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**CITY OF NANTICOKE**

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

*FOR THE YEAR ENDED DECEMBER 31, 2015*

**Prepared By;**

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

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# CITY OF NANTICOKE

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

*We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund of City of Nanticoke, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.*

### **Management's Responsibility for the Financial Statements**

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

### **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.

Management did not implement Government Accounting Standards Board (GASB) No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25, which replaces GASB 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures. The amount by which this departure would affect the required supplementary information, financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position of the Proprietary Funds are not reasonably determinable. Also, nonunion pension report was not available; consequently, the amounts in this report are the amounts from December 31, 2014.

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, 2015, and the respective changes in financial position, and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the various pension schedules, Retiree health plan schedules on pages 45 through 49, and the the budgetary comparison on pages 49 through 54, 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.



Pittston, Pa  
September 20, 2016

CONCLUDED

# Management Discussion & Analysis



## **City of Nanticoke Pennsylvania**

15 East Ridge Street  
Nanticoke, PA 18634

Phone: 570 -735-2800  
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### **City of Nanticoke Management's Discussion and Analysis December 31, 2015**

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, 2015. 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 \$800,000 from \$6.1 million (2014) in the previous year to \$6.9 million in the current year (2015).
- The assets of the City increased \$1,391,000 from \$10,383 million in the previous year to \$11,774 million in the current year.
- Total liabilities of the City increased \$123,000 from \$4.743 million in the previous year to \$4,866 million in the current year.
- Total net position are comprised of the following:
  - 1) Invested in capital assets, net of related debt, of \$5,191 million include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - 2) Unrestricted net assets of 2.764 million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.
  - 3) Net assets restricted for Debt Service of \$381,296 on 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 \$5.332 million as compared to \$4,588 million in 2014 and to \$4.153 million in 2013.

At the end of the current fiscal year, the General Fund balance was \$3,039 million. This compares to the prior year ending fund balance of \$2,617 million and the 2013 ending fund balance of \$2,084 million.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

## Management Discussion & Analysis

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

### **Government-wide Financial Statements**

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

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

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

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

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

### **Fund Financial Statements**

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

The City has three kinds of funds:

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

## Management Discussion & Analysis

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison schedules for the general fund can be found in the Required Supplementary Information section of this report. This schedule demonstrates compliance with the City's adopted and final revised budget.

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

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

### Notes to the financial statements

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

### Other Information

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

### Overview of Net Position

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

### Financial Analysis of the City as a Whole

(Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amt. Chge	
	2015	2014	2015	2014	2015	2014		
Current and Other Assets	\$ 5,902	\$5,108	\$ 681	\$ 628	\$6,583	\$5,736	847	13%
Capital Assets	287	198	4,904	4,844	5,191	5,042	149	3%
<b>Total Assets</b>	<b>6,189</b>	<b>5,306</b>	<b>5,585</b>	<b>5,472</b>	<b>11,774</b>	<b>10,778</b>	<b>996</b>	<b>8%</b>
Long-term Liabilities	2,939	2,462	902	1,131	3,841	3,593	248	6%

## Management Discussion & Analysis

Other Liabilities	745	743	282	257	1,027	1,000	27	3%
<b>Total Liabilities</b>	<b>\$3,684</b>	<b>\$3,205</b>	<b>\$1,184</b>	<b>\$1,388</b>	<b>\$4,868</b>	<b>\$4,593</b>	<b>\$275</b>	<b>6%</b>
<b>Net Position:</b>								
Invested in Capital Assets, net of related debt	(12,147)	(94,486)	3,773	3,456	3,761	3,362	399	11%
Restricted for Debt Service	381	381	-	-	381	381	0	0%
Unrestricted	2,136	1,814	628	627	2,764	2,441	323	12%
<b>Total Net Position</b>	<b>2,505</b>	<b>2,101</b>	<b>4,401</b>	<b>4,084</b>	<b>6,906</b>	<b>6,185</b>	<b>721</b>	<b>10%</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$6,189</b>	<b>\$5,306</b>	<b>\$5,585</b>	<b>\$5,472</b>	<b>\$11,774</b>	<b>\$10,778</b>	<b>986</b>	<b>8%</b>

The City's net assets at fiscal year-end are \$6,906 million. This compares to the prior year ending fund balance (net assets) of \$6,185 million showing an increase of \$721 thousand during the current year. The assets of the City increased by 8% or \$986,000 from \$10,778 million in the previous year to \$11,774 million in the current year. Total liabilities of the City increased 6% or \$275 thousand from \$4,594 million in the previous year to \$4,868 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$3,761 million, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. Unrestricted net assets of 2,764 million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors. Net assets restricted for Debt Service of \$381,296 are reserved by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and constraints designated by the City.

The City reported a positive balance of \$4,401 million in net assets for business-type activities. This compares to the prior year ending net asset balance of \$4,084 million showing a net increase of \$317,000 during the current year. Business-type activities include the sewer fund activities. The net activity of \$317,000 was due to a decrease of liabilities resulting from a pay down of City debt, accounts payable and lease obligations on the liability side.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a positive balance of \$2,505 million in net assets for governmental activities. This compares to the prior year ending net asset balance of 2,101 showing an increase of \$404,000 thousand during the current year. The net activity of \$2,505 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 an decrease of notes payable.

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)

	2015	2014	2015	2014	2015	2014	Amt. Chg.	% Chg.
	Gov's Type	Gov's Type	Busine ss Type	Busines s Type	Total	Total		
<b>Revenues</b>								
Charges for Services	\$905	\$948	\$578	\$570	\$1,483	\$1,518	-544	-2%
Grants & Contributions	958	746	0	0	958	746	212	22%
Property Taxes	1,764	1,753	0	0	1,764	1,753	11	1%
Other Local Taxes for General Purposes	2,907	2,880	0	0	2,907	2,880	27	1%
Grants, Etc	7	5	0	0	7	5	2	29%
Misc Gen. Purpose Rev	538	422	0	0	538	422	116	22%
Investment Earnings	2	1	0	0	2	1	1	50%
Sale of Assets	39	0	0	0	39	0	39	100%
<b>Total Revenue</b>	<b>\$7,120</b>	<b>\$6,755</b>	<b>\$578</b>	<b>\$570</b>	<b>\$7,698</b>	<b>\$7,325</b>	<b>373</b>	<b>5%</b>
<b>Total Expense</b>	<b>\$6,716</b>	<b>\$6,390</b>	<b>\$ 261</b>	<b>\$ 389</b>	<b>\$6,977</b>	<b>\$6,779</b>	<b>\$198</b>	<b>3%</b>
<b>Net Activity</b>	<b>\$404</b>	<b>\$365</b>	<b>\$317</b>	<b>\$181</b>	<b>\$721</b>	<b>\$546</b>	<b>\$175</b>	<b>24%</b>

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

	2015	2014	2015	2014	2015	2014	Amt. Chg.	% Chg.
<b>Net Activity</b>	<b>\$404</b>	<b>\$365</b>	<b>\$317</b>	<b>\$181</b>	<b>\$721</b>	<b>\$546</b>	<b>\$198</b>	<b>3%</b>
<b>Prior Period Adj</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Assets - Beginning</b>	<b>2,101</b>	<b>1,736</b>	<b>4,084</b>	<b>3,903</b>	<b>6,185</b>	<b>5,639</b>	<b>546</b>	<b>9%</b>

## Management Discussion & Analysis

<b>Net Assets - Ending</b>	<b>\$2,505</b>	<b>\$2101</b>	<b>\$4,401</b>	<b>\$4,084</b>	<b>\$6,906</b>	<b>\$ 6,185</b>	<b>\$721</b>	<b>10%</b>

Total expenses of the City increased \$198 Thousand or 3% from \$6.779 million in 2014 to \$6.977 million. The net activity of \$721 thousand can be attributed to a decreases in community development (grant funded projects) these increases were offset by a various increases and decreases in other categories. Specifically, General Government expense decreased \$40,741; Public Safety expense increased \$388,432; Refuse expense decreased \$59,198; Public Works decreased \$78,151; Parks and Recreation decreased \$12,064; and Interest expense decreased \$3,323.

