
CITY OF NANTICOKE

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

FOR THE YEAR ENDED DECEMBER 31, 2018

Prepared By;

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

CITY OF NANTICOKE
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December 31, 2018

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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 and aggregate remaining funds of the City of Nanticoke, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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.

Opinions

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 these departures 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.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Nanticoke, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 17 to the financial statements, effective January 1, 2018, the City of Nanticoke adopted new accounting guidance, the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

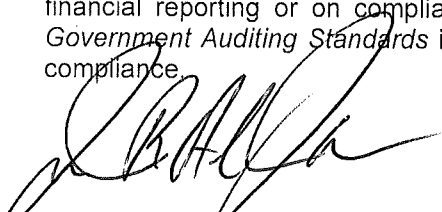
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, historical pension and OPEB information and budget comparison information on pages 4 - 12, pages 55 - 62 and pages 63 - 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2019 on our consideration of the City of Nanticoke's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Nanticoke's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Nanticoke's internal control over financial reporting and compliance.



Pittston, Pennsylvania
September 4, 2019

Management Discussion & Analysis



City of Nanticoke Pennsylvania

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Nanticoke, PA 18634

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City of Nanticoke Management's Discussion and Analysis December 31, 2018

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, 2018. 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 \$1,408,972 from \$5.0 million (2017) in the previous year to \$829,155 thousand in the current year (2018).
- The assets of the City increased \$838 thousand from \$15.281 million (2017) in the previous year to \$16,119 million in the current year.
- Total liabilities of the City decreased \$403 thousand from \$10.550 million (2017) to \$17.382 million in the current year.
- The City implemented GASB 68 which resulted in the recognition of a net pension liability of \$3.158 million and net deferred inflow/outflows of \$1.147 million.
- Total net position are comprised of the following:
 - 1) Invested in capital assets, net of related debt, of \$2.888 million include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the capital leases.
 - 2) Unrestricted net assets of \$(5,887,660) represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.

The City's governmental funds reported total ending fund balance of \$9.503 million as compared to \$8.851 million in 2017 and to \$9.328 million (2016-restated) in 2016.

At the end of the current fiscal year, the General Fund balance was \$4.916 million. This compares to the prior year ending fund balance of \$4.223 million and the 2016 ending fund balance of \$3.556 million.

Management Discussion & Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

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 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.

Management Discussion & Analysis

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 | | Amount Change |
|----------------------------|-------------------------|--------------|--------------------------|--------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Current and Other Assets | \$ 10,238 | \$ 9,655 | \$ 709 | \$ 473 | \$ 10,947 | \$ 10,128 | \$ 819 |
| Capital Assets | 291 | 243 | 4,881 | 4,910 | 5,172 | 5,153 | 19 |
| Total Assets | 10,529 | 9,898 | 5,590 | 5,383 | 16,119 | 15,281 | 838 |
| Deferred Outflows | 2,479 | 715 | - | - | 2,479 | 715 | 2,602 |
| Long-term Liabilities | 16,289 | 8,796 | 19 | 338 | 16,308 | 9,133 | 7,175 |
| Other Liabilities | 754 | 1,093 | 320 | 324 | 1,074 | 1,418 | (344) |
| Total Liabilities | 17,043 | 9,888 | 339 | 662 | 17,382 | 10,550 | 6,832 |
| Deferred Inflows | 387 | 409 | - | - | 387 | 409 | (22) |

Management Discussion & Analysis

| | | | | | | | | |
|----------------------------------------------------|-------------------|---------------|-----------------|-----------------|---------------|-----------------|-------------------|--|
| | | | | | | | | |
| Net Position: | | | | | | | | |
| Invested in Capital Assets, net of related debt | 111 | 131 | 4,543 | 4,261 | 4,654 | 4,392 | 262 | |
| Restricted | 1,117 | 1,964 | - | - | 1,117 | 1,964 | (847) | |
| Unrestricted | (5,650) | (1,779) | 708 | 461 | (5,888) | (1,318) | (4,570) | |
| Total Net Position | \$ (4,422) | \$ 316 | \$ 5,251 | \$ 4,721 | \$ 829 | \$ 5,037 | \$ (4,208) | |

The City's net assets at fiscal year-end are \$.829 million. This compares to the prior year adjusted ending fund balance (net assets) of \$ 5.037 million showing a decrease of \$ 4.208 million during the current year. The assets of the City increased by \$.838 million, from \$ 15,281 million in the previous year to \$ 16,119 million in the current year. Total liabilities of the City increased \$6.832 million from \$ 10.550 million in the previous year to \$ 17,382 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$ 4.654 million, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the leased capital assets. Restricted net assets of \$ 1.117 million represent funds restricted for use by various grantors, laws, regulations or governing bodies. Unrestricted net assets of (\$ 5.888) million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.

The City reported a positive balance of \$ 5,251 million in net assets for business-type activities. This compares to the prior year ending net asset balance of \$ 4,721 million showing a net decrease of \$ 530,000 during the current year. Business-type activities include the sewer fund activities. The net activity of \$ 530,000 was due to interfund transfers.

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 negative balance of \$ 4.422 million in net assets for governmental activities. This compares to the adjusted prior year ending net asset balance of \$ 316,000 showing a decrease of \$4,738,000 during the current year. The net activity of (\$ 4.738) million is comprised of a net increase in accounts receivable, and taxes receivable and a decrease in mortgage receivable on the asset side; and offset by an increase of accounts payable of and a decrease of notes payable; and an increase in pension and other post retirement benefits.

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)

| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | . |
|------------------------------------------------|-------------------|-----------------|------------------|------------------|-----------------|-----------------|------------------|
| | Gov's Type | Gov's Type | Business Type | Business Type | Total | Total | Amount Change |
| Revenues | | | | | | | |
| Charges for Services | \$ 928 | \$ 937 | \$920 | \$ 864 | \$ 1,848 | \$ 1,801 | \$ |
| Grants & Contributions | 1,845 | 1,759 | 0 | 0 | 1,845 | 1,759 | |
| Property Taxes | 2,135 | 2,193 | - | - | 2,135 | 2,193 | |
| Other Local Taxes for General Purposes | 3,191 | 3,083 | - | - | 3,191 | 3,083 | |
| Grants, Etc | 6 | 7 | - | - | 6 | 7 | |
| Misc Gen. Purpose Rev | 716 | 434 | - | - | 716 | 434 | |
| Investment Earnings | 57 | 10 | 3 | 1 | 60 | 11 | |
| Sale of Assets | - | 0 | - | - | - | - | |
| Total Revenue | \$ 8,878 | \$ 8,423 | \$ 923 | \$ 865 | \$ 9,801 | \$ 9,288 | \$ |
| Total Expense | \$ 7,999 | \$ 9,182 | \$ 393 | \$ 678 | \$ 8,392 | \$ 9,860 | \$ |
| Change in Net Position before transfers | 879 | (759) | 530 | 187 | 1,409 | (572) | |
| Transfers | | 226 | | (226) | | | |
| Change in Net Position | \$ 879 | \$ (533) | \$ 530 | \$ (39) | \$ 1,409 | \$ (572) | \$ |
| Net Assets – Beginning(restated) | (5,301) | 849 | 4,721 | 4,760 | (580) | 5,609 | |
| Prior Period Adj | - | - | - | - | - | - | |
| Net Assets - Ending | \$ (4,422) | \$ 316 | \$ 5,251 | \$ 4,721 | \$ 829 | \$ 5,037 | \$ |

Management Discussion & Analysis

Total expenses of the City decreased by \$1.467 million from \$ 9,859 million in 2017 to \$ 8,392 million in 2018. Specifically, General Government expense decreased by \$ 100,583; Public Safety expense increased \$ 29,293; Refuse expense increased \$ 197,255; Public Works decreased \$ 1,814,391; Community Development increased \$ 525,695 and Parks and Recreation increased \$ 1,386.

| Comparison of Current vs. Prior Year Expenditures | | | |
|----------------------------------------------------------|-------------|-------------|----------------------|
| (Dollars are in Thousands) | | | |
| Expenses | 2018 | 2017 | Amount Change |
| General Government and Administration | \$ 709 | \$ 809 | (100) |
| Public Safety | 4,407 | 4,378 | 29 |
| Sanitation | 1,085 | 887 | 198 |
| Public Works | 672 | 2,486 | (1,814) |
| Community Development | 1,064 | 538 | 526 |
| Parks and Recreation | 14 | 13 | 1 |
| Other | 48 | 70 | (22) |
| Sewage | 393 | 678 | (285) |
| Total Expenses | \$ 8,392 | 9,859 | (1,467) |

General Revenue increased from \$9,288 million in 2017 to \$9,801 million in 2018.

| Comparison of Current vs. Prior Year Revenues | | | |
|------------------------------------------------------|-------------|-------------|----------------------|
| (Dollars are in Thousands) | | | |
| General Revenue: | 2018 | 2017 | Amount Change |
| Charges for Services | \$ 1,848 | \$ 1,801 | 47 |
| Grants & Contributions | 1,845 | 1,759 | 86 |
| Property Taxes | 2,134 | 2,193 | (59) |
| Other Local Taxes for General Purposes | 3,191 | 3,083 | 108 |
| Other Grants | 6 | 7 | (1) |
| Investment Earnings | 61 | 11 | 50 |
| Misc General Purpose Revenues | 716 | 434 | 282 |
| Other | - | - | - |
| Total General Revenue | 9,801 | 9,288 | 513 |

Management Discussion & Analysis

Business Type Activities

A increase of \$ 47,000 was realized for business type activities for 2018 over 2017.

| Comparison of Current vs. Prior Year Revenues | | | |
|-----------------------------------------------|-----------------|-----------------|---------------|
| (Dollars are in Thousands) | | | |
| | 2018 | 2017 | Amount Change |
| Charges for Services | | | |
| Sanitation | \$ 928 | \$ 937 | \$ (9) |
| Sewage | 920 | 864 | 56 |
| Total Charges for Services | \$ 1,848 | \$ 1,801 | \$ 47 |

Charges for Services decrease from \$ 1.565 million to \$ 1.478 million in 2018.

| Comparison of Current vs. Prior Year Expenses | | | |
|-----------------------------------------------|-----------------|-----------------|----------------|
| (Dollars are in Thousands) | | | |
| | 2018 | 2017 | Amount Change |
| Sanitation | \$ 1,085 | \$ 887 | 198 |
| Sewage | 393 | 678 | (285) |
| Total Expenses | \$ 1,478 | \$ 1,565 | \$ (87) |

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 \$693,064, from \$4,223 million to \$4,916 million. Key factors contributing to this increase are an increase in tax revenues of approximately \$ 49,000 and an increase in interest earnings of approximately \$50,000. The City moved 2.5 million dollars of general fund operating cash to a money market account for the general fund which yields approximately 2.15% annually.

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.

The Debt Service Fund has a fund balance of \$ 2,482,478. Excess of revenues over expenditures was \$87,958 for 2018. Borrowings from the Pennsylvania Infrastructure Bank in the amount of \$ 3,000,000 was taken out in 2016 for street reconstruction and paving. Phase 1 began in 2017 and phase 2 began in 2019 and should be completed in 2020. Proceeds from this loan were used to pay for street improvements during 2017 & 2019.

