u>\$ 268,438</u>	<u>\$ 258,154</u>

**City of Nanticoke
Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2014
Required Supplementary Information**

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	500	700	158	(542)
Real Estate Tax	330,370	201,886	198,018	(3,868)
Real Estate Delinquent Tax	20,000	24,480	42,639	18,159
Other		-	-	-
Total Revenue	<u>\$ 350,870</u>	<u>\$ 227,066</u>	<u>\$ 240,815</u>	<u>\$ 13,749</u>
EXPENDITURES:				
Debt Service-Principal	202,714	113,538	192,224	(78,686)
Debt Service-Interest	11,749	3,916	3,933	(17)
Other	90,000	90,000	-	90,000
Total Expenditures	<u>\$ 304,463</u>	<u>\$ 207,454</u>	<u>\$ 196,157</u>	<u>\$ 11,297</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 46,407	\$ 19,612	\$ 44,658	\$ 25,046
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)		-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 46,407	\$ 19,612	\$ 44,658	\$ 25,046
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 336,638	\$ 336,638
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 46,407</u>	<u>\$ 19,612</u>	<u>\$ 381,296</u>	<u>\$ 361,684</u>

**City of Nanticoke
Highway Aid Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2014
Required Supplementary Information**

	<u>Budgeted Amounts</u>		<u>Actual General Fund</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	425	425	68	(357)
Intergovernmental-State and Local	195,914	195,914	218,962	23,048
Total Revenue	<u>\$ 196,339</u>	<u>\$ 196,339</u>	<u>\$ 219,030</u>	<u>\$ 22,691</u>
EXPENDITURES:				
Public Works	196,339	196,339	297,137	(100,798)
Total Expenditures	<u>\$ 196,339</u>	<u>\$ 196,339</u>	<u>\$ 297,137</u>	<u>\$ (100,798)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ (78,107)	\$ (78,107)
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ (78,107)	\$ (78,107)
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 103,077	\$ 103,077
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,970</u>	<u>\$ 24,970</u>

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Joseph R. Aliciene Jr C.P.A.
Patrick T. Hopkins C.P.A.

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

To the Honorable Mayor
and Members of Council
of the City of Nanticoke
Nanticoke, PA

Except as discussed in the last sentences of this paragraph, 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 Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Nanticoke, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise City of Nanticoke's basic financial statements, and have issued our report thereon dated October 23, 2015. In our report, our opinion on the basic financial statements was qualified because Management has not recorded general infrastructure and most capital assets in governmental activities and accordingly, has not recorded depreciation expense on those assets nor has depreciation expense been recorded in the sewer system in the business type activities. Accounting principles generally accepted in the United States of America require that such assets be capitalized, which would increase the assets and Net Position of the governmental activities. Accounting principles generally accepted in the United States of America also require that such assets be depreciated which would increase expenses of the governmental and business type activities. Also the amount of assets listed in the Business Type Activities was not audited. The amount by which this departure would affect financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position of the Proprietary Funds are not reasonably determinable; also, Management did not implement Government Accounting Standard Board (GASB) No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25, which replaces GASB 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures. The amount by which this departure would affect the required supplementary information, financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position of the Proprietary Funds are not reasonably determinable.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Nanticoke'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 City of Nanticoke's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Nanticoke's internal control.

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

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as B.1 to B. 4.

Compliance and Other Matters

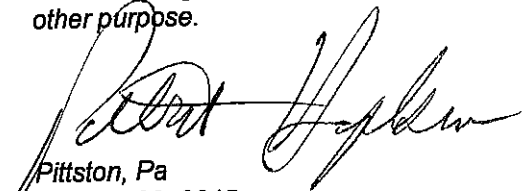
As part of obtaining reasonable assurance about whether City of Nanticoke's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.

City of Nanticoke's Response to Findings

City of Nanticoke's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Nanticoke's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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


Pittston, Pa
October 23, 2015

CONCLUDED

**CITY OF NANTICOKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY

2014-001. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES TO ENSURE A PROPER SEGREGATION OF DUTIES IN VARIOUS ASPECTS OF THE BUSINESS OFFICE

Although the size of the Nanticoke City's office staff limits the extent of separation of duties, I believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

The following represents areas where I believe the above premise is applicable:

- *Nanticoke City, should segregate, when possible, the billing function from the collection function. The segregation of these duties require that personnel responsible for the monitoring of the billing function should not have responsibility in the corresponding collection of such invoicing or billing within the City.*
- *The City in some instances uses the same person to prepare a cash receipt for deposit, deliver the deposit to the selected financial institution, and post the deposit to the general ledger.*

Generally accepted auditing standards stipulate that a proper segregation of duties will increase the safeguarding of assets in addition to increasing the operating efficiency of the City of Nanticoke.