<b>Comparison of Current vs. Prior Year Expenditures</b>				
<b>(Dollars are in Thousands)</b>				
<b>Expenses</b>	<b>2015</b>	<b>2014</b>	<b>Amt. Chg.</b>	<b>% Chg.</b>
<b>Gen Gov.'t &amp; Admin</b>	\$812	\$853	\$-41	-5%
<b>Public Safety</b>	3,959	3,570	389	10%
<b>Sanitation</b>	918	977	-59	-6%
<b>Public Works</b>	676	755	-79	-12%
<b>Community Development</b>	235	194	41	17%
<b>Parks &amp; Recreation</b>	19	31	-12	-39%
<b>Unallocated EE Benefits</b>	0	0	(0)	0%
<b>Other</b>	96	6	90	94%
<b>Interest of LT Debt</b>	62	73	-11	-18%
<b>Sewage</b>	200	126	74	37%
<b>Non-operating Exp</b>	0	194	-194	0%
<b>Total Expenses</b>	<b>\$6,977</b>	<b>\$6,779</b>	<b>\$198</b>	<b>3%</b>

General Revenue increased 5% from \$5,190,287 million \$ to \$5,187,266 million in 2014.

<b>Comparison of Current vs. Prior Year Revenues</b>				
<b>(Dollars are in Thousands)</b>				
<b>General Revenue:</b>	<b>2015</b>	<b>2014</b>	<b>Amt. Chg.</b>	<b>% Chg.</b>
<b>Charges for Services</b>	\$1,483	\$1,517	-34	-2%
<b>Grants &amp; Contributions</b>	958	746	212	22%
<b>Property Taxes</b>	1,764	1,753	11	1%
<b>Other Local Taxes for General Purposes</b>	2,907	2,880	27	1%
<b>Other Grants</b>	7	5	2	29%
<b>Investment Earnings</b>	2	1	1	50%
<b>Misc General Purpose Revenues</b>	538	422	116	22%
<b>Other</b>	39	-	39	100%
<b>Total General Revenue</b>	<b>\$7,698</b>	<b>\$7,324</b>	<b>\$374</b>	<b>5%</b>

## Management Discussion & Analysis

### Business Type Activities

A 2% decrease of \$35,000 was realized for business type activities for 2015 over 2014.

Comparison of Current vs. Prior Year Revenues					
(Dollars are in Thousands)					
Charges for Services	2015	2014		Amount Change	% Change
Sanitation	\$905	\$948		(\$43)	-5%
Sewage	578	570		8	1%
<b>Total Charges for Services</b>	<b>\$1,483</b>	<b>1,518</b>		<b>\$(35)</b>	<b>-2%</b>

Charges for Services decreased 16% from \$1,297 to \$1,118 in 2015.

Comparison of Current vs. Prior Year Expenses					
(Dollars are in Thousands)	2015	2014		Amount Change	% Change
Sanitation	\$918	\$977		\$-59	-6%
Sewage	200	126		74	37%
Non-operating Exp Sewer	0	194		-194	-100%
<b>Total Expenses</b>	<b>\$1,118</b>	<b>\$1,297</b>		<b>-179\$</b>	<b>-16%</b>

### 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 \$422,000 from \$2,617 to \$3,039 million. Key factors contributing to this increase include \$422,000 excess of revenues over expenditures. A balanced budget and cost control efforts are key in the City's financial recovery. General Fund net assets and cash flow analysis reflect the City's continuing need to finance operations, at the current levels, through short term borrowing. This is the second time the City has had a positive General fund balance in several years. The positive fund balance comes as a result of a property tax increase.

The Debt Service Fund has a fund balance of \$514,000. Excess of revenue over expenditures was \$133,000 for 2015.

#### 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 \$32,351 more than budgeted at \$5.2 million as compared to a budgeted amount of \$5.8 million. Taxes were \$178,000 over budget; intergovernmental state and local revenue was \$20,000 under budget; and Other Income was \$173,000 under budget.

Actual expenditures were approximately \$330,000 less than budgeted at \$4.8 million as compared to a budgeted amount of \$5.2 million.

The General Fund adopted budget was not amended during the 2015 fiscal year. Revenues less expenses exceed budget by \$421,863. Excess of revenues over expenditures were positive in 2010, 2011, 2012, 2013 and 2014, thus reversing the negative trend of prior years.

### Long-Term Debt

At the end of the fiscal year, the City had total debt outstanding of \$ 1.296 million.

<b>Debt Schedule</b>								
<b>(Dollars are in Thousands)</b>								
	<b>Gov.'t Activities</b>		<b>Business Type Activities</b>		<b>Total</b>		<b>Amt.</b>	<b>%</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>	<b>Change</b>
General Obligation Bonds	\$0	\$38	\$1,131	\$1,388	\$1,131	\$1,426	(\$295)	-21%
Muni Financial Recovery Loans	165	220	0	0	\$165	\$220	(55)	-25%
<b>Total</b>	<b>165</b>	<b>258</b>	<b>1,131</b>	<b>1,388</b>	<b>1,296</b>	<b>1,646</b>	<b>(350)</b>	<b>-21%</b>

### Economic Environment and Next Year's Budgets and Rates

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

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

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

A Revised Recovery plan was adopted in 2010, outlining the City's exit strategy from Act 47. The exit strategy consisted of a change in the form of government from 3<sup>rd</sup> 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

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

The City has made significant progress over the past seven years by balancing the budget; paying down debt; and implementing cost cutting measures where appropriate. 2008 Expenditures were budgeted at \$4,415 million (prior to other financing sources/uses) in comparison to 2009 budgeted expenditures of \$3,916 million; 2010 budgeted expenses of \$4,095 million; 2011 budgeted expenses of \$4,341 million, 2012 budgeted expenses of \$3.9 million, 2013 budgeted expense of 4.9 million, 2014 budgeted expense of 4.8 million and 2015 budgeted expense of 5.2 million.

### **Contacting the City's Financial Management**

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

Richard Wiatrowski, Mayor

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**CITY OF NANTICOKE**  
**GOVERNMENTWIDE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2015**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>ASSETS</u></b>			
Cash and Investments	\$ 4,817,438	\$ 809,186	\$ 5,626,624
Receivables:			
Ad Valorem Taxes	817,532	-	817,532
Other Taxes	-	-	-
Accounts	101,057	-	101,057
Accrued Interest	-	-	-
Grants	1,500	-	1,500
Mortgage	36,002	-	36,002
Due from Internal Parties	128,490	(128,490)	-
Prepaid Expenses	-	-	-
Amount to be Provided for Retirement of Long-Term Debt	-	-	-
Capital Assets:			
Equipment	372,695	183,485	556,180
Sewer System	-	4,844,474	4,844,474
Accumulated Depreciation	(85,636)	(124,077)	(209,713)
<b>TOTAL ASSETS</b>	<b>\$ 6,189,078</b>	<b>\$ 5,584,578</b>	<b>\$11,773,656</b>
<b><u>LIABILITIES</u></b>			
<b><u>LIABILITIES:</u></b>			
Accrued Payroll	\$ 136,794	\$ -	\$ 136,794
Payables:			
Accounts	56,223	531	56,754
TAN	-	-	-
Accrued Interest	-	-	-
Current Portion of long term debt	-	-	-
Other	-	-	-
Due To External Parties	-	-	-
Due to Other Government	-	-	-
Accrued Admin Fee	-	-	-
Revenue Received in Advance	83,606	-	83,606
Other	1,037	-	1,037
Non Current Liabilities	-	-	-
Due within one year	-	-	-
Note Payable	125,000	266,000	391,000
Lease Payable	23,559	14,901	38,460
Compensated Absences	43,039	-	43,039
Other Post Employment Benefits-Current	275,878	-	275,878
Retroactive Pay	-	-	-
Due in More than one Year	-	-	-
Note Payable	40,000	865,000	905,000
Lease Payable	110,647	37,369	148,016
Compensated Absences	387,356	-	387,356
Other Post Employment Benefits	2,400,680	-	2,400,680
<b>TOTAL LIABILITIES</b>	<b>\$ 3,683,819</b>	<b>\$ 1,183,801</b>	<b>\$ 4,867,620</b>
<b><u>NET POSITION</u></b>			
Invested in net assets, net of related debt	\$ -	\$ -	\$ -
Restricted For:			
Debt Service	381,296	-	381,296
Accounts Receivable	-	-	-
Invested in Capital Assets net of Related Debt	(12,147)	3,772,882	3,760,735
Unrestricted	2,136,110	627,895	2,764,005
<b>TOTAL NET POSITION</b>	<b>\$ 2,505,259</b>	<b>\$ 4,400,777</b>	<b>\$ 6,906,036</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 6,189,078</b>	<b>\$ 5,584,578</b>	<b>\$11,773,656</b>

