

THE CITY OF NANTICOKE

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

FOR THE YEAR ENDED DECEMBER 31, 2011

Prepared By;

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Accountants and Consultants*

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of Council
City of Nanticoke
Luzerne County, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nanticoke, Pennsylvania, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our 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 assets of the governmental activities. Accounting principles generally accepted in the United States of America also require that such assets be depreciated which would increase expenses of the governmental and business type activities. Also the amount of assets listed in the Business Type Activities was not audited. The amount by which this departure would affect financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the Proprietary Funds are not reasonably determinable.

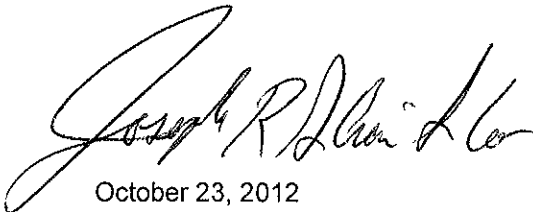
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INDEPENDENT AUDITOR'S REPORT

In our opinion, except for the effects on the financial statements of the omission described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and aggregate remaining fund information, of the City of Nanticoke, Pennsylvania, as of December 31, 2011 and the respective changes in financial position, and cash flows, and the respective budgetary comparison for the General Fund, thereof, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19 to the financial statements, The City of Nanticoke adopted Government Accounting Standards Board (GASB) Statement 54 " Fund Balance Reporting and Governmental Fund Type Definitions" for the year ended December 31, 2011.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and the various pension schedules and Retiree health plan schedules on pages 46 through 50 be presented to supplement the basic financial statements. Such information, although not 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 that 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.



October 23, 2012

Management Discussion & Analysis



City of Nanticoke Pennsylvania

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City of Nanticoke Management's Discussion and Analysis December 31, 2011

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, 2011. 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 assets of \$1,013M from \$2,622M (2010) in the previous year to \$3,635M in the current year (2011). This compares to the previous year when the change in net assets was \$(871K) from \$3,493M in 2009 to \$2,622M in 2010. Note the City's OPEB liability was \$477K in 2009 and increased to \$958K in 2010.
- The assets of the City increased 6% or \$563K from \$9,084M in the previous year to \$9,647M in the current year.
- Total liabilities of the City decreased 7% or \$451K from \$6,462M in the previous year to \$6,011M in the current year.
- Total net assets are comprised of the following:
 - 1) Invested in capital assets, net of related debt, of \$4,844M include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - 2) Unrestricted net assets of (\$1,494M) represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors. This deficit was decreased \$899K from as compared to a decrease of \$871K in the prior year.
 - 3) Net assets restricted for Debt Service of \$285K are reserved by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and constraints designated by the City.

The City's governmental funds reported total ending fund balance of \$2,727M as compared to \$2,023M in 2010 and to \$2,885M in 2009. This increase is a function of an excess of expenditures of revenue over expenditures of \$452K and a \$250K Tax Anticipation Note.

At the end of the current fiscal year, the General Fund balance was \$1,154M. This compares to the prior year ending fund balance of \$774K and the 2009 ending fund balance of \$702K. Revenues over expenditures were \$292K prior to other sources and uses.

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 Assets*. 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 assets*. Over time, increases or decreases in net assets 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 assets 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. The Authority has an obligation to repay a \$53k short-term borrowing from the City from prior years. Management does not consider the Authority a component unit.

Management Discussion & Analysis

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.

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 provide pension benefits to its employees. Supplementary information follows the notes to the financial statements.

Management Discussion & Analysis

Overview of Net Asset's

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 position of the City as a whole. The following table provides a summary comparison of the City's net assets at December 31:

Financial Analysis of the City as a Whole

(Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amt. Chge	% Chge
	2011	2010	2011	2010	2011	2010		
Current and Other Assets	\$ 3,960	\$3,486	\$ 669	\$ 570	\$4,629	\$4,056	\$ 573	14%
Capital Assets	209	215	4,809	4,813	5,018	5,028	(10)	0%
Total Assets	4,169	3,701	5,478	5,383	9,647	9,084	563	6%
Long-term Liabilities	2,236	2,272	1,874	2,102	4,110	4,374	(264)	-6%
Other Liabilities	1,626	1,832	275	256	1,901	2,088	(187)	-9%
Total Liabilities	\$3,862	\$4,104	\$2,149	\$2,358	\$6,011	\$6,462	\$(451)	-7%
Net Assets:								
Invested in Capital Assets, net of related debt	-	-	4,844	4,844	4,844	4,844	-	0%
Restricted for Debt Service	285	171	-	-	285	171	114	66%
Unrestricted	22	(574)	(1,516)	(1,819)	(1,494)	(2,394)	899	-38%
Total Net Assets	307	(403)	3,328	3,025	3,635	2,622	1,013	39%
Total Liabilities & Net Assets	\$4,169	\$3,701	\$5,478	\$5,383	\$9,647	\$9,084	\$563	6%