RESPONSE: *The City of Nanticoke concurs with this finding. City resources do not permit the hiring of additional staff to separate these functions. Therefore, the City has put controls in place to mitigate this weakness. Specifically, the Director of Finance, an employee who does not handle cash receipts or billing functions reconciles the posted cash receipts to the bank statement on a monthly basis. Any discrepancies are investigated and resolved timely. The bank reconciliation is also reviewed and approved by the City Administrator, an employee with no cash receipt/billing functions. Additionally, monthly financial statements are prepared and presented by the Director of Finance at public meetings. Any significant variances between actual receipts and budgeted receipts are explained properly. Budgeted receipts are determined by the Director of Finance based on collections information submitted by the County, a separate entity. An additional control will be implemented shortly whereby the Director of Finance reviews the monthly tax collection reports which reconcile the tax sub ledger to cash.*

An additional control will be implemented beginning in January whereby check receipts will be scanned immediately to the bank at the point of sale. Additionally, the City will investigate the possibility of rearranging job responsibilities to allow separation of these functions, but the City is limited on actions that may taken by union contracts; staff resources; and an administrative code.

CONTINUED

**CITY OF NANTICOKE
SCHEDULE OF FINDINGS AND COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY

2014-002. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES DESIGNED TO ADEQUATELY REFLECT AND RECORD ALL FIXED ASSETS PURCHASED OR SOLD BY THE CITY ON AN ANNUAL BASIS.

The City has not maintained a complete record of assets or depreciation ; consequently, limited unaudited amounts are reflected in the financial statements. Capital assets, which include property, plant, equipment, and infrastructure assets, are supposed to be reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets should be valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets should be valued at their fair market value on the date donated. Repairs and maintenance should be recorded as expenses. Renewals and betterments should be capitalized. Interest should not be capitalized during the construction period on property, plant, and equipment. Depreciation should be calculated and expensed in accordance with generally accepted accounting principles. Throughout the years the City expensed all capital assets. In addition to conforming with generally accepted accounting principles, establishment of these procedures would also increase the accounting controls over fixed assets titled in the name of Nanticoke City as well as increasing various operating efficiencies of the City. The city should hire a certified appraiser to value all of its assets.

RESPONSE: *Small local governments have been challenged with the implementation of GASB 34 and the associated new reporting requirements which significantly change financial reporting for local and state governments. The accounting industry and governmental entities have questioned the value of some of these changes most notably infrastructure reporting.*

Specifically, recording infrastructure as capital assets and depreciation on these assets is an expensive and time consuming undertaking. Prior accounting principles did not require reporting the cost of infrastructure such as roads, bridges, storm drains, street lights and traffic signals as capital assets—not because they aren't major community investments, but because they are immovable, and only of value to the government.

The new reporting model requires that infrastructure be reported at its "historical" (not current) value, and then depreciated. (There are several complicated options for how to do this, including not depreciating infrastructure assets at all if there is an adopted maintenance plan, and assets are being maintained in accordance with that plan.)

This change is both very expensive and with limited practical value. Therefore, the City of Nanticoke has determined that it is not currently cost effective to record fixed assets and depreciation. The City currently maintains inventory records on vehicles and fire department equipment for replacement and insurance purposes. These records are not included in the City's financial reporting. Additionally, the City has adopted a Capital budget and plan which looks forward to the future to replace City assets and equipment as needed.

CONTINUED

**CITY OF NANTICOKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY

20014-003. NANTICOKE CITY SHOULD IMPLEMENT STRONGER INTERNAL CONTROLS OVER REVENUES COLLECTED BY THE POLICE DEPARTMENT

Stronger internal controls should be set up to allow the City Administrator to reconcile the monies collected for various fines, fees, inspections and any other revenue that the police department collects, to an independent report or prenumbered system. The system needs to be tailored in a way that the City Administrator can monitor the completeness and accuracy of the transactions. A more centralized system with fewer people allowed to collect monies should be set up. Lack of stronger controls and reconciliations can allow transactions to occur and not be recorded in the general ledger system.

RESPONSE: *The City concurs with this recommendation and will set up a system for reviewing monies collected by the Police department for various fines, fees, inspections, etc. Please note that currently, the monies collected by the Police department are \$56k out of a \$4.2m budget. The majority of these funds \$53k are checks that are submitted by the Magistrate's office and the State police to Nanticoke. These amounts are independently confirmed at year end. So realistically, cash and checks paid to the police office are approximately \$3k annually. The City has sufficient theft insurance to mitigate the risk of defalcation of these collections. However, the City will investigate the possibility of rearranging job responsibilities to set up a more centralized system, but the City is limited on actions that may be taken by union contracts; staff resources; and an administrative code.*

20014-004. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES TO ENSURE THAT PERSON SIGNING CHECKS CANNOT ENTER ADJUSTING ENTRIES INTO THE ACCOUNTING SYSTEM

The city in one instance had the city manager as a signer on one of the grant checking accounts. Stronger internal controls should be set up to ensure that a check signer cannot make adjusting entries in the accounting system. The city manager has complete access to the general ledger system. An appropriate signer should be someone, who does not maintain the general ledger system or any other accounting functions.

RESPONSE: *The City concurs with this recommendation and will set up a system for ensuring that a person outside of the day to day accounting system be appointed to be the check signer on all grants.*

Concluded