**CITY OF NANTICOKE**  
**GOVERNMENTWIDE-STATEMENT OF ACTIVITIES**  
**DECEMBER 31, 2015**

FUNCTIONS/PROGRAMS GOVERNMENTAL ACTIVITIES:	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities
General Government and Administration	\$ 812,152	-	-	\$ -	\$ (812,152)	\$ -
Public Safety	3,958,797	-	502,459	14,562	(3,441,776)	(3,441,776)
Sanitation	917,989	905,398	-	-	(12,591)	(12,591)
Public Works	676,442	-	268,578	-	(406,864)	(406,864)
Community Development	235,142	-	-	41,631	(193,511)	(193,511)
Parks and Recreation	18,535	-	-	129,633	111,098	111,098
Unallocated Depreciation	-	-	-	-	-	-
Payroll Tax/related Expense	-	-	-	-	-	-
Unallocated Employee Benefits	-	-	-	-	-	-
Other	95,824	-	-	-	(95,824)	(95,824)
Interest on Long Term Debt	584	-	-	-	(584)	(584)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>6,715,465</b>	<b>905,398</b>	<b>772,037</b>	<b>185,826</b>	<b>(4,852,204)</b>	<b>(4,852,204)</b>
<b>BUSINESS TYPE ACTIVITIES:</b>						
Sewage	200,315	578,283	-	-	377,968	377,968
Interest	61,303	-	-	-	(61,303)	(61,303)
Nonoperating Expense	261,618	578,283	-	-	316,665	316,665
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 6,977,083</b>	<b>\$ 1,483,661</b>	<b>\$ 772,037</b>	<b>\$ 185,826</b>	<b>\$ (4,852,204)</b>	<b>\$ (4,852,204)</b>
<b>GENERAL REVENUE:</b>						
<b>TAXES:</b>						
Ad Valorem (Property Taxes)	-	-	-	-	1,763,840	1,763,840
Other Local Taxes Levied For General Purposes	-	-	-	-	2,906,875	2,906,875
Grants, Subsidies, and Contributions Not Restricted	-	-	-	-	7,400	7,400
Miscellaneous General Purpose Revenues	-	-	-	-	538,178	538,178
Investment Earnings	-	-	-	-	1,281	1,541
Special Item - gain on sale of assets	-	-	-	-	39,100	39,100
Total General Revenues and Transfers	-	-	-	-	5,256,674	5,256,674
<b>CHANGE IN NET POSITION</b>					<b>404,470</b>	<b>721,395</b>
<b>NET POSITION BEG. OF YEAR</b>					<b>2,100,789</b>	<b>4,083,852</b>
<b>NET POSITION END OF YEAR</b>					<b>\$ 2,505,259</b>	<b>\$ 4,805,247</b>

See Notes to Financial Statements  
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CITY OF NANTICOKE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2015

	Governmental Fund Types						Totals
	General Fund	Special Revenue	CDBG Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	Governmental Funds
Cash and Investments	\$ 2,249,275	\$ 1,328,832	\$ 248,564	\$ 431,954	\$ 514,231	\$ 44,582	\$ 4,817,438
Accounts Receivable	59,768	41,289	-	-	-	-	101,057
Grant Funds Receivable	-	1,500	-	-	-	-	1,500
Taxes Receivable	881,693	-	-	-	-	-	881,693
Due from Other Funds	308,280	9,956	-	-	-	-	318,236
Prepaid Expenses	-	-	-	-	-	-	-
Mortgage Receivable	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 3,499,016</b>	<b>\$ 1,381,577</b>	<b>\$ 248,564</b>	<b>\$ 431,954</b>	<b>\$ 514,231</b>	<b>\$ 44,582</b>	<b>\$ 6,119,924</b>
<b>LIABILITIES &amp; FUND BALANCE</b>							
<b>LIABILITIES:</b>							
Accounts Payable	\$ 1,489	\$ 44,170	\$ 1,723	\$ -	\$ -	\$ 8,841	\$ 56,223
Accrued Expense	136,794	-	-	-	-	-	136,794
Leases Payable	-	-	-	-	-	-	-
Due to Other Funds	-	115,876	10,710	63,160	-	-	189,746
Due to Other Governments	-	-	-	-	-	-	-
Due to Library	1,037	-	-	-	-	-	1,037
Revenue Received in Advance	320,807	-	-	83,606	-	-	404,413
General Obligation Bonds Payable	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>\$ 460,127</b>	<b>\$ 160,046</b>	<b>\$ 12,433</b>	<b>\$ 146,766</b>	<b>\$ -</b>	<b>\$ 8,841</b>	<b>\$ 788,213</b>
<b>FUND BALANCE:</b>							
Assigned Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 514,231	\$ -	\$ 514,231
Unassigned	3,038,889	1,221,531	236,131	285,188	-	35,741	4,817,480
<b>TOTAL FUND BALANCE</b>	<b>\$ 3,038,889</b>	<b>\$ 1,221,531</b>	<b>\$ 236,131</b>	<b>\$ 285,188</b>	<b>\$ 514,231</b>	<b>\$ 35,741</b>	<b>\$ 5,331,711</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 3,499,016</b>	<b>\$ 1,381,577</b>	<b>\$ 248,564</b>	<b>\$ 431,954</b>	<b>\$ 514,231</b>	<b>\$ 44,582</b>	<b>\$ 6,119,924</b>

See Notes to Financial Statements  
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## **CITY OF NANTICOKE**

### **Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds **\$ 5,331,711**

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 Receivable 36,002

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 \$ 372,695  
and the accumulated depreciation is \$ 85,636.

287,059

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. (\$320,807 - \$64,161. provision for uncollectible.)

256,646

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	\$ 165,000	
Capital Leases Payable	134,206	
Compensated Absences	430,395	
Other Post employment Benefits	2,676,558	(3,406,159)