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 \$ 367,000 more than budgeted at \$ 5.975 million as compared to a budgeted amount of \$ 5.608 million.

Actual expenditures were approximately \$224,000 less than budgeted at \$5.383 million as compared to a budgeted amount of \$ 5.608 million.

The General Fund adopted budget was not amended during the 2018 fiscal year. Revenues less expenses exceed budget by \$591,687. Excess of revenues over expenditures were positive in 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 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 \$3,283 million.

| Debt Schedule (Dollars are in Thousands) | Governmental Activities | | Business Type Activities | | Totals | | Amount Change |
|---------------------------------------------|----------------------------|-----------------|-----------------------------|---------------|-----------------|-----------------|------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| General Obligation | \$ - | \$ - | \$ 301 | \$ 590 | \$ 301 | \$ 590 | \$ (289) |
| Muni-financial Recovery Loans | - | 20 | - | - | - | 20 | (20) |
| PIB Loan | 2,370 | 2,673 | - | - | 2,370 | 2,673 | (303) |
| Total | \$ 2,370 | \$ 2,693 | \$ 301 | \$ 590 | \$ 2,671 | \$ 3,283 | (612) |

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 had exited Act 47 and is no longer considered as a distressed city. It is very important for the City to stay on track with the recovery plan in order to stay out of Act 47.

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.

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.

Nicole Colatosti-Mackiewicz, Mayor

**CITY OF NANTICOKE
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

| <u>ASSETS</u> | Primary Government | | |
|----------------------------------------------|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Cash and Investments | \$ 8,462,794 | \$ 894,236 | \$ 9,357,030 |
| Receivables: | | | |
| Ad Valorem Taxes | 1,072,356 | - | 1,072,356 |
| Accounts | 112,638 | 16,162 | 128,800 |
| Grants | 261,754 | - | 261,754 |
| Mortgage | 12,747 | - | 12,747 |
| Due from Internal Parties | 201,733 | (201,733) | - |
| Prepaid Expenses | 114,616 | - | 114,616 |
| Capital Assets: | | | |
| Equipment | 513,420 | 231,791 | 745,211 |
| Sewer System | - | 4,844,474 | 4,844,474 |
| Accumulated Depreciation | (222,669) | (195,066) | (417,735) |
| TOTAL ASSETS | 10,529,389 | 5,589,864 | 16,119,253 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Deferred outflows of resources for OPEB | 945,191 | | |
| Deferred outflows of resources for pensions | 1,533,594 | - | 1,533,594 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 2,478,785 | - | 1,533,594 |
| <u>LIABILITIES</u> | | | |
| Accrued Payroll | 154,964 | - | 154,964 |
| Payables: | | | |
| Accounts | 189,825 | 968 | 190,793 |
| Revenue Received in Advance | 18,500 | - | 18,500 |
| Other | 237 | - | 237 |
| Non Current Liabilities | | | |
| Due within one year | | | |
| Note Payable | 288,074 | 301,000 | 589,074 |
| Lease Payable | 46,784 | 17,403 | 64,187 |
| Compensated Absences | 55,567 | - | 55,567 |
| Due in More than one Year | | | |
| Note Payable | 2,082,159 | - | 2,082,159 |
| Lease Payable | 133,198 | 19,418 | 152,616 |
| Compensated Absences | 500,101 | - | 500,101 |
| Other Post Employment Benefits Liability | 10,415,666 | - | 10,415,666 |
| Net Pension Liability | 3,158,221 | - | 3,158,221 |
| TOTAL LIABILITIES | 17,043,296 | 338,789.00 | 17,382,085.00 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Deferred inflows of resources for pensions | 386,798 | - | 386,798 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 386,798 | - | 386,798 |
| <u>NET POSITION</u> | | | |
| Invested in net assets, net of related debt | 110,769 | 4,543,378 | 4,654,147 |
| Restricted For: | | | |
| Debt Service | 112,245 | - | 112,245 |
| Public Safety | 105,919 | - | 105,919 |
| Sanitation | 293,538 | - | 293,538 |
| Public Works | 261,229 | - | 261,229 |
| Community Development | 344,546 | - | 344,546 |
| Unrestricted | (5,650,166) | 707,697 | (5,887,660) |
| TOTAL NET POSITION | \$ (4,421,920) | \$ 5,251,075 | \$ 829,155 |

**CITY OF NANTICOKE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

| FUNCTIONS/PROGRAMS GOVERNMENTAL ACTIVITIES: | Expenses | Charges for Services | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | | TOTAL |
|-----------------------------------------------------|---------------------|-------------------------|----------------------------|----------------------------------------|----------------------------------------------------|-----------------------------|-----------------------|-------|
| | | | Operating Contributions | Capital Grants and Contributions | Governmental Activities | Business Type Activities | | |
| General Government and Administration | \$ 708,666 | - | \$ - | \$ - | \$ (708,666) | \$ - | \$ (708,666) | |
| Public Safety | 4,407,538 | - | 323,563 | 12,833 | (4,071,142) | - | (4,071,142) | |
| Sanitation | 1,084,571 | 928,017 | - | - | (156,554) | - | (156,554) | |
| Public Works | 671,600 | - | 404,069 | 90,562 | (176,969) | - | (176,969) | |
| Community Development | 1,063,836 | - | - | 1,014,398 | (49,438) | - | (49,438) | |
| Parks and Recreation | 14,598 | - | - | - | (14,598) | - | (14,598) | |
| Other | 3,253 | - | - | - | (3,253) | - | (3,253) | |
| Interest on Long Term Debt | 44,582 | - | - | - | (44,582) | - | (44,582) | |
| TOTAL GOVERNMENTAL ACTIVITIES | 7,998,644 | 928,017 | 727,632 | 1,117,793 | (5,225,202) | - | (5,225,202) | |
| BUSINESS TYPE ACTIVITIES: | | | | | | | | |
| Sewer | 366,412 | 919,599 | - | - | - | 553,187 | 553,187 | |
| Interest | 27,009 | - | - | - | - | (27,009) | (27,009) | |
| | 393,421 | 919,599 | - | - | - | 526,178 | 526,178 | |
| TOTAL PRIMARY GOVERNMENT | \$ 8,392,065 | \$ 1,847,616 | \$ 727,632 | \$ 1,117,793 | \$ (5,225,202) | \$ 526,178 | \$ (4,699,024) | |
| GENERAL REVENUE: | | | | | | | | |
| Taxes: | | | | | | | | |
| Ad Valorem (Property Taxes) | | | | | 2,134,513 | - | 2,134,513 | |
| Other Local Taxes Levied For General Purposes | | | | | 3,190,812 | - | 3,190,812 | |
| Grants, Subsidies, and Contributions Not Restricted | | | | | 6,050 | - | 6,050 | |
| Miscellaneous General Purpose Revenues | | | | | 715,911 | - | 715,911 | |
| Investment Earnings | | | | | 57,204 | 3,506 | 60,710 | |
| Transfers | | | | | - | - | - | |
| Total General Revenues and Transfers | | | | | 6,104,490 | 3,506 | 6,107,996 | |
| CHANGE IN NET POSITION | | | | | 879,288 | 529,684 | 1,408,972 | |
| NET POSITION: | | | | | | | | |
| BEGINNING OF YEAR - restated | | | | | (5,301,208) | 4,721,391 | (579,817) | |
| END OF YEAR | | | | | \$ (4,421,920) | \$ 5,251,075 | \$ 829,155 | |

CITY OF NANTICOKE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2018

| | General Fund | Special Revenue | CDBG Fund | Refuse Fund | Debt Service Fund | Highway Aid Fund | Totals Governmental Funds |
|----------------------------------------------|---------------------|---------------------|-------------------|-------------------|---------------------|-------------------|---------------------------|
| ASSETS | | | | | | | |
| Cash and Investments | \$ 3,971,739 | \$ 1,289,538 | \$ 237,530 | \$ 237,882 | \$ 2,464,180 | \$ 261,925 | \$ 8,462,794 |
| Accounts Receivable | 112,638 | - | - | - | - | - | 112,638 |
| Grant Funds Receivable | - | 42,011 | 149,795 | 69,948 | - | - | 261,754 |
| Taxes Receivable | 1,150,046 | - | - | - | 12,045 | - | 1,162,091 |
| Due from Other Funds | 289,873 | - | 4,219 | - | 6,253 | - | 300,345 |
| Prepaid Expenses | 35,735 | - | - | 78,881 | - | - | 114,616 |
| TOTAL ASSETS | \$ 5,560,031 | \$ 1,331,549 | \$ 391,544 | \$ 386,711 | \$ 2,482,478 | \$ 261,925 | \$ 10,414,238 |
| LIABILITIES & FUND BALANCE | | | | | | | |
| LIABILITIES: | | | | | | | |
| Accounts Payable | \$ 29,979 | \$ 40,511 | \$ 108,733 | \$ 9,906 | \$ - | \$ 696 | \$ 189,825 |
| Accrues Expense | 154,964 | - | - | - | - | - | 154,964 |
| Due to Other Funds | 10,472 | 19,874 | 3,499 | 64,767 | - | - | 98,612 |
| Due to Library | 237 | - | - | - | - | - | 237 |
| Revenue Received in Advance | 448,675 | - | - | 18,500 | - | - | 467,175 |
| TOTAL LIABILITIES | \$ 644,327 | \$ 60,385 | \$ 112,232 | \$ 93,173 | \$ - | \$ 696 | \$ 910,813 |
| FUND BALANCE: | | | | | | | |
| Restricted | 105,468 | 49,538 | 279,312 | 293,538 | 2,482,478 | 261,229 | 3,471,563 |
| Assigned | - | 1,182,460 | - | - | - | - | 1,182,460 |
| Unassigned | 4,810,236 | 39,166 | - | - | - | - | 4,849,402 |
| TOTAL FUND BALANCE | \$ 4,915,704 | \$ 1,271,164 | \$ 279,312 | \$ 293,538 | \$ 2,482,478 | \$ 261,229 | \$ 9,503,425 |
| TOTAL LIABILITIES & FUND BALANCES | \$ 5,560,031 | \$ 1,331,549 | \$ 391,544 | \$ 386,711 | \$ 2,482,478 | \$ 261,925 | \$ 10,414,238 |

CITY OF NANTICOKE

***Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position
DECEMBER 31, 2018***

Total Fund Balances - Governmental Funds **\$ 9,503,425**

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 | 12,747 |
|---------------------|--------|

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| 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 \$ 513,420 and the accumulated depreciation is \$ 222,669. | 290,751 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| 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. (\$448,675 - \$89,735 provision for uncollectible.) | 358,940 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

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 | \$ (2,370,233) | |
| Capital Leases Payable | (179,982) | |
| Compensated Absences | (555,668) | |
| Other Post Employment Benefits Liability net of related deferred inflows and outflows of resources | (9,470,475) | |
| Net Pension Liability net of related deferred inflows and outflows of resources | (2,011,425) | (14,587,783) |

| | |
|------------------------------------------------------------|-------------------------------------|
| TOTAL NET POSITIONS (DEFICIT)-Governmental Activity | <u><u>\$ (4,421,920)</u></u> |
|------------------------------------------------------------|-------------------------------------|