The City's net assets at fiscal year-end are \$3,635M. This compares to the prior year ending fund balance (net assets) of \$2,622M showing an increase of \$1,013K during the current year. The assets of the City increased 6% or \$563K from \$9,084M in the previous year to \$9,647M in the current year. Total liabilities of the City decreased 7% or (\$451)K from \$6,462M in the previous year to \$6,011M in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$4.844M, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. Unrestricted net assets of (\$1,494)M represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors. This deficit was decreased \$899K comparing current

Management Discussion & Analysis

year balance of (\$1,494)M to (\$2,394)M in the prior year. Net assets restricted for Debt Service of \$285K are reserved by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and constraints designated by the City.

The City reported a positive balance of \$3,328M in net assets for business-type activities. This compares to the prior year ending net asset balance of \$3,025M showing a net increase of \$303K during the current year. Business-type activities include the sewer fund activities. The net activity of \$303K was due to a decrease of liabilities resulting from a pay down of \$228K of City debt, accounts payable and lease obligations on the liability side; and an increase of \$99K in of cash on the asset side.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a positive balance of \$307K in net assets for governmental activities. This compares to the prior year ending net asset balance of (\$403)K showing an increase of \$710K during the current year. The net activity of \$710K is comprised of a net increase in accounts receivable of \$48K, an increase of grants receivable of \$586K and taxes receivable of \$49K; and a decrease in prepaid expense of \$29K and a decrease in mortgage receivable of \$21K on the asset side; offset by a decrease of accounts payable of \$151K; a decrease of \$77K in deferred revenue; and an increase in post retirement benefits of \$300K (per GASB 43, the City must record this liability beginning in 2009); and an decrease of notes payable of \$281K.

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.

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

	2011	2010	2011	2010	2011	2010	Amt. Chg.	% Chg.
	Gov's Type	Gov's Type	Busine ss Type	Busines s Type	Total	Total		
Revenues								
Charges for Services	\$1,035	\$1,045	\$614	\$591	\$1,649	\$1,636	\$13	1%
Grants & Contributions	2,491	4,115	0	0	2,491	4,115	-1,624	-39%
Property Taxes	1,419	923	0	0	1,419	923	496	54%
Other Local Taxes for General Purposes	2,779	2,514	0	0	2,779	2,514	265	11%
Grants, Etc	142	222	0	0	142	222	-80	-36%
Misc Gen. Purpose Rev	502	378	0	0	502	378	124	33%
Investment Earnings	5	6	1	1	6	7	-1	-14%
Sale of Assets	0	0	0	0	-	-	-	#DIV
Total Revenue	\$8,373	\$9,203	\$615	\$592	\$8,988	\$9,795	-\$807	-8%

Management Discussion & Analysis

Total Expense	\$7,665	\$10,147	\$ 312	\$ 311	\$7,977	\$10,458	-\$2,481	-24%
Net Activity	\$708	\$(944)	\$303	\$281	\$1,011	\$(663)	\$1,674	-253%

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

	2011	2010	2011	2010	2011	2010	Amt. Chg.	% Chg.
Net Activity	-	-	-	-	-	-	-	-
Prior Period Adj	-	(207)	-	-	-	(207)	207	-100%
Change in Net Assets	0	-207	0	-32	0	(239)	239	-100%
Net Assets - Beginning	(403)	747	3,025	2,744	2,622	3,491	(869)	-25%
Net Assets - Ending	\$(402)	\$(403)	\$3,025	\$3,025	\$2,623	\$2,622	\$1	0%

Total expenses of the City decreased \$2,483M or 24% from \$10,147M in 2010 to \$7,665M. Prior year expense increase was 68% or \$4,119M. The net activity of \$2,482M can be attributed to a decreases in community development (grant funded projects) of \$2,619M, these increases were offset by a various increases and decreases in other categories. Specifically, General Government expense increased \$22k; Public Safety expense increased \$66K; Refuse expense increased \$8K; Public Works decreased \$9K; Parks and Recreation increased \$32K; Interest expense increased \$18K; and Sewer expense increased \$10K.