**TOTAL NET POSITIONS (DEFICIT)-Governmental Activity \$ 2,505,259**

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

	Governmental Fund Types						Totals
	General Fund	Special Revenue	CDBG Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	Governmental Funds
<b>REVENUES:</b>							
Taxes	\$ 4,263,399	\$ -	\$ -	\$ -	\$ 236,501	\$ -	\$ 4,499,900
Charges for Services	-	-	-	906,553	-	-	906,553
Fines, Forfeitures and Costs	45,957	-	-	-	-	-	45,957
Interest	645	253	30	197	128	29	1,282
License and Permits	302,092	-	-	-	-	-	302,092
Intergovernmental-State and Local Sources	428,465	175,116	-	27,989	-	241,588	873,158
Intergovernmental-Federal	-	-	10,710	-	-	-	10,710
Other	149,729	232,179	17,685	-	-	-	399,593
<b>Total Revenue</b>	<b>\$ 5,190,287</b>	<b>\$ 407,548</b>	<b>\$ 28,425</b>	<b>\$ 934,739</b>	<b>\$ 236,629</b>	<b>\$ 241,617</b>	<b>\$ 7,039,245</b>
<b>EXPENDITURES:</b>							
General Government	\$ 812,152	-	-	-	-	-	\$ 812,152
Public Safety	3,413,187	78,377	-	-	-	-	3,491,564
Sanitation	-	-	-	917,989	-	-	917,989
Public Works	445,596	-	-	-	-	230,846	676,442
Community Development	-	225,923	9,219	-	-	-	235,142
Parks and Recreation	18,535	-	-	-	-	-	18,535
Debt Service and Bond Payments	-	-	-	-	103,694	-	103,694
Insurance	-	-	-	-	-	-	-
Payroll related expenses	-	-	-	-	-	-	-
Unallocated employee benefits	-	-	-	-	-	-	-
Other	78,954	-	-	-	-	-	78,954
<b>Total Expenditures</b>	<b>\$ 4,768,424</b>	<b>\$ 304,300</b>	<b>\$ 9,219</b>	<b>\$ 917,989</b>	<b>\$ 103,694</b>	<b>\$ 230,846</b>	<b>\$ 6,334,472</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 421,863</b>	<b>\$ 103,248</b>	<b>\$ 19,206</b>	<b>\$ 16,750</b>	<b>\$ 132,935</b>	<b>\$ 10,771</b>	<b>\$ 704,773</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
General Obligation Notes	-	-	-	-	-	-	-
Insurance Proceeds	-	-	-	-	-	-	-
Sale of Assets	-	39,100	-	-	-	-	39,100
Interfund Transfers in (out)	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 39,100</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 39,100</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ 421,863</b>	<b>\$ 142,348</b>	<b>\$ 19,206</b>	<b>\$ 16,750</b>	<b>\$ 132,935</b>	<b>\$ 10,771</b>	<b>\$ 743,873</b>
Fund Balance (Deficit) - Beginning	\$ 2,617,026	\$ 1,079,183	\$ 216,925	\$ 268,438	\$ 381,298	\$ 24,970	\$ 4,587,838
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ 3,038,889</b>	<b>\$ 1,221,531</b>	<b>\$ 236,131</b>	<b>\$ 285,188</b>	<b>\$ 514,231</b>	<b>\$ 35,741</b>	<b>\$ 5,331,711</b>

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, 2015**

Total net change in fund balances - Governmental Funds	\$ 743,873
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.	41,590
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 (\$57,386) exceeds capital outlays (\$0) in the period.	(57,386)
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	139,725
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.)	
	(earned) Paid
Compensated Absences	(82,167)
Other Post Employment Healthcare	(374,016)
	(456,183)
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.	(7,149)
<b>CHANGE IN NET ASSETS-Governmental Activities</b>	<b>\$ 404,470</b>

**CITY OF NANTICOKE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2015**

	Business Type Activities
	Enterprise Fund
	Sewer Fund
<b>ASSETS:</b>	
Cash and Investments	\$ 809,186
Machinery & Equipment	183,485
Sewer System	4,844,474
Accumulated Depreciation	(124,077)
<b>TOTAL ASSETS</b>	<b>\$ 5,713,068</b>
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$ 531
Due to other Funds	128,490
<b>NONCURRENT LIABILITIES</b>	
Portion Due or Payable within one year	
Capital Lease	14,901
Note Payable	266,000
Due in more than one year	
Capital Lease	37,369
Note Payable	865,000
<b>TOTAL LIABILITIES</b>	<b>\$ 1,312,291</b>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	\$ 3,720,612
Unrestricted (Deficit)	680,165
<b>TOTAL NET POSITION</b>	<b>\$ 4,400,777</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 5,713,068</b>

**CITY OF NANTICOKE**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2015**

	Business Type Activities
	Enterprise Fund
	Sewer Fund
<b>OPERATING REVENUES:</b>	
Sewer User Fees	\$ 572,683
Other Income	5,600
<b>TOTAL OPERATING REVENUES</b>	<b>578,283</b>
<b>OPERATING EXPENSES:</b>	
Supplies and Materials	65,256
Personal Services	128,459
Depreciation	6,600
Other Operating Expenses	-
<b>TOTAL OPERATING EXPENSES</b>	<b>200,315</b>
<b>OPERATING INCOME (LOSS)</b>	<b>377,968</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Investment Income	260
Refund of prior years expenses	-
Interest Expense	(61,303)
Amortization	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES):</b>	<b>(61,043)</b>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>316,925</b>
Interfund Transfers in/(out)	-
<b>CHANGES IN NET POSITION</b>	<b>316,925</b>
<b>TOTAL NET POSITION-Beginning of Year</b>	<b>4,083,852</b>
<b>TOTAL NETPOSITION -End of Year</b>	<b>\$ 4,400,777</b>

**CITY OF NANTICOKE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2015**

**Business Type Activities**  
**Enterprise Fund**  
**Sewer Fund**

**CASH FLOWS FROM OPERATION ACTIVITIES**

Received from User Charges	\$ 578,283
Cash Payments to Employees for Services	(128,459)
Cash Payment to Suppliers for Goods and Services	(184,335)
Cash Payments for Other	-
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>265,489</b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

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

**CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES**

Principal Paid on Debt	(257,000)
Interest Paid on Debt	(58,816)
Principal Paid on Lease	(13,738)
Interest Paid on Leases	(2,487)
Acquisition of Capital Assets	-
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(332,041)</b>

**CASH FLOWS FROM INVESTMENT ACTIVITIES**

Interest on Investments	260
-------------------------	-----

**NET DECREASE IN CASH AND CASH EQUIVALENTS**

	(66,292)
--	----------

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR

875,478

**CASH AND CASH EQUIVALENTS END OF YEAR**

**\$ 809,186**

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

Operating Income or Loss	\$ 377,968
<i>Adjustments to Reconcile Operating Income (Loss) to  Net Cash Used by Operating Activities</i>	
Depreciation	6,600
Donated Commodities	-
<i>Changes in Assets and Liabilities</i>	
Prepaid Expenses	-
Fixed Assets	-
Receivables	-
Inventories	-
Payables	311
Current Liabilities	-
Due to other funds	(119,390)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ 265,489</b>

**NONCASH NON CAPITAL FINANCING ACTIVITIES**

**CITY OF NANTICOKE  
FIDUCIARY FUND TYPE-PENSION FUNDS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

<b>ASSETS</b>	<b>Retirement Trusts</b>
Cash	\$ 32,538
Investments	7,323,246
Due from Police Plan	-
Receivable Municipal Contribution	-
Receivable Member Contribution	4,101
Total Assets	<u>\$ 7,359,885</u>
 <b>LIABILITIES</b>	
Due To Fire Plan	\$ -
Other Current Liabilities	-
Total Liabilities	<u>-</u>
 <b>NET POSITION</b>	
Held in trust for pension benefits	<u>\$ 7,359,885</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 7,359,885</u></u>

**CITY OF NANTICOKE  
FIDUCIARY FUNDS-PENSION FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
DECEMBER 31, 2015**

<b>ADDITIONS</b>	<b>Retirement Trusts</b>
Contributions	
Employer	\$ 286,619
Employee	69,573
State	-
State Aid	265,678
Appreciation (Depreciation) in Fair Value of Invest.	(342,899)
Interest	33,219
Dividend	121,447
Other	-
Other-Transfer from Fireman Plan	-
Total Additions	<u>\$ 433,637</u>
 <b>DEDUCTIONS</b>	
Investment Expense	\$ 31,413
Pension Benefits	539,638
Administrative Expense	14,034
Actuarial Fees	-
Refund of Member Contributions	8,391
Allocated Insurance Premiums	376
Other	42,373
Other-State Aid Deposited in Incorrect Fund	-
Total Deductions	<u>\$ 636,225</u>
 <b>Change in Net Position</b>	 (202,588)
 Net Position At the Beginning of Year	 <u>\$ 7,562,473</u>
Net Position End of Year End of Year	<u><u>\$ 7,359,885</u></u>



# **The City of Nanticoke**

## **Notes to Financial Statements**

December 31, 2015

### **Note 1 - Description of the City and Reporting Entity**

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

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

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

#### **Reporting Entity**

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

#### **Component Units**

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

- ◆ the organization is legally separate (can sue and be sued in their own name)
- ◆ the City holds the corporate powers of the organization
- ◆ the City appoints a voting majority of the organization's board
- ◆ the City 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 were determined to be legally separate and not required to be included in the City's financial statements as discretely presented component units, but are considered related parties for disclosure purposes.