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

| | General Fund | Special Revenue | CDBG Fund | Refuse Fund | Debt Service Fund | Highway Aid Fund | Totals Governmental Funds |
|-----------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------------|
| REVENUES: | | | | | | | |
| Taxes | \$ 4,728,569 | \$ - | \$ - | \$ - | \$ 430,296 | \$ - | \$ 5,158,865 |
| Charges for Services | - | - | - | 928,017 | - | - | 928,017 |
| Fines, Forfeitures and Costs | 64,568 | - | - | - | - | - | 64,568 |
| Interest | 37,081 | 7,394 | 1,374 | 3,795 | 5,331 | 2,230 | 57,205 |
| License and Permits | 647,836 | - | - | - | - | - | 647,836 |
| Intergovernmental-State and Local Sources | 400,716 | 12,833 | - | 94,998 | - | 309,071 | 817,618 |
| Intergovernmental-Federal | - | 90,562 | 1,014,398 | - | - | - | 1,104,960 |
| Other | 96,195 | - | 3,106 | - | - | - | 99,301 |
| Total Revenue | \$ 5,974,965 | \$ 110,789 | \$ 1,018,878 | \$ 1,026,810 | \$ 435,627 | \$ 311,301 | \$ 8,878,370 |
| EXPENDITURES: | | | | | | | |
| General Government | \$ 700,541 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 700,541 |
| Public Safety | 4,275,664 | 165,859 | - | - | - | - | 4,441,523 |
| Sanitation | - | - | - | 1,084,571 | - | - | 1,084,571 |
| Public Works | 389,222 | - | - | - | - | 281,865 | 671,087 |
| Community Development | - | - | 973,252 | - | - | - | 1,063,836 |
| Parks and Recreation | 14,598 | 90,584 | - | - | - | - | 14,598 |
| Debt Service and Bond Payments | - | - | - | - | 347,669 | - | 347,669 |
| Other | 3,253 | - | - | - | - | - | 3,253 |
| Total Expenditures | \$ 5,383,278 | \$ 256,443 | \$ 973,252 | \$ 1,084,571 | \$ 347,669 | \$ 281,865 | \$ 8,327,078 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ 591,687 | \$ (145,654) | \$ 45,626 | \$ (57,761) | \$ 87,958 | \$ 29,436 | \$ 551,292 |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Capital Lease | 101,377 | - | - | - | - | - | 101,377 |
| Insurance Proceeds | - | - | - | - | - | - | - |
| Sale of Assets | - | - | - | - | - | - | - |
| Interfund Transfers in | - | - | - | - | - | - | - |
| Interfund Transfers out | - | - | - | - | - | - | - |
| Total Other Financing Sources (Uses) | \$ 101,377 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 101,377 |
| EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | \$ 693,064 | \$ (145,654) | \$ 45,626 | \$ (57,761) | \$ 87,958 | \$ 29,436 | \$ 652,669 |
| Fund Balance (Deficit) - Beginning | \$ 4,222,640 | \$ 1,416,818 | \$ 233,686 | \$ 351,299 | \$ 2,394,520 | \$ 231,793 | \$ 8,850,756 |
| FUND BALANCE (DEFICIT) - ENDING | \$ 4,915,704 | \$ 1,271,164 | \$ 279,312 | \$ 293,538 | \$ 2,482,478 | \$ 261,229 | \$ 9,503,425 |

CITY OF NANTICOKE

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities DECEMBER 31, 2018

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| Total net change in fund balances - Governmental Funds | \$ 652,669 |
| 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. | 3,272 |
| 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 (\$53,749) exceeds capital outlays (\$0) in the period. | (53,749) |
| 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 | 336,682 |
| In the statement of activities, certain operating expenses compensated absences (sick leave & vacations) 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.) | (88,004) |
| The net OPEB liability is recorded as a liability in the government-wide financial statements, but not in the fund financial statements. This amount represents the change in the net OPEB liability, net of related deferred inflows and outflows of resources. | (454,311) |
| The net pension liability is recorded as a liability in the government-wide financial statements, but not in the fund financial statements. This amount represents the change in the net pension liability, net of related deferred inflows and outflows of resources. | 486,439 |
| 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. | <u>(3,710)</u> |
| CHANGE IN NET ASSETS - Governmental Activities | <u><u>\$ 879,288</u></u> |

**CITY OF NANTICOKE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

| | Business Type Activities Enterprise Fund Sewer Fund |
|-------------------------------------------------|--------------------------------------------------------------------|
| | <u> </u> |
| ASSETS: | |
| Cash and Investments | \$ 894,236 |
| Other Assets | 16,162 |
| Machinery & Equipment | 231,791 |
| Sewer System | 4,844,474 |
| Accumulated Depreciation | (195,066) |
| TOTAL ASSETS | <u>\$ 5,791,597</u> |
| LIABILITIES: | |
| CURRENT LIABILITIES | |
| Accounts Payable | \$ 968 |
| Due to other Funds | 201,733 |
| NONCURRENT LIABILITIES | |
| Portion Due or Payable within one year | |
| Capital Lease | 14,400 |
| Note Payable | 301,000 |
| Due in more than one year | |
| Capital Lease | 22,421 |
| Note Payable | - |
| TOTAL LIABILITIES | <u>\$ 540,522</u> |
| NET POSITION | |
| Invested in Capital Assets, Net of Related Debt | \$ 4,543,378 |
| Unrestricted (Deficit) | 707,697 |
| TOTAL NET POSITION | <u>\$ 5,251,075</u> |

**CITY OF NANTICOKE
 STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2018**

| | Business Type Activities |
|--------------------------------------------------|---------------------------------|
| | Enterprise Fund |
| | Sewer Fund |
| OPERATING REVENUES: | |
| Sewer User Fees | \$ 903,237 |
| Other Income | 16,362 |
| TOTAL OPERATING REVENUES | <u>919,599</u> |
| OPERATING EXPENSES: | |
| Supplies and Materials | 130,441 |
| Personal Services | 201,233 |
| Depreciation | 28,364 |
| Other Operating Expenses | 6,374 |
| TOTAL OPERATING EXPENSES | <u>366,412</u> |
| OPERATING INCOME | <u>553,187</u> |
| NONOPERATING REVENUES (EXPENSES): | |
| Investment Income | 3,506 |
| Interest Expense | (27,009) |
| TOTAL NONOPERATING REVENUES (EXPENSES): | <u>(23,503)</u> |
| INCOME BEFORE CONTRIBUTIONS AND TRANSFERS | 529,684 |
| Interfund Transfers in/(out) | <u>-</u> |
| CHANGES IN NET POSITION | 529,684 |
| TOTAL NET POSITION - Beginning of Year | <u>4,721,391</u> |
| TOTAL NET POSITION - End of Year | <u>\$ 5,251,075</u> |

**CITY OF NANTICOKE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

| | Business Type Activities |
|-----------------------------------------------------------------------------------------------|---------------------------------|
| | Enterprise Fund |
| | Sewer Fund |
| CASH FLOWS FROM OPERATION ACTIVITIES | |
| Received from User Charges | \$ 919,599 |
| Received from Grant | (16,162) |
| Cash Payments to Employees for Services | (201,233) |
| Cash Payment to Suppliers for Goods and Services | (96,804) |
| NET CASH USED BY OPERATING ACTIVITIES | <u>605,400</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers to other funds | - |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | <u>-</u> |
| CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES | |
| Principal Paid on Debt | (289,000) |
| Interest Paid on Debt | (23,975) |
| Principal Paid on Lease | (22,090) |
| Interest Paid on Leases | (3,034) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(338,099)</u> |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | |
| Interest on Investments | <u>3,506</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | 270,807 |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | <u>623,429</u> |
| CASH AND CASH EQUIVALENTS END OF YEAR | <u>\$ 894,236</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES | |
| Operating Income or Loss | \$ 553,187 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities | |
| Depreciation | 28,364 |
| Changes in Assets and Liabilities | |
| Grant Recievable | (16,162) |
| Payables | (11,583) |
| Due to other funds | 51,594 |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ 605,400</u> |
| NONCASH CAPITAL FINANCING ACTIVITIES | - |

CITY OF NANTICOKE
FIDUCIARY FUND TYPE-PENSION FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2018

| | Retirement Trusts |
|------------------------------------|----------------------|
| ASSETS | |
| Cash | \$ 46,181 |
| Investments | 7,685,605 |
| Benefits Paid in Advance | 40,075 |
| Receivable Member Contribution | 5,661 |
| Total Assets | \$ 7,777,522 |
| NET POSITION | |
| Held in trust for pension benefits | \$ 7,777,522 |
| TOTAL NET POSITION | \$ 7,777,522 |

**CITY OF NANTICOKE
 FIDUCIARY FUNDS-PENSION FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 YEAR ENDED DECEMBER 31, 2018**

| ADDITIONS | Retirement Trusts |
|-------------------------------------------------------------|------------------------------|
| Contributions | |
| Employer | \$ 314,908 |
| Employee | 58,241 |
| State Aid | 233,215 |
| Appreciation (Depreciation) in Fair Value of Investments | (742,724) |
| Dividend | 83,969 |
| Total Additions | <u>\$ (52,362)</u> |
| | |
| DEDUCTIONS | |
| Investment Expense | \$ 39,408 |
| Pension Benefits | 520,764 |
| Administrative Expense | 4,400 |
| Total Deductions | <u>\$ 564,572</u> |
| | |
| Change in Net Position | (616,934) |
| | |
| Net Position At the Beginning of Year | <u>\$ 8,394,456</u> |
| | |
| Net Position End of Year End of Year | <u><u>\$ 7,777,522</u></u> |

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

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 ensure 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 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 can 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 authorities 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.

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

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.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City. 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 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 program and interest earned on grants that is required to be used to support a 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 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.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 per 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.

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

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 two 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.

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. Public hearings are conducted to obtain taxpayer comment.
2. 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.
3. All modifications over a certain threshold, transfers and amendments must be approved by the Council.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund.
5. The legally adopted budgets of the City are for the General Fund and All Special Revenue Funds.
6. 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.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

7. 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.

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 2a7-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 2018 was 5.9258 mills on every dollar of assessed value; 4.7514 mills for the General Fund, 1.1550 mills for the Debt Service Fund, and .0194 mills for the Mill Memorial Library. The total estimated assessed value of taxable property was approximately \$359,363,000.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Compensated Absences

The City's policy regarding accumulated sick leave is as follows:

Policemen are entitled to eighteen sick days leave each year of which fifteen may be accumulated 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 $\frac{1}{2}$ of sick days up to 200 then \$35 dollars per day of the policemen and up to 100 of accumulated sick days of the firemen at the then effective rate of pay of each retiree.

Brotherhood of Teamsters Local # 401 employees can accumulate sick leave at one day per month up to 130. If sick days are not used the City will buy back 60 days at 100% and any remaining days at 50% of 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 withheld from the actual debt proceeds received, are reported as expenditures.

Deferred Inflows and Outflows of Resources for Pensions

In conjunction with pension and other post-employment benefit (OPEB) accounting requirements, the effect of the differences in the City's expected and actual experience, the difference between projected and actual earnings on pension plan investments, contributions subsequent to the measurement date and changes to assumptions are recorded as deferred inflows or outflows of resources related to pensions and OPEB on the government-wide financial statement. These amounts are determined based on actuarial valuations performed for the pension plans. Note 11 presents additional information about pension and Note 12 presents additional information about OPEB.