Comparison of Current vs. Prior Year Expenditures				
(Dollars are in Thousands)				
Expenses	2011	2010	Amt. Chg.	% Chg.
Gen Gov.'t & Admin	\$744	\$722	\$22	3%
Public Safety	3,176	3,110	66	2%
Sanitation	996	988	8	1%
Public Works	540	549	(9)	-2%
Community Development	2,131	4,750	(2,619)	-55%
Parks & Recreation	38	6	32	533%
Unallocated EE Benefits	-	1	(1)	-100%
Other	6	6	-	0%
Interest of LT Debt	33	15	18	120%
Sewage	214	204	10	5%
Non-operating Exp	97	107	-10	-9%
Total Expenses	\$7,976	\$10,458	-\$2,483	-24%

Management Discussion & Analysis

General Revenue decreased 9% from \$9,302M to \$8,374M in 2011. The net activity of \$829K is a result of a \$1,624M decrease in grant revenue, offset by an increase in Property Taxes of \$496K and an increase in Other Taxes of \$265K.

Comparison of Current vs. Prior Year Revenues				
(Dollars are in Thousands)				
General Revenue:	2011	2010	Amt. Chg.	% Chg.
Charges for Services	\$1,035	\$1,045	(10)	-1%
Grants & Contributions	2,491	4,115	(1,624)	-39%
Property Taxes	1,419	923	496	54%
Other Local Taxes for General Purposes	2,779	2,514	265	11%
Other Grants	142	222	-80	-36%
Investment Earnings	6	6	-	0%
Misc General Purpose Revenues	502	378	124	33%
Other	-	-	-	#DIV/0!
Total General Revenue	\$8,374	\$9,203	\$(829)	-9%

Business Type Activities

A 1% increase of \$14K was realized for business type activities for 2011 over 2010.

Comparison of Current vs. Prior Year Revenues				
(Dollars are in Thousands)				
	2011	2010	Amount Change	% Change
Charges for Services				
Sanitation	\$1,035	\$1,044	(\$9)	-1%
Sewage	614	591	23	4%
Total Charges for Services	\$1,635	1,635	\$14	1%

Charges for Services decreased 49% from \$611K to \$311K in 2010.

Comparison of Current vs. Prior Year Expenses				
(Dollars are in Thousands)				
	2011	2010	Amount Change	% Change
Sanitation	\$996	\$988	\$8	1%
Sewage	214	204	10	5%
Non-operating Exp Sewer	97	107	(10)	-9%
Total Expenses	\$1,307	\$1,299	\$8	1%

Management Discussion & Analysis

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 \$379K from \$775K to \$1,154M. Key factors contributing to this increase include \$379K excess of revenues over expenditures. A balanced budget and cost control efforts are key in the City's financial recovery. General Fund net assets and cash flow analysis reflect the City's continuing need to finance operations, at the current levels, through short term borrowing. This is the second time the City has had a positive General fund balance in several years. The positive fund balance comes as a result of a property tax increase.

The Debt Service Fund has a fund balance of \$284K. Excess of revenue over expenditures was \$113K for 2011.

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. This business-type activities enterprise fund reported an increase in net assets of \$303K from \$3,025M in 2010 versus \$3,328M in 2011.

General Fund Budgetary Highlights

Actual revenues were approximately \$741K more than budgeted at \$4.6M as compared to a budgeted amount of \$3.9M. Taxes were \$445K over budget; intergovernmental state and local revenue was \$159K over budget; and Other Income was \$154K over budget.

Actual expenditures were approximately \$104K more than budgeted at \$4.3M as compared to a budgeted amount of \$3.9M.

The General Fund adopted budget was not amended during the 2011 fiscal year. Revenues less expenses exceed budget by \$346K. Excess of revenues over expenditures were positive in 2009, 2010 and 2011, 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 \$3.1M.

Debt Schedule								
(Dollars are in Thousands)								
	Gov.'t Activities		Business Type Activities		Total		Amt.	%
	2011	2010	2011	2010	2011	2010	Change	Change
General Obligation Bonds	\$544	\$726	\$2,102	\$2,320	\$2,646	\$3,046	(\$400)	-13%
Muni Financial Recovery Loans	490	580	0	0	\$490	\$580	(90)	-16%
Total	1,034	1,306	2,102	2,320	3,136	3,626	(490)	-14%

Management Discussion & Analysis

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 \$1.200M structural deficit in 2006. On May 25, 2006, the City was declared a financially distressed municipality by the Pennsylvania Department of Economic and Community Development (DCED) under the Provisions of the Act, DCED retained a Recovery Plan Coordinator to develop a fiscal recovery plan for the City.