### **Note 2 - Summary of Significant Accounting Policies**

#### **A. Basis of Presentation**

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

**The City of Nanticoke**  
Notes to Financial Statements  
December 31, 2015

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the City. 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.

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

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

## **The City of Nanticoke**

Notes to Financial Statements

December 31, 2015

### **Note 2 - Summary of Significant Accounting Policies (continued)**

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

#### ***D. Fund Accounting***

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

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds 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.

#### **Proprietary Funds**

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

##### ***Sewer Fund***

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

#### **Fiduciary Funds**

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

## **The City of Nanticoke**

Notes to Financial Statements

December 31, 2015

### **Note 2 - Summary of Significant Accounting Policies (continued)**

#### **E. Budgets and Budgetary Accounting**

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

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

#### **F. Use of Estimates**

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

#### **G. Assets, Liabilities, and Net Position**

##### **Cash and Cash Equivalents**

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

# **The City of Nanticoke**

## **Notes to Financial Statements**

December 31, 2015

### **Note 2 - Summary of Significant Accounting Policies (continued)**

#### **Investments**

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

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

#### **Real Estate Taxes**

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

Tax levies are collected by the appointed Tax Collection Agency, in their capacity as tax collector. The tax levy for 2015 was 4.8785 mills on every dollar of assessed value; 4.2514 mills for the General Fund, .6077 mills for the Debt Service Fund, and .0194 mills for the Mill Memorial Library. The total estimated assessed value of taxable property was approximately \$336,000,000.

#### **Compensated Absences**

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

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

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

#### **Long Term Obligations**

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

In the fund, financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether withheld from the actual debt proceeds received, are reported as expenditures.

# The City of Nanticoke

## Notes to Financial Statements

December 31, 2015

### Note 2 - Summary of Significant Accounting Policies (continued)

#### Fund Equity

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

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

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

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

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

#### Interfund Activity

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

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

## The City of Nanticoke

### Notes to Financial Statements

December 31, 2015

#### 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, 2015, the General Fund had an excess of revenues over expenditures in the amounts of \$421,863.

##### C. Budgetary Compliance

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

#### Note 4 – Cash

Primary Government

##### Custodial Credit Risk- Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does have a policy for custodial credit risk. As of December 31, 2015, \$ 5,568,153 of the City's bank balance of \$ 6,052,604. was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the City's name.	5,568,153
Total	<u>\$ 5,568,153</u>

##### Reconciliation to Financial Statements:

Uncollateralized Amount Above	\$ 5,568,153
Plus: Insured Amount	484,451
Less: Outstanding Checks	(425,980)
Carrying Amount-Bank Balances	5,626,624
Plus: Petty Cash	-
Total Cash Per Financial Statements	<u>\$ 5,626,624</u>

#### Note 5 - Investments

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

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C.; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2015

## Note 5 – Investments (continued)

### Fiduciary Funds

As of December 31, 2015, the Nanticoke City's Firemen's Pension Plan and Police Pension Plan, and Non-Uniform Pension Plan consisted of the following. The Non-Uniform Plan's Assets with PMRS are pooled for investment purposes and do not represent specific identifiable investment securities.

Investment Type	Police Pension Fair Value	Firemen's Pension Fair Value	NonUniform's Pension Fair Value	Total
Managed Equity	\$2,849,441	\$1,578,759	\$0	\$4,428,200
Corporate Bonds	428,226	180,436	0	608,662
Government Securities	422,918	437,016	0	859,934
Pooled Fixed Income	379,298	295,119	0	674,417
Real Estate	138,285	0	0	138,285
Cash & Cash Equivalents	32,538	0	0	32,538
Pa Muni Ret System	0	0	613,748	613,748
Total	\$4,250,706	\$2,491,330	\$613,748	\$7,355,784

**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	\$428,226	\$180,436	Avg. of 8 Years	Avg. of BBB
Government Bonds	422,918	437,016	Avg. of 8 Years	Avg. of AA
Corp. & Govt. Bonds	0	0		
Fixed Income Fund	379,298	295,119	Avg. of 3.69 Years	AA
Total	\$1,230,442	\$912,571		

### Interest Rate Risk.

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

### Concentrations of Credit Risk.

As of December 31, 2015, the City Has several individual investments of 5% or more of net assets in its Pension Funds. The Pensions are invested in managed investment accounts and annuities with various managed sub accounts. The City's three pension plans issue a stand-alone financial report, which explain the various investments in detail. For information on how to obtain a specific pension financial report see note 10.



# The City of Nanticoke

## Notes to Financial Statements

December 31, 2015

### Note 5 – Investments (Continued)

#### *Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. All the following is either insured by SPIC, Commercial insurer, or evidenced by a contract with the insurance company, except nonuniformed which is run by the Pennsylvania Municipal Retirement System.

	Police	Firemen	NonUniformed	Total
NationWide	\$ 1,629,554	\$ 2,491,330	\$ -	\$ 4,120,884
TD Ameritrade	2,621,152	-	-	2,621,152
Pa Muni Retire System	-	-	613,748	613,748
Total	<u>\$ 4,250,706</u>	<u>\$ 2,491,330</u>	<u>\$ 613,748</u>	<u>\$ 7,355,784</u>

### Note 6 Capital Assets

A summary of transactions in capital assets for 2015 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
<b>Governmental Activities</b>		
Capitalized Leased Equipment 12/31/2014	\$ 225,999	\$ 28,250
Additions/Disposals	146,705	57,386
Capitalized Leased Equipment 12/31/2015	<u>\$ 372,704</u>	<u>\$ 85,636</u>
<b>Business-Type Activities</b>		
Sewer System 12/31/2014	\$ 4,844,474	\$ -
Additions	-	-
Sewer System 12/31/2015	<u>\$ 4,844,474</u>	<u>\$ -</u>
Capitalized leased equipment 12/31/2014	\$ 117,477	\$ 117,477
Additions	66,008	6,600
Capitalized leased equipment 12/31/2015	<u>\$ 183,485</u>	<u>\$ 124,077</u>

There were no disposals in 2015. Amortization of business-type activities capitalized leases is reported as depreciation expense.

### NOTE 7. DUE TO / FROM OTHER FUNDS AND TRANSFERS

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for payments made on its behalf or for lending/borrowing arrangements outstanding at the end of the year. General Fund interfund payables are not expected to be satisfied within one year. Interfund due from/due to of \$189,646. has been eliminated in the Statement of Net Assets to minimize the grossing up of internal balances, leaving a net amount due of \$128,490. between the governmental and business-type activities, which is reported as Due from Internal Parties. The following reports individual fund due from/due to amounts.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2015

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

### City of Nanticoke Fund Transfer Schedule For Year Ended 12/31/2015

	Due From	Due To
General:		
Proprietary Fund	\$ 128,490	\$ -
Due From Refuse	53,204	-
Special Revenue	19,874	-
Special Revenue	96,002	-
Community Development	10,710	-
	<u>308,280</u>	<u>-</u>
Special Revenue:		
Refuse Fund	9,956	-
General Fund	-	19,874
General Fund	-	96,002
	<u>9,956</u>	<u>115,876</u>
DCED Fund:		
Community Development-General	-	10,710
	<u>-</u>	<u>10,710</u>
Refuse Fund:		
Due to Special Revenue	-	9,956
Due to General Fund	-	53,204
	<u>-</u>	<u>63,160</u>
Governmental Activities	<u>318,236</u>	<u>189,746</u>
Proprietary-General		128,490
Business Tye Activities	-	128,490
Total	<u>318,236</u>	<u>318,236</u>

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. They are permanent and not expected to be reimbursed. There were no permanent transfers during 2015.