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.

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

- **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 Councilmembers have 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, 2018

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, 2018, the City had expenditures in excess of appropriation for the following funds:

| | | |
|----------------------|----|---------|
| Special Revenue Fund | \$ | 145,654 |
| Refuse Fund | | 57,761 |

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

Cash and Cash Equivalents:

| | | |
|--------------------------|----|------------------|
| Governmental Activities | \$ | 8,462,794 |
| Business-type Activities | | 894,236 |
| | | <u>9,357,030</u> |
| Petty Cash | \$ | 100 |
| Deposits | | 6,639,732 |
| Money Market Funds | | 2,717,198 |
| | \$ | <u>9,357,030</u> |

Deposits:

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does have a policy for custodial credit risk that required depository institution to pledge securities as collateral for deposited that exceed depository insurance. As of December 31, 2018, \$ 6,796,210 of the City's bank balance of \$ 7,212,379 was exposed to custodial credit risk as:

Money Market Funds:

PLGIT – The Pennsylvania Local Government Investment Trust (PLGIT) Class is a 2a7-like pool. The City's investment in PLGIT is reported as amortized cost, which approximates fair value. The pool is rated AAA by Standard & Poor's. The carrying amount of the external investment pool assets as of December 31, 2018 was 196,042

Brokerage Account – Funds are invested in a money market fund subject to maturity, quality, liquidity and diversification requirements of Rule 2a-7. The fund is rated AAA by Standard & Poor's. The carrying amount of the fund as of December 31, 2018 was \$2,521,156.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

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.

Fiduciary Funds

As of December 31, 2018, the Nanticoke City's Police Pension Plan and Firemen's Pension Plan consisted of the following.

| Investment Type | Police Pension Fair Value | Firemen's Pension Fair Value | Total |
|-------------------|---------------------------------|------------------------------------|---------------------|
| Managed Equity | \$ 3,174,093 | \$ 1,819,942 | \$ 4,994,035 |
| Corporate Bonds | 891,885 | 205,361 | 1,097,246 |
| Government Bond | 130,146 | 442,764 | 572,910 |
| Fixed Income Fund | 434,169 | 444,200 | 878,369 |
| Real Estate | 143,045 | - | 143,045 |
| Total | \$ 4,773,338 | \$ 2,912,267 | \$ 7,685,605 |

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 | 891,885 | 205,361 | Avg. of 6.5 Years | Avg. of AA |
| Government Bond | 130,146 | 442,764 | Avg of 8.1 Years | Avg. of A |
| Fixed Income Fund | 434,169 | 444,200 | Avg of 11.2 Years | Avg. of A- |
| Total | \$ 1,456,200 | 1,092,325 | | |

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.

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

Note 5 – Investments (continued)

Concentrations of Credit Risk. As of December 31, 2018, the City has several individual investments of 5% or more of net assets in its Pension Funds. There is a 5% or more concentration of Corporate Bonds, Government Bonds, Corporate / Government Bonds and Fixed Income total 27.5% of the overall allocation for the Police Pension Plan and 37.5% of the overall allocation for the Firemen's Pension Plan

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 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 Pension Fair Value | Firemen's Pension Fair Value | Total |
|------------|---------------------------------|------------------------------------|--------------|
| Nationwide | \$ 4,819,519 | \$ 2,912,267 | \$ 7,731,786 |

Note 6 - Capital Assets

A summary of transactions in capital assets for 2018 follows:

| | Cost | Accumulated Depreciation |
|-----------------------------------------|--------------|-----------------------------|
| Governmental Activities | | |
| Capitalized leased equipment 12/31/2017 | \$ 412,043 | \$ 168,920 |
| Additions/Disposals | 101,377 | 53,749 |
| Capitalized leased equipment 12/31/2018 | \$ 513,420 | \$ 222,669 |
| Business-Type Activities | | |
| Sewer System 12/31/2017 | \$ 4,844,474 | \$ - |
| Additions/Disposals | - | - |
| Sewer System 12/31/2018 | \$ 4,844,474 | \$ - |
| Capitalized leased equipment 12/31/2017 | \$ 231,791 | \$ 166,702 |
| Additions/Disposals | - | 28,364 |
| Capitalized leased equipment 12/31/2018 | \$ 231,791 | \$ 195,066 |

There were no disposals in 2018. Amortization of business-type activities capitalized leases is reported as depreciation expense.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 7 - Due To / From Other Funds and Transfers

Individual due to/from other fund balances at December 31, 2018 were as follows:

| | <u>Due From</u> | <u>Due To</u> |
|-------------------------------|-------------------|-------------------|
| Governmental Activities | | |
| General Fund: | \$ 289,873 | 10,472 |
| Special Revenue | - | 19,874 |
| Community Development Fund | 4,219 | 3,499 |
| Refuse Fund | - | 64,767 |
| Debt Service | <u>6,253</u> | <u>-</u> |
| Total Governmental Activities | 300,345 | 98,612 |
| Business-Type Activities | | |
| Proprietary Funds: | | |
| Sewer Fund | <u>-</u> | <u>201,733</u> |
| Total | <u>\$ 300,345</u> | <u>\$ 300,345</u> |

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. Interfund due from/due to of \$ 98,612 has been eliminated in the Statement of Net Assets to minimize the grossing up of internal balances, leaving a net amount due of \$ 201,733 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.

Note 8 - Taxes Receivable

Taxes Receivable at December 31, 2018:

| | |
|-----------------------------------|---------------------|
| Earned Income | \$ 579,626 |
| Real Estate Transfer | 76,556 |
| Mercantile/Business Privilege | 1,803 |
| Local Service Tax | 20,645 |
| Real Estate Taxes | <u>483,461</u> |
| Total Fund Financial Statements | 1,162,091 |
| Allowance for Uncollectible Taxes | <u>(89,735)</u> |
| Total Statement of Net Assets | <u>\$ 1,072,356</u> |

Note 9 - Mortgages Receivable

Under Urban Development, Redevelopment, Rehabilitation, and Site Development Programs, the City has loaned City resident's funds to rehabilitate or improve real estate within the City. At December 31, 2018, the following amounts were owed to the City under the various programs:

| | |
|----------------------------------|------------------|
| Urban Development | \$ 433 |
| Rehabilitation and Redevelopment | <u>12,314</u> |
| | <u>\$ 12,747</u> |

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 10 - Long-Term Debt

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.

Municipal Financial Recovery Loan

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. The loan was paid in full in August of 2018.

PIB Loan

In September 2016, the City borrowed \$3,000,000 from the Commonwealth of Pennsylvania, acting through the Department of Transportation loan program to be used for various paving projects. The loan has an interest rate of 1.75%, paid in quarterly installments of \$ 81,917 through September 2026.

Long-term Debt Service Requirements: *(Governmental Activities)*

| | Outstanding Balance 12/31/17 | Issued or Additions | Retirements | Outstanding Balance 12/31/18 | Interest Paid This Year | Current Portion |
|------------------------------------|------------------------------------|------------------------|----------------|------------------------------------|-------------------------------|--------------------|
| Governmental 2007 Recovery Loan | \$ 20,000 | - | \$ 20,000 | \$ - | \$ - | \$ - |
| 2016 PIB Loan | 2,653,320 | - | 283,087 | 2,370,233 | 44,582 | 288,074 |
| | <u>\$ 3,683,320</u> | <u>-</u> | <u>303,087</u> | <u>2,370,233</u> | <u>\$ 44,582</u> | <u>288,074</u> |

Debt service requirements at December 31, 2018, are as follows

| Year | Principal | Interest |
|-------------|---------------------|-------------------|
| 2019 | 288,074 | 39,595 |
| 2020 | 293,148 | 34,521 |
| 2021 | 298,312 | 29,357 |
| 2022 | 303,567 | 24,101 |
| 2023 | 308,914 | 18,755 |
| 2024 - 2026 | 878,217 | 23,231 |
| | <u>\$ 2,370,233</u> | <u>\$ 169,561</u> |

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 10 - Long-Term Debt (continued)

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

| Business Type | Outstanding Balance 12/31/17 | Issued or Additions | Retirements | Outstanding Balance 12/31/18 | Interest Paid This Year | Current Portion |
|----------------|------------------------------------|------------------------|-------------|------------------------------------|-------------------------------|--------------------|
| 2005 G.O. Note | \$ 590,000 | - | 289,000 | 301,000 | 24,867 | 301,000 |

Debt service requirements at December 31, 2018, are as follows

| Year | Principal | Interest |
|------|------------|-----------|
| 2018 | \$ 301,000 | \$ 12,642 |

Capitalized Leases

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

| | Outstanding Balance 12/31/17 | Issued or Additions | Retirements | Outstanding Balance 12/31/18 | Interest Paid This Year | Current Portion |
|--------------------|------------------------------------|------------------------|---------------|------------------------------------|-------------------------------|--------------------|
| 2014 Vehicle Lease | \$ 21,855 | - | \$ 14,120 | \$ 7,735 | \$ 678 | \$ 7,735 |
| 2015 Vehicle Lease | 63,978 | - | 11,741 | 52,237 | 2,525 | 12,246 |
| 2016 Vehicle Lease | 26,367 | - | 7,734 | 18,633 | 989 | 8,065 |
| 2018 Vehicle Lease | - | 43,986 | - | 43,986 | - | 8,130 |
| 2018 Vehicle Lease | - | 35,264 | - | 35,264 | - | 6,518 |
| 2018 Vehicle Lease | - | 22,127 | - | 22,127 | - | 4,090 |
| | <u>\$ 112,200</u> | <u>101,377</u> | <u>33,595</u> | <u>179,982</u> | <u>\$ 4,192</u> | <u>46,784</u> |

Debt service requirements for capital lease obligations are as follows:

| Year | Principal | Interest |
|------|-------------------|------------------|
| 2019 | \$ 46,784 | \$ 6,797 |
| 2020 | 40,660 | 5,065 |
| 2021 | 35,725 | 3,457 |
| 2022 | 34,939 | 2,063 |
| 2023 | 21,874 | 863 |
| | <u>\$ 179,982</u> | <u>\$ 18,245</u> |

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 10 - Long-Term Debt (continued)

Capitalized leases are presented in the Statement of Net Assets for Business-Type Activities as follows:

| | Outstanding Balance 12/31/17 | Issued or Additions | Retirements | Outstanding Balance 12/31/18 | Interest Paid This Year | Current Portion |
|--------------------|------------------------------------|------------------------|---------------|------------------------------------|-------------------------------|--------------------|
| 2014 Vehicle Lease | \$ 23,061 | - | \$ 15,519 | \$ 7,542 | \$ 113 | \$ 7,542 |
| 2016 Vehicle Lease | 35,850 | - | 6,571 | 29,279 | 1,148 | 6,858 |
| | <u>\$ 58,911</u> | <u>-</u> | <u>22,090</u> | <u>36,821</u> | <u>\$ 1,261</u> | <u>14,400</u> |

Debt service requirements for capital lease obligations are as follows:

| Year | Principal | Interest |
|------|------------------|-----------------|
| 2019 | 14,400 | 1,148 |
| 2020 | 7,157 | 849 |
| 2021 | 7,469 | 536 |
| 2022 | 7,795 | 210 |
| | <u>\$ 36,821</u> | <u>\$ 2,743</u> |

Compensated Absences

Compensated absences represent 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 12/31/17 | Net Increases (Decreases) | Balance 12/31/18 | Due Within One Year |
|----------------------|---------------------|---------------------------------|---------------------|------------------------|
| Compensated Absences | 467,664 | 88,004 | 555,668 | 55,567 |

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 11 - Pension Plans

Plan Description and Administration

The City maintains two single-employer defined benefit pension plans covering Firemen and Police. 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. 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. For detailed financial information, refer to financial management reports covering the period January 1, 2018 to December 31, 2018 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.