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

In December 2007, the City Council adopted a Recovery Plan designed to enable the City to restore fiscal health. A key component of the plan was to increase in the City's Earned Income Tax (EIT) to 1.5% for residents and to limit long term borrowing. The tax rate increases needed to be approved annually by the Luzerne County Court of Common Pleas. The increased tax revenue was a significant component in enabling the City to address the \$1.200M 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 2010, the voters accepted the Home Rule Charter which is slated to go into effect beginning in January 2012.

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

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

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 City's Director of Finance at 15 East Ridge Street, Nanticoke, PA, 18634.

Pamela A. Heard, City Manager

CITY OF NANTICOKE
GOVERNMENTWIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and Investments	\$ 2,460,091	\$ 668,678	\$ 3,128,769
Receivables:	-	-	-
Ad Valorem Taxes	483,732	-	483,732
Other Taxes	-	-	-
Accounts	104,471	-	104,471
Accrued Interest	-	-	-
Grants	796,668	-	796,668
Mortgage	68,533	-	68,533
Due from Internal Parties	35,660	(35,660)	-
Prepaid Expenses	10,529	-	10,529
Amount to be Provided for Retirement of Long-Term Debt	-	-	-
Capital Assets:			
Equipment	225,991	117,477	343,468
Sewer System	-	4,844,474	4,844,474
Accumulated Depreciation	(16,950)	(117,477)	(134,427)
TOTAL ASSETS	<u>\$ 4,168,725</u>	<u>\$ 5,477,492</u>	<u>\$ 9,646,217</u>
 <u>LIABILITIES</u>			
LIABILITIES:			
Accrued Payroll	\$ 135,531	\$ -	\$ 135,531
Payables:			
Accounts	749,083	47,083	796,166
TAN	-	-	-
Accrued Interest	-	-	-
Current Portion of long term debt	-	-	-
Other	-	-	-
Due To External Parties	-	-	-
Due to Other Government	1,003	-	1,003
Accrued Admin Fee	-	-	-
Deferred Revenue	129,095	-	129,095
Other	3,938	-	3,938
Non Current Liabilities			
Due within one year			
Note Payable	281,732	228,000	509,732
Lease Payable	29,413	-	29,413
Compensated Absences	37,080	-	37,080
Other Post Employment Benefits-Current	207,717	-	207,717
Retroactive Pay	51,692	-	51,692
Due in More than one Year			
Note Payable	752,063	1,874,000	2,626,063
Lease Payable	99,281	-	99,281
Compensated Absences	333,728	-	333,728
Other Post Employment Benefits	1,051,097	-	1,051,097
TOTAL LIABILITIES	<u>\$ 3,862,453</u>	<u>\$ 2,149,083</u>	<u>\$ 6,011,536</u>
 <u>NET ASSETS</u>			
Invested in net assets, net of related debt	\$ -	\$ -	\$ -
Restricted For:			
Debt Service	284,981	-	284,981
Accounts Receivable	-	-	-
Invested in Capital Assets net of Related Debt	(953,448)	2,742,474	1,789,026
Unrestricted	974,739	585,935	1,560,674
TOTAL NET ASSETS	<u>\$ 306,272</u>	<u>\$ 3,328,409</u>	<u>\$ 3,634,681</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,168,725</u>	<u>\$ 5,477,492</u>	<u>\$ 9,646,217</u>

**CITY OF NANTICOKE
GOVERNMENTWIDE-STATEMENT OF ACTIVITIES
DECEMBER 31, 2011**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	TOTAL
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES:							
General Government and Administration	\$ 743,889	-	-	-	\$ (743,889)	\$ -	\$ (743,889)
Public Safety	3,176,705	-	408,206	27,237	(2,741,262)	-	(2,741,262)
Sanitation	995,618	1,035,368	-	-	39,750	-	39,750
Public Works	540,362	-	216,842	461,231	137,711	-	137,711
Community Development	2,131,018	-	-	1,377,441	(753,577)	-	(753,577)
Parks and Recreation	37,881	-	-	-	(37,881)	-	(37,881)
Unallocated Depreciation	5,650	-	-	-	(5,650)	-	(5,650)
Payroll Tax/related Expense	-	-	-	-	-	-	-
Unallocated Employee Benefits	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Interest on Long Term Debt	33,343	-	-	-	(33,343)	-	(33,343)
TOTAL GOVERNMENTAL ACTIVITIES	7,864,466	1,035,368	625,048	1,865,909	(4,138,141)	-	(4,138,141)
BUSINESS TYPE ACTIVITIES:							
Sewage	214,352	613,968	-	-	-	399,616	399,616
Nonoperating Expense	97,440	-	-	-	-	(97,440)	(97,440)
	311,792	613,968	-	-	-	302,176	302,176
TOTAL PRIMARY GOVERNMENT	7,976,258	1,649,336	625,048	1,865,909	(4,138,141)	302,176	(3,835,965)