## Note 8. Taxes Receivable

Taxes Receivable at December 31, 2015:

Earned Income	\$520,671
Real Estate Transfer	8,174
Mercantile/Business Privilege	8,556
Local Service Tax	23,485
Real Estate Taxes	320,807
Total Fund Financial Statements	<u>\$881,693</u>
Allowance for Uncollectible Taxes	<u>(64,161)</u>
Total Statement of Net Assets	<u>\$817,532</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, 2015, the following amounts were owed to the City under the various programs:

Urban Development	\$3,771
Rehabilitation And Redevelopment	32,231
	<u>\$36,002</u>

**The City of Nanticoke**  
Notes to Financial Statements  
December 31, 2015

**Note 10. Pension Plans**

The City maintains three defined benefit single-employer plans covering all full-time police, firemen, and Nonuniformed employees. All pension plans issue a stand-alone financial report. The schedule of funding progress, presented as required

**Note 10. Pension Plans (continued)**

supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal and contractual funding limitations.

**Firemen's Pension Plan**

The Firemen's Pension Plan provides retirement income and other benefits for the exclusive benefit of the members of the Fire Department, and is controlled by provisions of Ordinance # 10 of 1986 adopted pursuant to Act 317. Each full-time fireman contributes 3% of total compensation plus \$2.00 per month. No interest is credited. Municipal contributions are such amounts as actuarially required. At the discretion of Council, a portion of the State Pension Allocation may be applied to reduce any of its required contributions. The City has contributed \$124,146. of its State Pension Allocation to this fund in 2015. For detailed financial information, refer to financial management report covering the period January 1, 2014 to December 31, 2015 as prepared by AFG Pension Administration. A report could be obtained by writing to 575 Peirce Street Suite 301, Kingston, Pa 18704 or calling 570-714-0720.

At December 31, 2015, net assets available for benefits was \$2,491,330. with Nationwide Life Insurance annuity contract investments of \$2,491,330. exceeding 5% of the Firemen's Pension Plan available for pension benefits. The annuity contract contains individually managed sub accounts. The investments are not required to be categorized because either:

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

Normal retirement requirement is 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on the highest 5 years of employment or pay at retirement, if higher), plus an incremental pension equal to 1/40 of the base pension benefit for each year 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. Membership consist of the following at December 31, 2015:

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

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

**Basis of Accounting**

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

**Valuation of Investments**

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

**The City of Nanticoke**  
Notes to Financial Statements  
December 31, 2015

**Note 10. Pension Plans (continued)**

**Police Pension Plan**

The Police Pension Plan provides retirement income and other benefits for the exclusive benefit of members of the Police Department, and is controlled by provisions of Ordinance # 17 of 1989 adopted pursuant to Act 317. Each full-time policeman contributes 4% month of his compensation plus \$2.00 per month. No interest is credited. At the discretion of Council, a portion of the State Pension Allocation may be applied to reduce any actuarial liability, the obligation of the City, or employee contributions. The City has contributed \$105,661. of its State Pension Allocation to this fund in 2014. For detailed financial information, refer to financial management report covering the period January 1, 2014 to December 31, 2015 as prepared by AFG Pension Administration. A report could be obtained by writing to 575 Peirce Street Suite 301, Kingston, Pa 18704 or calling 570-714-0720.

At December 31, 2015, net assets *available* for benefits was \$4,387,990. with the following concentrations exceeding 5% of the Police Pension Plan available for pension benefits:

Nationwide	\$1,629,554
TD Ameritrade	\$2,621,152

The investments are not required to be categorized because either:

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

Normal retirement requirement is 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death, continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on highest 6 consecutive years of employment or pay at retirement, if higher), plus a service increment (1.25% of average monthly pay per years of service 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. Membership consist of the following at December 31, 2015:

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

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

***Basis of Accounting***

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

***Valuation of Investments***

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

## The City of Nanticoke

Notes to Financial Statements

December 31, 2015

### Note 10. Pension Plans (continued)

#### Non-Uniform Pension Plan

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

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

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

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

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO more than employee contributions and state aid must be paid by the municipality in accordance with Act 205.

#### *Basis of Accounting*

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

#### *Valuation of Investments*

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

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

### Note 11. Long-Term Debt

#### 2004 General Obligation Note

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

# The City of Nanticoke

## Notes to Financial Statements

December 31, 2015

### Note 11. Long-Term Debt (continued)

#### 2005 General Obligation Notes

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

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

#### Municipal Financial Recovery Loan

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

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

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

	Outstanding Balance 12/31/2014	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2015	Interest Paid This Year	Due Within One Year
<b>Governmental</b>						
2005 Note	38,389		38,389	0	584	-
2006 Recovery Loan	140,000		35,000	105,000	-	105,000
2007 Recovery Loan	80,000	-	20,000	60,000	-	20,000
	<b>\$ 258,389</b>	<b>\$ -</b>	<b>\$ 93,389</b>	<b>165,000</b>	<b>584</b>	<b>125,000</b>

Year	Recovery Loan 2006	Recovery Loan 2007	Total
2016	105,000	20,000	125,000
2017		20,000	20,000
2018		20,000	20,000
	<b>\$105,000</b>	<b>\$60,000</b>	<b>\$165,000</b>

**The City of Nanticoke**  
Notes to Financial Statements  
December 31, 2015

**Note 11. Long-Term Debt (continued)**

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

	Outstanding Balance 12/31/2014	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2015	Interest Paid This Year	Due Within One Year
<b>Business Type</b>						
2007 Recovery Loan	1,388,000	-	257,000	1,131,000	58,816	266,000
	<u>\$ 1,388,000</u>	<u>\$ -</u>	<u>\$ 257,000</u>	<u>1,131,000</u>	<u>58,816</u>	<u>266,000</u>

Year	Principal	Interest	Total
2016	266,000	47,502	313,502
2017	275,000	36,330	311,330
2018	289,000	24,870	313,870
2019	301,000	12,642	313,642
	<u>\$1,131,000</u>	<u>\$121,344</u>	<u>\$1,252,344</u>

**Capitalized Leases**

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

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

	Outstanding Balance 12/31/2014	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2015	Interest Paid This Year	Due Within One Year
<b>Governmental</b>						
2009 Firetruck Lease	33,837	-	33,837	0	3,313	-
2014 Vehicle Lease	-	60,930	12,499	48,431	2,298	13,018
2015 Vehicle Lease	-	85,775	-	85,775	-	10,541
	<u>\$ 33,837</u>	<u>\$ 146,705</u>	<u>\$ 46,336</u>	<u>134,206</u>	<u>5,611</u>	<u>23,559</u>

Year	Principal	Interest	Total
2016	23,558	5,505	29,063
2017	24,814	4,249	29,063
2018	25,861	3,202	29,063
2019	19,982	2,140	22,122
2020	12,773	1,493	14,266
	<u>27,218</u>	<u>1,312</u>	<u>28,530</u>
	<u>\$134,206</u>	<u>\$17,901</u>	<u>\$152,107</u>

**The City of Nanticoke**  
Notes to Financial Statements  
December 31, 2015

**Note 11. Long-Term Debt (continued)**

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

	<i>Outstanding Balance 12/31/2014</i>	<i>Issued or Additions</i>	<i>Payments Retirements</i>	<i>Outstanding Balance 12/31/2015</i>	<i>Interest Paid This Year</i>	<i>Due Within One Year</i>
<b>Business Type</b>						
2014 Vehicle Lease	-	66,008	13,738	52,270	2,487	14,308
	\$ -	\$ 66,008	\$ 13,738	\$ 52,270	2,487	14,308

Year	Principal	Interest	Total
2016	14,308	1,917	16,225
2017	14,901	1,324	16,225
2018	15,519	706	16,225
2019	7,542	113	7,655
	\$52,270	\$4,060	\$56,330

**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.

	<i>Balance 12/31/2014</i>	<i>Net Increases (Decrease)</i>	<i>Balance 12/31/2015</i>	<i>Due Within One Year</i>
Compensated Absences	\$ 348,228	\$ 82,167	\$ 430,395	\$ 43,039