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 administered by the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the Pennsylvania Municipal Retirement System, P. O. Box 1165 Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

Benefit Provisions

Benefit provisions and their amendments are authorized by the separate Pension Boards for Police and Firemen and by the Pennsylvania state Act 15 for the PMRS Plan.

Employees of the Police Pension Plan are eligible when they meet the normal retirement requirement of 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 more than 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.

Employees of the Firemen Pension Plan are eligible when they meet the normal retirement requirement of 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 more than 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

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 11 - Pension Plans (continued)

The PMRS Plan provides retirement, survivor and disability benefits. Benefits vest at 100% after 5 years of service. Employees are eligible for normal retirement benefits at age 60. Employees terminating voluntarily after 20 years of service or involuntarily after 8 years of service are eligible for early retirement. Annual retirement benefits are based on an employee's average annual salary during the last three years of employments, multiplied by years of service based on 1.5% times service. Benefits are payable monthly for life with no Social Security offset. If a member is eligible to retire at time of death, the member's beneficiary receives the present value of accrued benefits. At retirement, a member may elect a survivor benefit. The plan provides disability benefits for a member unable to perform gainful employment. A 50% disability benefit is provided for service-related disability, regardless of age or years of service. Disability benefits are offset by available workers' compensation benefits. A 30% disability benefit is provided for nonservice-related disabilities for members with at least 10 years of service.

Summary of significant Accounting Policies

Basis of Accounting

The financial statements of the Plans are reported using the accrual basis of accounting. Contributions to the Plans are recognized when due as required by Act 205 of the Commonwealth (Act 205). Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All investments of the Plans are reported at fair value as of the measurement date.

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.

Plan Membership

At December 31, 2018, Plan memberships consisted of the following:

| <u>Covered Employees</u> | <u>Police Pension Plan</u> | <u>Firemen Pension Plan</u> | <u>PMRS</u> |
|------------------------------------------------------------------------|--------------------------------|---------------------------------|-------------|
| Active plan members | 13 | 10 | 12 |
| Inactive plan members entitled to but not yet receiving benefits | - | - | - |
| Inactive plan members or beneficiaries currently receiving benefits | 15 | 8 | 3 |

Contributions

Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation (MMO) which is based upon each Plan's annual actuarial valuation. The MMO includes the normal cost, estimated administrative expenses, and tan amortization of unfunded actuarial accrual liabilities. The Plans 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 more than employee contributions and state aid must be paid by the municipality in accordance with Act 205.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 11 - Pension Plans (continued)

Each full-time policeman contributes 4% month of his compensation plus \$2.00 per month. No interest is credited. Each full-time fireman contributes 3% of total compensation plus \$1.00 per month. Active members of the PMRS Pension Plan are required to contribute 3.0% of compensation to the plan. They may also contribute up to an additional ten percent of compensation to fund the optional contribution annuity. During the year ended December 31, 2018, the city contributed \$ 339,971 to the Police Pension Plan, of which \$ 135,345 were Act 205 funds; \$ 208,152 to the Firemen Pension Plan, of which \$ 97,870 were Act 205 funds; and \$ 47,849 to the PMRS Pension Plan, all of which were Act 205 funds. During the year ended December 31, 2018, active members contributed \$ 36,997 to the Police Pension Plan, \$21,247 to the Firemen Pension Plan and \$16,224 to the PMRS Pension Plan.

Administrative costs, including investment expenses, trust, custody and actuarial services are charged to the plan and funded through investment earnings.

Change in the Net Pension Liability

The changes in the net pension liability of the City for the year ended December 31, 2017 were as follows:

Police Pension Plan

| | Increase (Decrease) | | |
|----------------------------------------------------------------------------|----------------------------|-----------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balance at December 31, 2017 | \$ 6,882,548 | \$ 5,275,256 | \$ 1,607,292 |
| Service Cost | 229,056 | | 229,056 |
| Interest | 485,712 | | 485,712 |
| Changes for experience | - | - | - |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 339,971 | (339,971) |
| Contributions - member | - | 36,994 | (36,994) |
| Net investment income | - | (455,077) | (455,077) |
| Benefit payments, including refunds | (345,731) | (345,731) | - |
| Benefit payments, including refunds | - | (2,400) | 2,400 |
| Net Changes | 369,037 | (426,243) | 795,280 |
| Balance at December 31, 2018 | <u>\$ 7,251,585</u> | <u>\$ 4,849,013</u> | <u>\$ 2,402,572</u> |
| Plan fiduciary net position as a percentage of the total pension liability | | | 66.87% |

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 11 - Pension Plans (continued)

Change in the Net Pension Liability (continued)

Firemen Pension Plan

| | Increase (Decrease) | | |
|-------------------------------------------------------------------------------|----------------------------|-----------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balance at December 31, 2017 | \$ 4,175,548 | \$ 3,119,200 | \$ 1,056,348 |
| Service Cost | 91,522 | | 91,522 |
| Interest | 334,364 | | 334,364 |
| Changes for experience | - | - | - |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 208,152 | (208,152) |
| Contributions - member | - | 21,247 | (21,247) |
| Net investment income | - | (243,057) | 243,057 |
| Benefit payments, including refunds | (175,033) | (175,033) | - |
| Administrative Expense | - | (2,000) | 2,000 |
| | <u>250,853</u> | <u>190,691</u> | <u>441,544</u> |
| Net Changes | | | |
| Balance at December 31, 2018 | <u>\$ 4,426,401</u> | <u>\$ 2,928,509</u> | <u>\$ 1,497,892</u> |
| Plan fiduciary net position as a percentage of the total pension liability | | | <u>66.16%</u> |

PMRS Pension Plan

| | Increase (Decrease) | | |
|-------------------------------------------------------------------------------|----------------------------|-----------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balance at December 31, 2016 | \$ 925,405 | \$ 784,889 | \$ 140,516 |
| Service Cost | 60,347 | - | 60,347 |
| Interest | 51,357 | - | 44,357 |
| Changes in assumptions | - | - | 26,245 |
| Changes for experience | - | - | 49,645 |
| Contributions - employer | - | 42,212 | (38,040) |
| Contributions - member | - | 16,071 | (14,981) |
| PMRS assessment | - | 320 | (280) |
| PMRS investment income | - | 43,394 | (41,384) |
| Net investment income | - | | |
| Market value investment income | - | 99,502 | (16,063) |
| Benefit payments, including refunds | (15,250) | (15,250) | - |
| PMRS administrative expense | - | (320) | 280 |
| Additional administrative expense | - | (1,996) | 2,027 |
| | <u>96,454</u> | <u>183,933</u> | <u>(87,479)</u> |
| Net Changes | | | |
| Balance at December 31, 2017 | <u>\$ 1,021,859</u> | <u>\$ 968,822</u> | <u>\$ 53,037</u> |
| Plan fiduciary net position as a percentage of the total pension liability | | | <u>94.81%</u> |

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

Note 11 - Pension Plans (continued)

Actuarial Assumptions

The total pension liability for the Police pension plan and the Firemen pension plan was determined as part of the January 1, 2017 actuarial valuation, updated to December 31, 2018, using the following actuarial assumptions, applied to all periods:

| | <u>Police</u> | <u>Firemen</u> |
|-----------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Actuarial cost method | Entry age normal | Entry age normal |
| Actuarial assumptions | | |
| Inflation rate | 3.00% | 3.00% |
| Salary increases | 5.00% | 5.00% |
| Investment rate of return | 7.00% | 8.00% |
| Postretirement Cost of Living Increases | 0.00% | 0.00% |
| Mortality | IRS 2017 Static Combined Table for Small Plans | IRS 2017 Static Combined Table for Small Plans |

Long-Term Expected Rate of Return

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

| | Target Allocation | | Long-Term Expected Rate of Return |
|-----------------|-------------------|---------|-----------------------------------------|
| Asset Class | Police | Firemen | |
| Domestic Equity | 65.0% | 65.0% | 5.5% - 7.5% |
| Fixed Income | 30.0% | 35.0% | 1.0% - 3.0% |
| Real Estate | 3.0% | 0.0% | 4.5% - 6.5% |
| Cash | 2.0% | 0.0% | 0.0% - 1.0% |
| | 100.0% | 100.0% | |

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

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 11 - Pension Plans (continued)

Long-Term Expected Rate of Return (continued)

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

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2018:

| Asset Class | Target Allocation | Nominal Rate of Return | Long-Term Expected Real Rate of Return |
|-------------------------------------------|-------------------|------------------------|----------------------------------------|
| Domestic equity (large capitalized firms) | 25.0% | 8.6% | 5.6% |
| Domestic equity (small capitalized firms) | 15.0% | 10.2% | 7.2% |
| International equity (developed markets) | 15.0% | 7.6% | 4.6% |
| International equity (emerging markets) | 10.0% | 11.7% | 8.7% |
| Real Estate | 20.0% | 9.2% | 6.2% |
| Fixed Income | 15.0% | 5.1% | 2.1% |
| | <u>100.0%</u> | <u>8.6%</u> | <u>5.6%</u> |

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2018.

| Confidence Interval | Nominal Rate of Return | Long-Term Expected Rate of Return |
|---------------------|------------------------|-----------------------------------|
| 95.0% | 3.5% | 0.5% |
| 90.0% | 4.4% | 1.4% |
| 85.0% | 5.1% | 2.1% |
| 80.0% | 5.7% | 2.7% |
| 75.0% | 6.1% | 3.1% |
| 70.0% | 6.5% | 3.5% |
| 50.0% | 7.9% | 4.9% |

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

Note 11 - Pension Plans (continued)

Long-Term Expected Rate of Return (continued)

Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.3%

In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2017, this rate is equal to 5.25%.

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

PMRS Discount Rate

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

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

The regular interest rate is equal to the retiree liability percentage times the smoothed PBGC annuity rates, plus the active employee liability percentage times of the System long-term expected rate of return, less administrative expenses as a percentage of assets.

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

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 11 - Pension Plans (continued)

PMRS Discount Rate (continued)

The Regular Interest Rate / Discount Rate will likely be less than the System Long-Term Expected Rate of Return. Should the System experience a prolonged period of investment returns in excess of the Regular Interest Rate, the Board is authorized to allocate any applicable portion of any such excess in accordance with Board policies in the form of Excess Interest as provided for in the law.