GENERAL REVENUE:

TAXES:

Ad Valorem (Property Taxes)	1,418,981	-	-	-	1,418,981
Other Local Taxes Levied For General Purposes	2,779,496	-	-	-	2,779,496
Grants, Subsidies, and Contributions Not Restricted	142,393	-	-	-	142,393
Miscellaneous General Purpose Revenues	501,936	-	-	-	501,936
Investment Earnings	4,600	-	-	808	5,408
Total General Revenues and Transfers	4,847,406	-	-	808	4,848,214
CHANGE IN NET ASSETS	709,266	302,984	3,025,425	(402,993)	1,012,249
NET ASSETS JULY 1, 2010	-	-	-	-	2,622,432
NET ASSETS DECEMBER 31, 2010	709,266	302,984	3,025,425	(402,993)	3,634,681

See Notes to Financial Statements
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**CITY OF NANTICOKE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	Governmental Fund Types						Totals Governmental Funds
	General Fund	Special Revenue	DCED Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	
Cash and Investments	\$ 893,024	\$ 603,833	\$ 176,700	\$ 417,778	\$ 225,201	\$ 143,555	\$ 2,460,091
Accounts Receivable	58,906	45,565	-	-	-	-	104,471
Grant Funds Receivable	-	796,668	-	-	-	-	796,668
Taxes Receivable	520,191	-	-	-	49,251	-	520,191
Due from Other Funds	179,649	100,000	-	-	10,529	-	328,900
Prepaid Expenses	-	-	-	-	-	-	10,529
Mortgage Receivable	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 1,651,770</u>	<u>\$ 1,546,066</u>	<u>\$ 176,700</u>	<u>\$ 417,778</u>	<u>\$ 284,981</u>	<u>\$ 143,555</u>	<u>\$ 4,220,850</u>
<u>LIABILITIES & FUND BALANCE</u>							
<u>LIABILITIES:</u>							
Accounts Payable	\$ 66,262	\$ 670,216	\$ 8,564	\$ 790	\$ -	\$ 3,251	\$ 749,083
Accrued Expense	135,531	-	-	-	-	-	135,531
Leases Payable	-	-	-	-	-	-	-
Due to Other Funds	109,069	80,105	62,400	41,666	-	-	293,240
Due to Other Governments	-	-	-	-	-	-	-
Due to Library	185	817	-	-	-	-	1,002
Deferred Revenue	182,295	-	-	129,095	-	-	311,390
General Obligation Bonds Payable	-	-	-	-	-	-	-
Other	3,938	-	-	-	-	-	3,938
<u>TOTAL LIABILITIES</u>	<u>\$ 497,280</u>	<u>\$ 751,138</u>	<u>\$ 70,964</u>	<u>\$ 171,551</u>	<u>\$ -</u>	<u>\$ 3,251</u>	<u>\$ 1,494,184</u>
<u>FUND BALANCE:</u>							
Assigned Debt Service	-	-	-	-	\$ 284,981	-	\$ 284,981
Unassigned	1,154,490	794,928	105,736	246,227	-	140,304	2,441,685
<u>TOTAL FUND BALANCE</u>	<u>\$ 1,154,490</u>	<u>\$ 794,928</u>	<u>\$ 105,736</u>	<u>\$ 246,227</u>	<u>\$ 284,981</u>	<u>\$ 140,304</u>	<u>\$ 2,726,666</u>
<u>TOTAL LIABILITIES & FUND BALANCES</u>	<u>\$ 1,651,770</u>	<u>\$ 1,546,066</u>	<u>\$ 176,700</u>	<u>\$ 417,778</u>	<u>\$ 284,981</u>	<u>\$ 143,555</u>	<u>\$ 4,220,850</u>

See Notes to Financial Statements
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CITY OF NANTICOKE

**Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
DECEMBER 31, 2011**

Total Fund Balances - governmental Funds **\$ 2,726,666**

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 68,533

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 225,990 and the accumulated depreciation is \$ 16,950. 209,040

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. (\$182,295-36,459. provision for uncollectible.) 145,836

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	\$ 1,033,795	
Capital Leases Payable	128,694	
Compensated Absences	370,808	
Other Post employment Benefits	1,258,814	
Retro Active Pay	51,692	<u>(2,843,803)</u>