**Post-Employment Benefits**

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

**Program Description:**

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



**The City of Nanticoke**  
Notes to Financial Statements  
December 31, 2015

**Note 11. Long-Term Debt (continued)**

**Post-Employment Benefits (Continued)**

**Funding Policy:**

**Police Officers:**

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

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

*If 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.*

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

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

**Fire Fighters:**

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

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

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

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

**The City of Nanticoke**  
Notes to Financial Statements  
December 31, 2015

**Note 11. Long-Term Debt (continued)**

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

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

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

**Annual OPEB Cost and Net OPEB Obligation:**

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

	<b>General Fund</b>
Annual required contribution (ARC)	\$ 687,637
Interest on Net OPEB obligation	103,614
Adjustment to annual required contribution (ARC)	(141,357)
Annual OPEB cost	649,894
Contributions Made	(275,878)
Estimated increase in Net OPEB Obligation	374,016
Net OPEB Obligation-Beginning of year	2,302,542
Net Opeb Obligation-End of Year	\$ 2,676,558

## The City of Nanticoke

Notes to Financial Statements

December 31, 2015

### Note 11. Long-Term Debt (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 608,091	42.72%	\$ 1,983,813
2014	\$ 602,382	47.09%	\$ 2,302,542
2015	\$ 649,894	42.45%	\$ 2,676,558

### Funded Status and Funding Progress:

As of January 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$7,187,506, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,221,453, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 588.44 %.

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the City chose to close its program as of December 31, 2015, and to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero.

### Actuarial Methods and Assumptions:

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

In the January 1, 2015, actuarial valuation, the individual entry-age normal method was used. The actuarial assumptions include a 4.5% investment rate of return, and an annual healthcare cost trend rate of 6.0% in 2015, and 5.5% in 2016 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Both rates include a 3% inflation assumption. The City's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a closed period. The remaining amortization period at December 31, 2015 was 15 years.

### Note 12. Risk Management

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

## **The City of Nanticoke**

### **Notes to Financial Statements**

December 31, 2015

#### **Note 13. Tax Collection**

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

#### **Note 14. Contingencies**

##### **Property Tax:**

Property tax assessment appeals are regularly encountered during 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 yearend December 31, 2015.

##### **Litigation:**

As of December 31, 2015, 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, 2015 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, 2015.

## The City of Nanticoke

### Notes to Financial Statements

December 31, 2015

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

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

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

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

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

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

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

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

#### Key plan provisions:

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

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

**<<<< SUPPLEMENTARY INFORMATION >>>>**

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

**SCHEDULE OF FUNDING PROGRESS**

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

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended	Annual Required Contribution	(1) Contributions
2004	44,132	46,750
2005	7,220	20,650
2006	0	32,101
2007	0	0
2008	0	0
2009	4,720	29,336
2010	8,170	23,461
2011	112,411	151,123
2012	120,321	156,403
2013	193,520	193,520
2014	198,670	198,670
2015	317,945	317,945

(1) Includes general municipal pension system State Aid

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:**

Latest Actuarial Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	13
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increases	5.00%

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

**SCHEDULE OF FUNDING PROGRESS**

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

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended	Annual Required Contribution	Contributions
2004	81,084	88,561
2005	92,013	108,128
2006	60,921	86,393
2007	64,963	124,926
2008	68,336	149,813
2009	80,505	114,553
2010	82,395	112,976
2011	150,522	175,849
2012	153,646	172,620
2013	127,021	127,021
2014	129,371	129,371
2015	198,440	198,440

(1) Includes general municipal pension system State Aid

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:**

Latest Actuarial Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	10
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	5.00%



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

**SCHEDULE OF FUNDING PROGRESS**

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

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:**

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

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

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
Gov. Activities	1/1/2015	\$0	\$7,187,506	\$7,187,506	0%	\$1,221,453	588.44%
	1/1/2012	\$0	\$6,547,459	\$6,547,459	0%	\$1,306,729	501.06%
	1/1/2009	\$0	\$5,804,124	\$5,804,124	0%	\$1,193,701	486.23%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:**

Latest Actuarial Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining Amortization Period	16.2889
Asset Valuation Method	None
Actuarial Assumptions:	
Interest Rate	4.50%

**City of Nanticoke**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual**  
**For The Year Ended December 31, 2015**  
**Required Supplementary Information**

	<u>Budgeted Amounts</u>		Actual	Favorable
	<u>Original</u>	<u>Final</u>	<u>General Fund</u>	<u>(Unfavorable) Variance</u>
<b>REVENUES:</b>				
Taxes	\$ 4,085,566	\$ 4,085,566	\$ 4,263,399	\$ 177,833
Fines, Forfeitures and Costs	48,800	48,800	45,957	(2,843)
Interest	260	260	645	385
License and Permits	252,400	252,400	302,092	49,692
Intergovernmental-State and Local	448,050	448,050	428,465	(19,585)
Intergovernmental-Federal	-	-	-	-
Other	322,860	322,860	149,729	(173,131)
<b>Total Revenue</b>	<b>\$ 5,157,936</b>	<b>\$ 5,157,936</b>	<b>\$ 5,190,287</b>	<b>\$ 32,351</b>
<b>EXPENDITURES:</b>				
General Government	\$ 814,183	\$ 814,183	\$ 812,152	\$ 2,031
Public Safety	3,627,802	3,627,802	3,413,187	214,615
Public Works	646,601	646,601	445,596	201,005
Parks and Recreation	9,350	9,350	18,535	(9,185)
Other	-	-	78,954	(78,954)
<b>Total Expenditures</b>	<b>\$ 5,097,936</b>	<b>\$ 5,097,936</b>	<b>\$ 4,768,424</b>	<b>\$ 329,512</b>
<b>EXCESS OF REVENUES</b>				
<b>OVER (UNDER) EXPENDITURES</b>	<b>\$ 60,000</b>	<b>\$ 60,000</b>	<b>\$ 421,863</b>	<b>\$ 361,863</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in (out)	\$ (60,000)	\$ (60,000)	-	60,000
Interfund Transfers in (out)	-	-	-	-
TAN	-	-	-	-
TAN	-	-	-	-
Budgetary Reserve	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (60,000)</b>	<b>\$ (60,000)</b>	<b>\$ -</b>	<b>\$ 60,000</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES</b>				
<b>OVER EXPENDITURES AND OTHER USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 421,863</b>	<b>\$ 421,863</b>
<b>Fund Balance (Deficit) - Beginning</b>			<b>2,617,026</b>	<b>\$ 2,617,026</b>
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,038,889</b>	<b>\$ 3,038,889</b>

City of Nanticoke  
Special Revenue Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget To Actual  
For The Year Ended December 31, 2015  
Required Supplementary Information

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES:</b>				
Interest	200	200	253	53
Intergovernmental-State	530,000	530,000	175,116	(354,884)
Intergovernmental-Federal	5,400,000	5,400,000	-	(5,400,000)
Other	265,000	265,000	232,179	(32,821)
<b>Total Revenue</b>	<b>\$ 6,195,200</b>	<b>\$ 6,195,200</b>	<b>\$ 407,548</b>	<b>\$ (5,787,652)</b>
<b>EXPENDITURES:</b>				
Public Safety			78,377	78,377
Community Development	6,461,000	6,461,000	225,923	6,235,077
<b>Total Expenditures</b>	<b>\$ 6,461,000</b>	<b>\$ 6,461,000</b>	<b>\$ 304,300</b>	<b>\$ 6,313,454</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (265,800)</b>	<b>\$ (265,800)</b>	<b>\$ 103,248</b>	<b>\$ 525,802</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other Sources	\$ 190,800	\$ 190,800	39,100	(151,700)
Interfund Transfers in (out)	75,000	75,000	-	(75,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 265,800</b>	<b>\$ 265,800</b>	<b>\$ 39,100</b>	<b>\$ (226,700)</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USE \$</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 142,348</b>	<b>\$ 142,348</b>
<b>Fund Balance (Deficit) - Beginning</b>		<b>\$ -</b>	<b>\$ 1,079,183</b>	<b>\$ 1,079,183</b>
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,221,531</b>	<b>\$ 1,221,531</b>