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

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of each Plan calculated using the discount rate described above, as well as what the Plan's net pension liability would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---------|------------------------|-------------------------------------|------------------------|
| Police | <u>\$ 3,352,577</u> | <u>\$ 2,402,572</u> | <u>\$ 1,612,997</u> |
| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
| Firemen | <u>\$ 2,026,933</u> | <u>\$ 1,497,892</u> | <u>\$ 1,055,371</u> |
| | 1% Decrease (4.25%) | Current Discount Rate (5.25%) | 1% Increase (6.25%) |
| PMRS | <u>\$ 181,621</u> | <u>\$ 53,037</u> | <u>\$ (56,213)</u> |

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 11 - Pension Plans (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the City recognized pension expense of \$ 486,439 in the governmental funds. At December 31, 2018, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|-----------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Differences between expected and actual experience | \$ 74,661 | \$ 23,473 |
| City contributions subsequent to measurement date | 47,849 | - |
| Net differences between projected and actual earnings on pension plan investments | 1,268,485 | 357,960 |
| Changes in assumptions | <u>142,599</u> | <u>5,365</u> |
| Total | <u>\$ 1,533,594</u> | <u>\$ 386,798</u> |

\$47,849 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2019. The amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | |
|-------------------------|---------------------|
| 2019 | \$ 385,354 |
| 2020 | 230,481 |
| 2021 | 201,694 |
| 2022 | 270,574 |
| 2023 | <u>10,844</u> |
| | <u>\$ 1,098,947</u> |

Note 12 - Post-Employment Benefits

Plan Description

Plan Administration – The City of Nanticoke administers a single-employer, defined benefit post-employment health insurance plan that provides OPEB to police and firemen. This plan does not include the pension benefits discussed in Note 11. The plan is funded on a pay-as-you-go basis and there is no irrevocable trust established for the plan. The City does not have accumulated assets for the future payment of the OPEB benefit payments.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 12 - Post-Employment Benefits (continued)

Plan Membership – as of January 1, 2018, the actuarial valuation date, the plan membership data is as follows:

| | |
|----------------------|-----------|
| Active Participants | 16 |
| Retired Participants | 20 |
| | <u>36</u> |

Benefits Provided

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.

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.

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, 2018

Note 12 - Post-Employment Benefits (continued)

Benefits Provided (continued)

Fire Fighters (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.

Contributions

Police:

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. Officers retiring on or after January 1, 2018 will contribute toward coverage until Medicare eligibility up to an annual cap of \$572 for single coverage, \$1,274 for two-party coverage, \$858 for parent /child coverage and \$1,768 for family coverage. Officers retiring on or after January 1, 2020 will contribute toward coverage until Medicare eligibility up to an annual cap of \$650 for single coverage, \$1,456 for two-party coverage, \$988 for parent /child coverage, and \$2,002 for family coverage. The City pays the full cost for dental and vision coverage.

Fire Fighters:

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. Starting in 2016, the retiree contribution for family coverage increases by \$250 each year and the contribution for other tiers of coverage increases as a factor of the \$250 increase (31.5% single, 70.5% two-party, 49.1% parent/child). The City pays the full cost for dental and vision coverage.

The City contribute amounts sufficient to cover OPEB benefit payments, not covered by retiree contributions, as they come due.

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

Note 12 - Post-Employment Benefits (continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of January 1, 2018. The actuarial assumptions applied to all periods in the measurement, unless otherwise specified:

Discount rate 3.16% Based on S&P Municipal Bond 20-Year High Grade Rate Index at January 1, 2018

Salary Increases: 5.0% Used only for spreading contributions over future pay under the entry age normal cost method.

Withdrawal Table D-1: Rates of withdrawal at selected ages:

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

Mortality IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

Disability SOA 1987 Group LTD Table – Males 3-month elimination. Sample rates are shown below.

| <u>Age</u> | <u>Rate</u> | <u>Age</u> | <u>Rate</u> | <u>Age</u> | <u>Rate</u> |
|------------|-------------|------------|-------------|------------|-------------|
| 20 | 0.1444% | 35 | 0.2123% | 50 | 0.7536% |
| 25 | 0.1534% | 40 | 0.2931% | 55 | 1.2612% |
| 30 | 0.1708% | 45 | 0.4561% | 60 | 1.8818% |

100% of disabilities are assumed to be service-related

Retirement The latest of:

- attainment of 53
- completion of 20 years of service*
- age on valuation date

* 23 years for Police Chief and Fire Chief

Percent of Eligible Retirees Electing Coverage in the Plan 100% of employees are assumed to elect coverage. Vested Former Members are assumed to re-elect coverage at age 65. It is also assumed that 25% of preretirement deaths are killed-in-service.

Percent Married at Retirement 80% of employees are assumed to be married and have a spouse covered by the plan at retirement.

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

Dependents Active employees – only spouses are assumed to be covered after retirement
Retirees – based on current dependent status. Existing non-spouse dependents are covered until age 26

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 12 - Post-Employment Benefits (continued)

Actuarial Assumptions (continued)

Per Capital Claims Cost The per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender. The resulting costs are as follows:

| <u>Age</u> | <u>Medical and Prescription Drug Combined</u> | |
|---------------|-----------------------------------------------|----------------|
| | <u>Males</u> | <u>Females</u> |
| 45-49 | \$ 8,164 | \$ 11,790 |
| 50-54 | \$ 10,812 | \$ 13,325 |
| 55-59 | \$ 13,169 | \$ 13,943 |
| 60-64 | \$ 17,185 | \$ 16,017 |
| 65+ (Med Rep) | \$ 4,092 | \$ 4,092 |

Premiums for the Medicare Replacement plan are assumed to increase at the same rate as the Health Care Cost Trend Rate. It is also assumed that future Medicare-eligible retirees not on the Medicare Replacement plan will receive \$1,523 reimbursement toward the Medicare Part A and Part B deductibles. This reimbursement is assumed to increase at the same rate as the Health Care Cost Trend Rate.

Retiree Contributions Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.

Health Care Cost Trend Rate 6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Actuarial Value of Assets Equal to the Market Value of Assets

Actuarial Cost Method Entry Age Normal

Participant Data Based on census information as of January 1, 2018

Changes in the Total OPEB Liability

| | |
|-------------------------------------------|---------------|
| Balance at 1/1/2017 | \$ 9,293,898 |
| Changes for the year: | |
| Service Cost | 281,311 |
| Interest | 281,311 |
| Changes of Benefit Terms | 349,659 |
| Changes in Expected and Actual Experience | - |
| Changes in Assumptions | 833,601 |
| Benefit payments | (277,734) |
| Net Changes | 1,121,768 |
| Balance at 1/1/2018 | \$ 10,415,666 |

The City of Nanticoke

Notes to Financial Statements
December 31, 2018

Note 12 - Post-Employment Benefits (continued)

Changes in the Total OPEB Liability (continued)

Changes of assumptions – The discount rate changed from 3.71% to 3.16%. The trend and mortality assumptions were updated.

Changes of Benefit Terms – the contribution for Fire and Police were increased for new retirees.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Plan, as well as the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

| | <u>1% Decrease (2.16%)</u> | <u>Current Discount Rate (3.16%)</u> | <u>1% Increase (4.16%)</u> |
|----------------------|--------------------------------|----------------------------------------------|--------------------------------|
| Total OPEB Liability | \$ 11,828,900 | \$ 10,415,666 | \$ 9,246,931 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Total OPEB Liability of the Plan, as well as what the City's Total OPEB Liability would be if it were calculated using healthcare cost trend rates that are 1-percent-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

| | <u>1% Decrease</u> | <u>Current Healthcare Cost Trend Rate</u> | <u>1% Increase</u> |
|----------------------|--------------------|-------------------------------------------------------|--------------------|
| Total OPEB Liability | \$ 9,053,792 | \$ 10,415,666 | \$ 12,076,912 |

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 12 - Post-Employment Benefits (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the City recognized OPEB expense of \$454,311. At December 31, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> |
|-------------------------------------------------------------|-----------------------------------------------|
| Changes of assumptions | \$ 625,201 |
| Benefit payments made subsequent to the measurement date | <u>319,990</u> |
| Total | <u>\$ 945,191</u> |

The \$319,990 reported as deferred outflows of resources related to OPEB obligations resulting from benefits payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended December 31, | |
|-------------------------|-------------------|
| 2019 | \$ 208,400 |
| 2020 | 208,400 |
| 2021 | <u>208,401</u> |
| | <u>\$ 625,201</u> |

Note 13 - 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 14 - Tax Collection

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

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 15 – Commitment

The City has executed a three-year service contract, with two additional renewal years at the sole discretion of the City, for trash and recycling services effective January 1, 2019. Fees for the service are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2019 | \$ 948,572 |
| 2020 | 969,692 |
| 2021 | 990,932 |
| 2022 | 1,030,696 |
| 2023 | 1,071,982 |

Total charges incurred by the City during 2018 amounted to \$ 918,504.

Note 16 – Contingencies

Property Tax:

Property tax assessment appeals are regularly encountered during 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, 2018.

Litigation:

As of December 31, 2018, 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 because 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, 2018 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, 2018.

The City of Nanticoke

Notes to Financial Statements

December 31, 2018

Note 17 – Restatement of beginning net position

The City's beginning net position for governmental activities has been restated to properly reflect the effect of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The following discloses the restatement of net position as of the beginning of the fiscal year:

| | | |
|-------------------------------------------------------------------------------|----|--------------------|
| Net Position at December 31, 2017 | \$ | 315,927 |
| Restatement for: | | |
| Deferred Outflow – OPEB contributions made subsequent to the measurement date | | 277,734 |
| OPEB Liability for adoption of GASB 75 | | <u>(5,894,869)</u> |
| Net Position at December 31, 2017 - restated | \$ | <u>(5,301,208)</u> |

Note 18 – Subsequent Events

The City has evaluated all subsequent event through September 4, 2019, the date the financial statements were available to be issued. No material events subsequent to December 31, 2018 were noted.

<<<< SUPPLEMENTARY INFORMATION >>>>

City of Nanticoke
Schedule of City Contributions and Investment Returns

| | 2018 | 2017 | 2016 | 2015* | 2014* | 2013* | 2012* | 2011* | 2010* | 2009* |
|----------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|----------|----------|
| POLICE PENSION PLAN | | | | | | | | | | |
| Schedule of City Contributions | | | | | | | | | | |
| Actuarially determined contribution under ACT 205 | \$ 339,971 | \$ 351,559 | \$ 329,240 | \$ 317,945 | \$ 198,670 | \$ 193,520 | \$ 120,321 | \$ 112,411 | \$ 8,170 | \$ 4,720 |
| Contributions in relation to the actuarially determined contribution | 339,971 | 351,559 | 329,240 | 317,945 | 198,670 | 193,520 | 120,321 | 117,861 | 23,461 | 29,336 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | (5,450) | (15,291) | (24,616) |
| Covered employee payroll | \$ 916,238 | \$ 881,226 | \$ 959,962 | \$ 951,319 | \$ 887,820 | | | | | |
| Contributions as a percentage of covered employee payroll | 37.11% | 39.89% | 34.30% | 33.42% | 22.38% | | | | | |
| Investment Returns | | | | | | | | | | |
| Annual time-weighted rate of return | (7.97)% | 14.25% | 6.71% | | | | | | | |

| | 2018 | 2017 | 2016 | 2015* | 2014* | 2013* | 2012* | 2011* | 2010* | 2009* |
|----------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|-----------|
| FIREMEN PENSION PLAN | | | | | | | | | | |
| Schedule of City Contributions | | | | | | | | | | |
| Actuarially determined contribution under ACT 205 | \$ 208,152 | \$ 203,541 | \$ 196,325 | \$ 198,440 | \$ 123,371 | \$ 127,021 | \$ 153,646 | \$ 150,522 | \$ 82,395 | \$ 80,505 |
| Contributions in relation to the actuarially determined contribution | 208,152 | 203,541 | 196,325 | 198,440 | 123,371 | 127,021 | 153,646 | 155,972 | 112,976 | 114,553 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | (5,450) | (30,581) | (34,048) |
| Covered employee payroll | \$ 703,909 | \$ 672,823 | \$ 643,146 | \$ 558,244 | \$ 537,960 | | | | | |
| Contributions as a percentage of covered employee payroll | 29.57% | 30.25% | 30.53% | 35.55% | 24.05% | | | | | |
| Investment Returns | | | | | | | | | | |
| Annual time-weighted rate of return | (7.70)% | 13.83% | 6.33% | | | | | | | |