TOTAL NET ASSETS (DEFICIT)-Governmental Activity **\$ 306,272**

CITY OF NANTICOKE
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Fund Types						Totals Governmental Funds
	General Fund	Special Revenue	DCED Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	
REVENUES:							
Taxes	\$ 3,649,293	\$ 25,092	\$ -	\$ -	\$ 414,997	\$ -	\$ 4,089,382
Charges for Services	-	-	-	1,035,370	-	-	1,035,370
Fines, Forfeitures and Costs	54,790	-	-	-	-	-	54,790
Interest	1,372	1,162	258	768	635	404	4,599
License and Permits	179,556	-	-	-	-	-	179,556
Intergovernmental-State and Local Sources	481,302	1,738,389	209,812	-	-	204,477	2,633,980
Other	250,944	106,707	28,616	-	-	-	386,267
Total Revenue	\$ 4,617,257	\$ 1,871,350	\$ 238,686	\$ 1,036,138	\$ 415,632	\$ 204,881	\$ 8,383,944
EXPENDITURES:							
General Government	\$ 743,889	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 743,889
Public Safety	2,926,485	-	-	-	-	-	2,926,485
Sanitation	-	-	-	995,618	-	-	995,618
Public Works	362,984	-	-	-	-	177,378	540,362
Community Development	-	1,830,249	300,769	-	-	-	2,131,018
Parks and Recreation	37,881	-	-	-	-	-	37,881
Debt Service and Bond Payments	253,792	-	-	-	302,142	-	555,934
Insurance	-	-	-	-	-	-	-
Payroll related expenses	-	-	-	-	-	-	-
Unallocated employee benefits	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total Expenditures	\$ 4,325,031	\$ 1,830,249	\$ 300,769	\$ 995,618	\$ 302,142	\$ 177,378	\$ 7,931,187
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 292,226	\$ 41,101	\$ (62,083)	\$ 40,520	\$ 113,490	\$ 27,503	\$ 452,757
OTHER FINANCING SOURCES (USES)							
General Obligation Notes	250,000	-	-	-	-	-	250,000
Insurance Proceeds	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Transfer	(162,657)	209,353	(62,400)	-	-	15,704	-
Total Other Financing Sources (Uses)	\$ 87,343	\$ 209,353	\$ (62,400)	\$ -	\$ -	\$ 15,704	\$ 250,000
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 379,569	\$ 250,454	\$ (124,483)	\$ 40,520	\$ 113,490	\$ 43,207	\$ 702,757
Fund Balance (Deficit) - Beginning	\$ 774,921	\$ 544,474	\$ 230,219	\$ 205,707	\$ 171,491	\$ 97,097	\$ 2,023,909
FUND BALANCE (DEFICIT) - ENDING	\$ 1,154,490	\$ 794,928	\$ 105,736	\$ 246,227	\$ 284,981	\$ 140,304	\$ 2,726,666

See Notes to Financial Statements
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CITY OF NANTICOKE

**Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to Statement of Activities
DECEMBER 31, 2011**

Total net change in fund balances - governmental Funds	\$ 702,757												
Amounts reported for governmental activities in the statement of net assets 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.	11,571												
Capital Outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of these assets is allocated over their estimated useful life as depreciation expense. This is the amount by which depreciation expense (\$5,650) exceeds capital outlays \$ 0) in the period.	(5,650)												
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	550,336												
In the statement of activities, certain operating expenses compensated absences (sick leave & vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid.)													
<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;"><u>(earned)</u></td> <td style="text-align: center;"><u>Paid</u></td> </tr> <tr> <td style="text-align: right;">Compensated Absences</td> <td style="text-align: right;">(29,435)</td> <td></td> </tr> <tr> <td style="text-align: right;">Retroactive Pay</td> <td style="text-align: right;">51,692</td> <td></td> </tr> <tr> <td style="text-align: right;">Other Post Employment Healthcare</td> <td style="text-align: right;"><u>(300,121)</u></td> <td></td> </tr> </table>		<u>(earned)</u>	<u>Paid</u>	Compensated Absences	(29,435)		Retroactive Pay	51,692		Other Post Employment Healthcare	<u>(300,121)</u>		(277,864)
	<u>(earned)</u>	<u>Paid</u>											
Compensated Absences	(29,435)												
Retroactive Pay	51,692												
Other Post Employment Healthcare	<u>(300,121)</u>												
The issuance of long term debt (e.g. Bonds provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term and related items.	\$ (250,000)												
Mortgage principal payments received are reported as income in the fund financial statements; However, the payment reduces mortgage receivable in the Statement of Net Assets.	<u>(21,885)</u>												
CHANGE IN NET ASSETS-Governmental Activities	<u>\$ 709,265</u>												