City of Nanticoke  
DCED Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget To Actual  
For The Year Ended December 31, 2015  
Required Supplementary Information

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>General</u>	<u>(Unfavorable)</u>
			<u>Fund</u>	<u>Variance</u>
<b>REVENUES:</b>				
Interest	45	45	30	(15)
Intergovernmental-State and Local	-	-	-	-
Intergovernmental-Federal	935,364	935,364	10,710	(924,654)
Other	20,628	20,628	17,685	(2,943)
<b>Total Revenue</b>	<b>\$ 956,037</b>	<b>\$ 956,037</b>	<b>\$ 28,425</b>	<b>\$ (927,612)</b>
<b>EXPENDITURES:</b>				
Community Development	956,037	956,037	9,219	946,818
<b>Total Expenditures</b>	<b>\$ 956,037</b>	<b>\$ 956,037</b>	<b>\$ 9,219</b>	<b>\$ 946,818</b>
<b>EXCESS OF REVENUES</b>				
<b>OVER (UNDER) EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,206</b>	<b>\$ 19,206</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other Sources	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES</b>				
<b>OVER EXPENDITURES AND OTHER USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,206</b>	<b>\$ 19,206</b>
<b>Fund Balance (Deficit) - Beginning</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 216,925</b>	<b>\$ 216,925</b>
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 236,131</b>	<b>\$ 236,131</b>

**City of Nanticoke**  
**Refuse Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual**  
**For The Year Ended December 31, 2015**  
**Required Supplementary Information**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>General</u>	<u>(Unfavorable)</u>
			<u>Fund</u>	<u>Variance</u>
<b>REVENUES:</b>				
Interest	400	400	197	(203)
Charges for Services	920,000	920,000	906,553	(13,447)
Other	40,500	40,500	27,989	(12,511)
<b>Total Revenue</b>	<b>\$ 960,900</b>	<b>\$ 960,900</b>	<b>\$ 934,739</b>	<b>\$ (26,161)</b>
<b>EXPENDITURES:</b>				
Sanitation	960,900	960,900	917,989	42,911
<b>Total Expenditures</b>	<b>\$ 960,900</b>	<b>\$ 960,900</b>	<b>\$ 917,989</b>	<b>\$ 42,911</b>
<b>EXCESS OF REVENUES</b>				
<b>OVER (UNDER) EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,750</b>	<b>\$ 16,750</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in (out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES</b>				
<b>OVER EXPENDITURES AND OTHER USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,750</b>	<b>\$ 16,750</b>
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 268,438	\$ 268,438
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 285,188</b>	<b>\$ 285,188</b>

City of Nanticoke  
Debt Service Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget To Actual  
For The Year Ended December 31, 2015  
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual	Favorable
	<u>Original</u>	<u>Final</u>	General Fund	(Unfavorable) Variance
<b>REVENUES:</b>				
Interest	180	180	128	(52)
Real Estate Tax	201,271	201,271	196,727	(4,544)
Real Estate Delinquent Tax	24,480	24,480	39,774	15,294
Other	-	-	-	-
<b>Total Revenue</b>	<b>\$ 225,931</b>	<b>\$ 225,931</b>	<b>\$ 236,629</b>	<b>\$ 10,698</b>
<b>EXPENDITURES:</b>				
Debt Service-Principal	36,883	36,883	93,389	(56,506)
Debt Service-Interest	1,475	1,475	584	891
Other	90,000	90,000	9,721	80,279
<b>Total Expenditures</b>	<b>\$ 128,358</b>	<b>\$ 128,358</b>	<b>\$ 103,694</b>	<b>\$ 24,664</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 97,573</b>	<b>\$ 97,573</b>	<b>\$ 132,935</b>	<b>\$ 35,362</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in (out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ 97,573</b>	<b>\$ 97,573</b>	<b>\$ 132,935</b>	<b>\$ 35,362</b>
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 381,296	\$ 381,296
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ 97,573</b>	<b>\$ 97,573</b>	<b>\$ 514,231</b>	<b>\$ 416,658</b>

City of Nanticoke  
Highway Aid Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget To Actual  
For The Year Ended December 31, 2015  
Required Supplementary Information

	Budgeted Amounts		Actual	Favorable
	Original	Final	General Fund	(Unfavorable) Variance
<b>REVENUES:</b>				
Interest	85	85	29	(56)
Intergovernmental-State and Local	233,826	233,826	241,588	7,762
<b>Total Revenue</b>	<b>\$ 233,911</b>	<b>\$ 233,911</b>	<b>\$ 241,617</b>	<b>\$ 7,706</b>
<b>EXPENDITURES:</b>				
Public Works	233,911	233,911	230,846	3,065
<b>Total Expenditures</b>	<b>\$ 233,911</b>	<b>\$ 233,911</b>	<b>\$ 230,846</b>	<b>\$ 3,065</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,771</b>	<b>\$ 10,771</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in (out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,771</b>	<b>\$ 10,771</b>
<b>Fund Balance (Deficit) - Beginning</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,970</b>	<b>\$ 24,970</b>
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 35,741</b>	<b>\$ 35,741</b>



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Patrick T. Hopkins C.P.A.

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

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

Except as discussed in the last sentences of this paragraph, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Nanticoke, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise City of Nanticoke's basic financial statements, and have issued our report thereon dated September 20, 2016. In our report, our opinion on the basic financial statements was qualified because Management has not recorded general infrastructure and most capital assets in governmental activities and accordingly, has not recorded depreciation expense on those assets nor has depreciation expense been recorded in the sewer system in the business type activities. Accounting principles generally accepted in the United States of America require that such assets be capitalized, which would increase the assets and Net Position of the governmental activities. Accounting principles generally accepted in the United States of America also require that such assets be depreciated which would increase expenses of the governmental and business type activities. Also the amount of assets listed in the Business Type Activities was not audited. The amount by which this departure would affect financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position of the Proprietary Funds are not reasonably determinable; also, Management did not implement Government Accounting Standard Board (GASB) No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25, which replaces GASB 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures. The amount by which this departure would affect the required supplementary information, financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position of the Proprietary Funds are not reasonably determinable. Also, nonunion pension report was not available; consequently, the amounts in this report are the amounts from December 31, 2014.

### Internal Control over Financial Reporting

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

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

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

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

**Compliance and Other Matters**

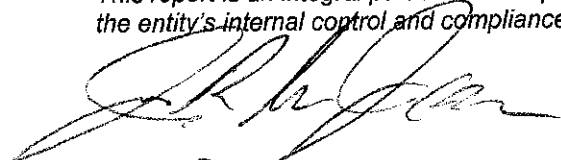
*As part of obtaining reasonable assurance about whether City of Nanticoke's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

**City of Nanticoke's Response to Findings**

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

**Purpose of this Report**

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



Pittston, Pa  
September 20, 2016

**CONCLUDED**

**CITY OF NANTICOKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY**

**2015-001. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES TO ENSURE A PROPER SEGREGATION OF DUTIES IN VARIOUS ASPECTS OF THE BUSINESS OFFICE**

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

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

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

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

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

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

**CONTINUED**

**CITY OF NANTICOKE  
SCHEDULE OF FINDINGS AND COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY**

**2015-002. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES DESIGNED TO ADEQUATELY REFLECT AND RECORD ALL FIXED ASSETS PURCHASED OR SOLD BY THE CITY ON AN ANNUAL BASIS.**

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

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

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

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

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

**CONTINUED**

**CITY OF NANTICOKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY**

**20015-003. NANTICOKE CITY SHOULD IMPLEMENT STRONGER INTERNAL CONTROLS OVER REVENUES COLLECTED BY THE POLICE DEPARTMENT**

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

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

**20015-004. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES TO ENSURE THAT PERSON SIGNING CHECKS CANNOT ENTER ADJUSTING ENTRIES INTO THE ACCOUNTING SYSTEM**

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

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

**Concluded**