City of Nanticoke
Schedule of City Contributions and Investment Returns
(CONTINUED)

| PMRS PLAN | 2018 | 2017 | 2016 | 2015 | 2014 | 2013* | 2012* | 2011* | 2010* | 2009* |
|------------------------------------------------------------------------------------------|------------|------------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|
| Schedule of City Contributions** Actuarially determined contribution under ACT 205 | \$ 51,253 | \$ 42,532 | \$ 38,320 | \$ 43,533 | \$ 35,871 | \$ 35,891 | \$ 39,637 | \$ 39,568 | \$ 36,383 | \$ 33,685 |
| Contributions in relation to the actuarially determined contribution | 51,253 | 42,532 | 38,320 | 43,573 | 35,911 | 35,891 | 39,637 | 39,568 | 36,383 | 33,685 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ (40) | \$ (40) | - | - | - | - | - |
| Covered employee payroll*** | \$ 535,689 | \$ 499,390 | \$ 499,390 | \$ 497,827 | \$ 463,127 | | | | | |
| Contributions as a percentage of covered employee payroll | 7.94% | 7.67% | 7.67% | 8.75% | 7.75 | | | | | |

* This schedule is intended to illustrate information for 10 years. However, complete information is not available for each year. The City is presenting information that is available.

** The amount presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year.

*** Beginning 2015, amount is actual payroll. In 2014, amount is expected payroll based on the most recent actuarial valuation.

City of Nanticoke
Schedule of Changes in the Net Pension Liability
and Related Ratios – Police Pension Plan*

| | 2018 | 2017 | 2016 | 2015 |
|-----------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability: | | | | |
| Service cost | \$ 229,056 | \$ 218,149 | \$ 189,132 | \$ 180,126 |
| Interest | 485,712 | 460,806 | 400,425 | 409,354 |
| Differences between expected and actual experience | - | (391,21) | - | - |
| Changes of assumptions | - | 135,657 | - | - |
| Benefit payments, including refunds | (345,731) | (322,389) | (299,827) | (295,108) |
| Net changes in Total Pension Liability | 369,037 | 453,102 | 319,730 | 294,372 |
| Total Pension Liability – Beginning | 6,882,548 | 6,429,446 | 6,109,716 | 5,815,344 |
| Total Pension Liability – Ending (a) | \$ 7,251,585 | \$ 6,882,548 | \$ 6,429,446 | \$ 6,109,716 |
| Plan Fiduciary Net Position | | | | |
| Contributions –employer | \$ 339,971 | \$ 351,559 | \$ 329,240 | \$ 317,945 |
| Contributions – member | 36,994 | 37,681 | 40,107 | 37,586 |
| Net investment income (loss) | (415,077) | 617,301 | 253,272 | (194,289) |
| Benefit payments, including refunds | (345,731) | (322,389) | (299,827) | (295,108) |
| Administrative expense | (2,400) | (7,400) | - | (4,600) |
| Net Change in Plan Fiduciary Net Position | (426,243) | 676,752 | 322,792 | (138,466) |
| Plan Fiduciary Net Position – Beginning | 5,275,256 | 4,598,504 | 4,275,712 | 4,414,178 |
| Plan Fiduciary Net Position – Ending (b) | \$ 4,849,013 | \$ 5,275,256 | \$ 4,598,504 | \$ 4,275,712 |
| Net Pension Liability – Ending (a – b) | \$ 2,402,572 | \$ 1,607,292 | \$ 1,830,942 | \$ 1,834,004 |
| Plan fiduciary Net Position as a Percentage of the Total Pension Liability | 66.87% | 76.65% | 71.52% | 69.98% |
| Covered Employee Payroll | \$ 916,238 | \$ 881,226 | \$ 959,962 | \$ 951,319 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 262.22% | 182.39% | 190.73% | 192.79% |

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available

City of Nanticoke
Schedule of Changes in the Net Pension Liability
and Related Ratios – Firemen Pension Plan*

| | 2018 | 2017 | 2016 | 2015 |
|-----------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability: | | | | |
| Service cost | \$ 91,522 | \$ 87,164 | \$ 81,551 | \$ 77,668 |
| Interest | 334,364 | 315,783 | 291,359 | 276,702 |
| Differences between expected and actual experience | - | 38,113 | - | - |
| Changes of assumptions | - | 63,685 | - | - |
| Benefit payments, including refunds | (175,033) | (175,033) | (175,033) | (175,033) |
| Net changes in Total Pension Liability | 250,853 | 329,712 | 197,877 | 179,337 |
| Total Pension Liability – Beginning | 4,175,548 | 3,845,836 | 3,647,959 | 3,468,622 |
| Total Pension Liability – Ending (a) | \$ 4,426,401 | \$ 4,175,548 | \$ 3,845,836 | 3,647,959 |
| Plan Fiduciary Net Position | | | | |
| Contributions –employer | \$ 208,152 | \$ 203,541 | \$ 196,325 | \$ 198,440 |
| Contributions – member | 21,247 | 20,315 | 18,848 | 16,864 |
| Net investment income (loss) | (243,057) | 372,579 | 157,028 | (63,089) |
| Benefit payments, including refunds | (175,033) | (175,033) | (175,033) | (175,033) |
| Administrative expense | (2,000) | (6,500) | - | (4,600) |
| Net Change in Plan Fiduciary Net Position | (190,691) | 414,902 | 197,168 | (27,418) |
| Plan Fiduciary Net Position – Beginning | 3,119,200 | 2,704,298 | 2,507,130 | 2,534,548 |
| Plan Fiduciary Net Position – Ending (b) | \$ 2,928,509 | \$ 3,119,200 | \$ 2,704,298 | \$ 2,507,130 |
| Net Pension Liability – Ending (a – b) | \$ 1,497,892 | \$ 1,056,348 | \$ 1,141,538 | \$ 1,140,829 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.16% | 74.70% | 70.32% | 68.73% |
| Covered Employee Payroll | \$ 703,909 | \$ 672,823 | \$ 643,146 | \$ 558,244 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 212.80% | 157.00% | 177.49% | 204.36% |

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available

City of Nanticoke
Schedule of Changes in the Net Pension Liability
and Related Ratios – PMRS Plan*

| | 2017 | 2016 | 2015 | 2014 |
|-----------------------------------------------------------------------------------|---------------------|-------------------|-------------------|-------------------|
| Total Pension Liability: | | | | |
| Service cost | \$ 60,753 | \$ 53,753 | \$ 55,661 | \$ 50,916 |
| Interest | 51,357 | 44,723 | 41,429 | 36,543 |
| Differences between expected and actual experience | - | 49,645 | - | 32,175 |
| Changes of assumptions | - | 29,245 | (9,391) | - |
| Benefit payments, including refunds | (15,250) | (16,469) | (35,106) | (35,954) |
| Net changes in Total Pension Liability | 96,454 | 157,897 | 52,593 | 83,680 |
| Total Pension Liability – Beginning | 925,405 | 767,508 | 714,915 | 631,235 |
| Total Pension Liability – Ending (a) | \$ 1,021,859 | \$ 925,405 | 676,508 | 714,915 |
| Plan Fiduciary Net Position | | | | |
| Contributions – employer | \$ 42,532 | \$ 38,320 | \$ 43,573 | \$ 35,911 |
| Contributions – member | 16,071 | 14,981 | 14,935 | 15,123 |
| Net investment income (loss) | 142,896 | 57,447 | (11,029) | 34,324 |
| Benefit payments, including refunds | (15,250) | (16,469) | (35,106) | (35,954) |
| Administrative expense | (2,316) | (2,307) | (1,979) | (1,707) |
| Net Change in Plan Fiduciary Net Position | 183,933 | 91,972 | 10,394 | 47,687 |
| Plan Fiduciary Net Position – Beginning | 784,889 | 692,917 | 682,523 | 634,836 |
| Plan Fiduciary Net Position – Ending (b) | \$ 968,822 | \$ 784,889 | \$ 692,917 | \$ 682,523 |
| Net Pension Liability – Ending (a – b) | \$ 53,037 | \$ 140,516 | \$ 74,591 | \$ 32,392 |
| Plan fiduciary Net Position as a Percentage of the Total Pension Liability | 94.81% | 84.82% | 90.28% | 95.47% |
| Covered Employee Payroll | \$ 535,689 | \$ 499,390 | \$ 497,827 | \$ 463,127 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 9.90% | 28.14% | 14.98% | 6.99% |

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available

City of Nanticoke
 Note to Required Supplementary Information –
 Pension Information
 Year Ended December 31, 2018

Note 1 Actuarial Methods and Assumptions

The information presented is the required supplementary information was determines as part of the actuarial valuation at the dates indicated. Methods and assumptions used to determine contribution rates for the Police and Firemen Pension Plans under Act 205 for the year ended December 31, 2018 are as follows:

| | Police | Firemen |
|--------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Actuarial Valuation date | 1/1/2015 | 1/1/2015 |
| Actuarial Cost Method | Entry age normal | Entry Age Normal |
| Mortality | RP 2000 Table does not include mortality improvements | RP 2000 Table does not include mortality improvements |
| Amortization Method | Level Dollar Closed | Level Dollar Closed |
| Remaining amortization Period: | 13 years | 10 years |
| Asset Valuation Method | * | * |
| Actuarial assumptions: | | |
| Investment rate of return | 7.00% | 8.00% |
| Salary increases | 5.00% | 5.00% |
| Inflation | 3.00% | 3.00% |
| Retirement Age | ** | ** |

* Smoothed value with a corridor of 80% to 120% of market value

** Active members are assumed to retire at age 53 and completion of 20 years of service. It is assumed that all eligible members enter the DROP upon meeting the eligibility requirements for normal retirement and participate in the DROP for 3 years.