CITY OF NANTICOKE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 3,203,475	\$ 3,203,475	\$3,649,293	\$ 445,818
Charges for Services	-	-	-	-
Fines, Forfeitures and Costs	41,000	41,000	54,790	13,790
Interest	1,500	1,500	1,372	(128)
License and Permits	211,475	211,475	179,556	(31,919)
Intergovernmental State and Local	321,350	321,350	481,302	159,952
Other	96,602	96,602	250,944	154,342
Total Revenue	<u>\$ 3,875,402</u>	<u>\$ 3,875,402</u>	<u>\$4,617,257</u>	<u>\$ 741,855</u>
EXPENDITURES:				
General Government	\$ 773,623	\$ 773,623	\$ 743,889	\$ 29,734
Public Safety	2,776,100	2,776,100	2,926,485	(150,385)
Sanitation	-	-	-	-
Public Works	376,999	376,999	362,984	14,015
Community Development	-	-	-	-
Parks and Recreation	7,800	7,800	37,881	(30,081)
Debt Service and Bond Payments	287,000	287,000	253,792	33,208
Insurance	-	-	-	-
Payroll related expenses	-	-	-	-
Unallocated employee benefits	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>\$ 4,221,522</u>	<u>\$ 4,221,522</u>	<u>\$4,325,031</u>	<u>\$ (103,509)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (346,120)	\$ (346,120)	\$ 292,226	\$ 638,346
OTHER FINANCING SOURCES (USES)				
Tan Note (Source)	\$ 250,000	\$ 250,000	250,000	-
Sale of Assets	-	-	-	-
Transfer to Special Revenue	96,120	96,120	(162,657)	(258,777)
Total Other Financing Sources (Uses)	<u>\$ 346,120</u>	<u>\$ 346,120</u>	<u>\$ 87,343</u>	<u>\$ (258,777)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 379,569	\$ 379,569
Fund Balance (Deficit) - Beginning			774,921	\$ 774,921
<i>Prior Period Adjustments due to accounting errors</i>				
Prior Period Adjustment			-	\$ -
Fund Balance (Deficit) - Beginning (as Restated)			\$ 774,921	\$ 774,921
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,154,490</u>	<u>\$ 1,154,490</u>

**CITY OF NANTICOKE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011**

	Business Type Activities	
	Enterprise Fund	
	Sewer Fund	
	<hr/>	
ASSETS:		
CURRENT ASSETS:		
Cash and Investments	\$	668,678
Prepaid Bond Debt Receivable		-
Interactivity Receivables		-
Due from other funds		-
TOTAL CURRENT ASSETS		<hr/> 668,678 <hr/>
NONCURRENT ASSETS:		
Interactivity Receivables		-
Prepaid Bond Expense		-
Machinery & Equipment		117,477
Sewer System		4,844,474
Accumulated Depreciation		(117,477)
TOTAL NONCURRENT ASSETS		<hr/> 4,844,474 <hr/>
TOTAL ASSETS	\$	5,513,152
<hr/>		
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	\$	47,083
Due to other Funds		35,660
Accrued Expenses		-
Lease Payable		-
Bond and Note Payable		228,000
TOTAL CURRENT LIABILITIES		<hr/> 310,743 <hr/>
NONCURRENT LIABILITIES		
Lease Payable	\$	-
Bond and Note Payable		1,874,000
Other Noncurrent Liabilities		-
TOTAL NONCURRENT LIABILITIES		<hr/> 1,874,000 <hr/>
TOTAL LIABILITIES		<hr/> 2,184,743 <hr/>
TOTAL NET ASSETS (Deficit)	\$	3,328,409
<hr/>		
NET ASSETS (Deficit) CONSIST OF:		
Invested in Capital Assets, Net of Related Debt	\$	2,742,474
Unrestricted (Deficit)		585,935
TOTAL NET ASSETS (Deficit)	\$	3,328,409
<hr/>		
TOTAL LIABILITIES & FUND BALANCES	\$	5,513,152
<hr/>		

CITY OF NANTICOKE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business Type Activities
	Enterprise Fund
	Sewer Fund
	<u> </u>
OPERATING REVENUES:	
Sewer User Fees	\$ 613,968
	-
TOTAL OPERATING REVENUES	<u><u>613,968</u></u>
OPERATING EXPENSES:	
Supplies and Materials	99,285
Personal Services	115,067
Depreciation	-
Other Operating Expenses	-
TOTAL OPERATING EXPENSES	<u><u>214,352</u></u>
OPERATING INCOME (LOSS)	<u><u>399,616</u></u>
NONOPERATING REVENUES (EXPENSES):	
Investment Income	808
Refund of prior years expenses	-
Interest Expense	(97,440)
Amortization	-
TOTAL NONOPERATING REVENUES (EXPENSES):	<u><u>(96,632)</u></u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	302,984
Interfund Transfers in/(out)	-
CHANGES IN NET ASSETS	302,984
TOTAL NET ASSETS-Beginning of Year	<u><u>3,025,425</u></u>
TOTAL NET ASSETS -End of Year	<u><u>\$ 3,328,409</u></u>

CITY OF NANTICOKE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

Business Type Activities

Enterprise Fund
Sewer Fund

CASH FLOWS FROM OPERATION ACTIVITIES

Received from User Charges	\$ 613,968
Cash Payments to Employees for Services	(115,067)
Cash Payment to Suppliers for Goods and Services	(85,661)
Cash Payments for Other	-
NET CASH USED BY OPERATING ACTIVITIES	<u>413,240</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

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

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Principal Paid on Debt	(218,000)
Interest Paid on Debt	(97,440)
Principal Paid on Lease	-
Interest Paid on Leases	-
Acquisition of Capital Assets	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(315,440)</u>

CASH FLOWS FROM INVESTMENT ACTIVITIES

Interest on Investments	<u>808</u>
-------------------------	------------

NET DECREASE IN CASH AND CASH EQUIVALENTS

98,608

CASH AND CASH EQUIVALENTS January 1, 2010

570,070

CASH AND CASH EQUIVALENTS December 31, 2010

\$ 668,678

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

Operating Income or Loss	\$ 399,616
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities</i>	
Depreciation	-
Donated Commodities	
<i>Changes in Assets and Liabilities</i>	
Prepaid Expenses	-
Fixed Assets	
Receivables	
Inventories	-
Payables	9,154
Current Liabilities	
Due to other funds	4,470
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ 413,240</u>

NONCASH NON CAPITAL FINANCING ACTIVITIES

See Notes to Financial Statements

CITY OF NANTICOKE
 FIDUCIARY FUND TYPE-PENSION FUNDS
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2011

ASSETS	Retirement Trusts
Cash	\$ 74,980
Investments	6,122,602
Due from Police Plan	-
Receivable Municipal Contribution	-
Receivable Member Contribution	5,528
Total Assets	<u>\$ 6,203,110</u>
LIABILITIES	
Due To Fire Plan	\$ -
Other Current Liabilities	-
Total Liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits	\$ 6,203,110
Other	-
Total Deductions	<u>\$ 6,203,110</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>6,203,110</u>

CITY OF NANTICOKE
 FIDUCIARY FUNDS-PENSION FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 DECEMBER 31, 2011

ADDITIONS	Retirement Trusts
Contributions	
Employer	\$ -
Employee	67,587
State	-
State Aid	313,401
Appreciation (Depreciation) in Fair Value of Invest.	(86,421)
Interest	26,187
Dividend	71,366
Other	-
Other-Transfer from Fireman Plan	-
Total Additions	<u>\$ 392,120</u>
DEDUCTIONS	
Investment Expense	\$ 42,927
Pension Benefits	389,878
Administrative Expense	5,013
Actuarial Fees	-
Refund of Member Contributions	8,467
Allocated Insurance Premiums	386
Other	9,439
Other-State Aid Deposited in Incorrect Fund	-
Total Deductions	<u>\$ 456,110</u>
Change in Net Assets	(63,990)
Net Assets At the Beginning of Year	<u>\$ 6,267,100</u>
Net Assets End of Year End of Year	<u><u>\$ 6,203,110</u></u>

**The City of Nanticoke
Notes to Financial Statements
Year Ended December 31, 2011**

Note 1 - Description of the City and Reporting Entity

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

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

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

Reporting Entity

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

As required by generally accepted accounting principles, these financial statements are to present the City of Nanticoke (the primary government) and organizations for which the primary government is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the City in that the City approved the budget, the issuance of debt, or the levying of taxes.

Component Units

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 Redevelopment Authority of the City of Nanticoke.
3. The General Municipal Authority of the City of Nanticoke.

All three 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
Year Ended December 31, 2011**

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 as a whole. These statements include the financial activities of the primary government, except for fiduciary funds and discretely presented component units. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

B. Basis of Accounting

These financial statements are presented using accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City uses the financial reporting model required by the provisions of GASB Statement No 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board(FASB) pronouncements and Accounting Principles Board(APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

C. Measurement Focus

The government-wide statements report using the economic recourses 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.

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.

The City of Nanticoke
Notes to Financial Statements
Year Ended December 31, 2011

Note 2 - Summary of Significant Accounting Policies (continued)

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 according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund

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

Debt Service Fund

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

Special Revenue, CDBG, Refuse, Highway Aid

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

Proprietary Funds

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

Sewer Fund

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