City of Nanticoke
Note to Required Supplementary Information –
Pension Information
Year Ended December 31, 2018
(Unaudited)

Note 1 Actuarial Methods and Assumptions (continued)

Methods and assumptions used to determine the contribution rate required under Act 205 for the PMRS Pension Plan for the year ended December 31, 2017 are as follows:

| | |
|------------------------|-------------------------------------------------------------|
| Valuation date | 1/1/2015 |
| Actuarial Cost Method | Entry age normal |
| Amortization Method | Level Dollar based upon the amortization periods in Act 205 |
| Asset Valuation Method | Based upon municipal reserves |
| Discount Rate | 5.50% |
| Inflation | 3.00% |

**City of Nanticoke
Schedule of Changes in the Net OPEB Liability
and Related Ratios***

| | 2018 |
|-------------------------------------------------------------------|---------------|
| <u>Total OPEB Liability:</u> | |
| Service cost | \$ 281,311 |
| Interest | 349,659 |
| Change of Benefit Terms | (65,069) |
| Changes of assumptions | 833,601 |
| Benefit payments, including refunds | (277,734) |
| Net changes in Total OPEB Liability | 1,121,768 |
| Total OPEB Liability – Beginning | 9,293,898 |
| Total OPEB Liability – Ending (a) | \$ 10,415,666 |
| | |
| Covered Employee Payroll | \$ 1,125,619 |
| | |
| Net OPEB Liability as a Percentage of Covered Employee Payroll | 925.33% |

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available

NOTES TO SCHEDULE:

The total OPEB liability amount presented for each fiscal year was determined as of the fiscal year-end. No assets have been accumulated in a trust that meets the criteria in GASBS No. 75, paragraph 4, to pay related benefits. The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

City of Nanticoke
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual - General Fund
For The Year Ended December 31, 2018
Required Supplementary Information

| | <u>Budgeted Amounts</u> | | Actual General Fund | Favorable (Unfavorable) Variance |
|-------------------------------------------------------------------------|-------------------------|---------------------|---------------------------|----------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Taxes | \$ 4,580,190 | \$ 4,580,190 | \$ 4,728,569 | \$ 148,379 |
| Fines, Forfeitures and Costs | 49,100 | 49,100 | 64,568 | 15,468 |
| Interest | 1,500 | 1,500 | 37,081 | 35,581 |
| License and Permits | 280,100 | 280,100 | 647,836 | 367,736 |
| Intergovernmental-State and Local | 330,850 | 330,850 | 400,716 | 69,866 |
| Intergovernmental-Federal | - | - | - | - |
| Other | 62,000 | 62,000 | 96,195 | 34,195 |
| Total Revenue | <u>\$ 5,303,740</u> | <u>\$ 5,303,740</u> | <u>\$ 5,974,965</u> | <u>\$ 671,225</u> |
| EXPENDITURES: | | | | |
| General Government | \$ 780,000 | \$ 780,000 | \$ 700,541 | \$ 79,459 |
| Public Safety | 4,212,359 | 4,212,359 | 4,275,664 | (63,305) |
| Public Works | 391,281 | 391,281 | 389,222 | 2,059 |
| Parks and Recreation | 5,100 | 5,100 | 14,598 | (9,498) |
| Other | - | - | 3,253 | (3,253) |
| Total Expenditures | <u>\$ 5,388,740</u> | <u>\$ 5,388,740</u> | <u>\$ 5,383,278</u> | <u>\$ 5,462</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ (85,000) | \$ (85,000) | \$ 591,687 | \$ 676,687 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund Transfers in | \$ 85,000 | \$ 85,000 | - | (85,000) |
| Interfund Transfers out | - | - | - | - |
| Capital Lease | - | - | 101,377 | 101,377 |
| Budgetary Reserve | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>\$ 85,000</u> | <u>\$ 85,000</u> | <u>\$ 101,377</u> | <u>\$ 16,377</u> |
| EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | \$ - | \$ - | \$ 693,064 | \$ 693,064 |
| Fund Balance (Deficit) - Beginning | | | 4,222,640 | \$ 4,222,640 |
| FUND BALANCE (DEFICIT) - ENDING | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,915,704</u> | <u>\$ 4,915,704</u> |

City of Nanticoke
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual - Special Revenue Fund
For The Year Ended December 31, 2018
Required Supplementary Information

| | Budgeted Amounts | | Actual General Fund | Favorable (Unfavorable) Variance |
|-------------------------------------------------------------------------|------------------|--------------|---------------------------|----------------------------------------|
| | Original | Final | | |
| <u>REVENUES:</u> | | | | |
| Interest | \$ 1,100 | \$ 1,100 | \$ 7,394 | \$ 6,294 |
| Intergovernmental-State | 250,000 | 250,000 | 12,833 | (237,167) |
| Intergovernmental-Federal | 5,400,000 | 5,400,000 | 90,562 | (5,309,438) |
| Other | - | - | - | - |
| Total Revenue | \$ 5,651,100 | \$ 5,651,100 | \$ 110,789 | \$ (5,540,311) |
| <u>EXPENDITURES:</u> | | | | |
| Public Safety | - | - | 165,859 | (165,859) |
| Public Works | - | - | - | - |
| Community Development | 5,660,780 | 5,660,780 | 90,584 | 5,570,196 |
| Parks and Recreation | 250,000 | 250,000 | - | 250,000 |
| Total Expenditures | \$ 5,910,780 | \$ 5,910,780 | \$ 256,443 | \$ 5,654,337 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ (259,680) | \$ (259,680) | \$ (145,654) | \$ 114,026 |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Other Sources | \$ 190,800 | \$ 190,800 | - | (190,800) |
| Interfund Transfers in | \$ 68,880 | - | - | - |
| Interfund Transfers out | - | - | - | - |
| Total Other Financing Sources (Uses) | \$ 259,680 | \$ 190,800 | \$ - | \$ (190,800) |
| EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | \$ - | \$ (68,880) | \$ (145,654) | \$ (76,774) |
| Fund Balance (Deficit) - Beginning | - | \$ - | \$ 1,416,818 | \$ 1,416,818 |
| FUND BALANCE (DEFICIT) - ENDING | \$ - | \$ (68,880) | \$ 1,271,164 | \$ 1,340,044 |

City of Nanticoke
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual - CDBG Fund
For The Year Ended December 31, 2018
Required Supplementary Information

| | Budgeted Amounts | | Actual General Fund | Favorable (Unfavorable) Variance |
|-------------------------------------------------------------------------|---------------------|---------------------|---------------------------|----------------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Interest | \$ 75 | \$ 75 | \$ 1,374 | \$ 1,299 |
| Intergovernmental-State and Local | - | - | - | - |
| Intergovernmental-Federal | 1,417,573 | 1,417,573 | 1,014,398 | (403,175) |
| Other | - | - | 3,106 | 3,106 |
| Total Revenue | <u>\$ 1,417,648</u> | <u>\$ 1,417,648</u> | <u>\$ 1,018,878</u> | <u>\$ (398,770)</u> |
| EXPENDITURES: | | | | |
| Community Development | 1,417,648 | 1,417,648 | 973,252 | 444,396 |
| Total Expenditures | <u>\$ 1,417,648</u> | <u>\$ 1,417,648</u> | <u>\$ 973,252</u> | <u>\$ 444,396</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ - | \$ - | \$ 45,626 | \$ 45,626 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund Transfers in | - | - | - | - |
| Interfund Transfers 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 | \$ - | \$ - | \$ 45,626 | \$ 45,626 |
| Fund Balance (Deficit) - Beginning | \$ - | \$ - | \$ 233,686 | \$ 233,686 |
| FUND BALANCE (DEFICIT) - ENDING | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 279,312</u> | <u>\$ 279,312</u> |

City of Nanticoke
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual - Refuse Fund
For The Year Ended December 31, 2018
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 | \$ 450 | \$ 450 | \$ 3,795 | \$ 3,345 |
| Charges for Services | 979,000 | 979,000 | 928,017 | (50,983) |
| Intergovernmental-State and Local Sources | 10,000 | 10,000 | 94,998 | 84,998 |
| Other | - | - | - | - |
| Total Revenue | <u>\$ 989,450</u> | <u>\$ 989,450</u> | <u>\$ 1,026,810</u> | <u>\$ 37,360</u> |
| EXPENDITURES: | | | | |
| Sanitation | 989,450 | 989,450 | 1,084,571 | (95,121) |
| Total Expenditures | <u>\$ 989,450</u> | <u>\$ 989,450</u> | <u>\$ 1,084,571</u> | <u>\$ (95,121)</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ - | \$ - | \$ (57,761) | \$ (57,761) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund Transfers in | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | \$ - | \$ - | \$ (57,761) | \$ (57,761) |
| Fund Balance (Deficit) - Beginning | \$ - | \$ - | \$ 351,299 | \$ 351,299 |
| FUND BALANCE (DEFICIT) - ENDING | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 293,538</u> | <u>\$ 293,538</u> |

City of Nanticoke
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual - Debt Service Fund
For The Year Ended December 31, 2018
Required Supplementary Information

| | <u>Budgeted Amounts</u> | | Actual General Fund | Favorable (Unfavorable) Variance |
|-------------------------------------------------------------------------|-------------------------|-------------------|---------------------------|----------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Interest | \$ 250 | \$ 250 | \$ 5,331 | \$ 5,081 |
| Real Estate Tax | 354,873 | 354,873 | 370,943 | 16,070 |
| Real Estate Delinquent Tax | 62,625 | 62,625 | 59,353 | (3,272) |
| Other | - | - | - | - |
| Total Revenue | <u>\$ 417,748</u> | <u>\$ 417,748</u> | <u>\$ 435,627</u> | <u>\$ 17,879</u> |
| EXPENDITURES: | | | | |
| Debt Service-Principal | 283,087 | 283,087 | 280,329 | 2,758 |
| Debt Service-Interest | 44,582 | 44,582 | 47,340 | (2,758) |
| Public Works | - | - | - | - |
| Other | 20,000 | 20,000 | 20,000 | - |
| Total Expenditures | <u>\$ 347,669</u> | <u>\$ 347,669</u> | <u>\$ 347,669</u> | <u>\$ -</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ 70,079 | \$ 70,079 | \$ 87,958 | \$ 17,879 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund Transfers in | - | - | - | - |
| Interfund Transfers (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 | \$ 70,079 | \$ 70,079 | \$ 87,958 | \$ 17,879 |
| Fund Balance (Deficit) - Beginning | \$ - | \$ - | \$ 2,394,520 | \$ 2,394,520 |
| FUND BALANCE (DEFICIT) - ENDING | <u>\$ 70,079</u> | <u>\$ 70,079</u> | <u>\$ 2,482,478</u> | <u>\$ 2,412,399</u> |

City of Nanticoke
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual - Highway Aid Fund
For The Year Ended December 31, 2018
Required Supplementary Information

| | Budgeted Amounts | | Actual General Fund | Favorable (Unfavorable) Variance |
|-------------------------------------------------------------------------|-------------------|-------------------|---------------------------|----------------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Interest | \$ 175 | \$ 175 | \$ 2,230 | \$ 2,055 |
| Intergovernmental-State and Local | 304,228 | 304,228 | 309,071 | 4,843 |
| Total Revenue | <u>\$ 304,403</u> | <u>\$ 304,403</u> | <u>\$ 311,301</u> | <u>\$ 6,898</u> |
| EXPENDITURES: | | | | |
| Public Works | 304,403 | 304,403 | 281,865 | 22,538 |
| Total Expenditures | <u>\$ 304,403</u> | <u>\$ 304,403</u> | <u>\$ 281,865</u> | <u>\$ 22,538</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ - | \$ - | \$ 29,436 | \$ 29,436 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund Transfers in | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | \$ - | \$ - | \$ 29,436 | \$ 29,436 |
| Fund Balance (Deficit) - Beginning | \$ - | \$ - | \$ 231,793 | \$ 231,793 |
| FUND BALANCE (DEFICIT) - ENDING | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 261,229</u> | <u>\$ 261,229</u> |