

CITY OF NANTICOKE, PENNSYLVANIA

**FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council of the
City of Nanticoke, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Nanticoke, Pennsylvania (the "City"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as

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

Basis for Adverse Opinion on Governmental and Business-Type Activities

Management has not recorded general infrastructure and most capital assets in governmental activities and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those assets be capitalized and depreciated which would change the assets, net position, and expenses of governmental activities. The amount by which these departures would affect the assets, net position and expenses of governmental activities has not been determined.

In addition, the City has not maintained detailed records of assets in the sewer system of its business-type activity and has not recorded depreciation expense on those assets. Therefore, we were unable to obtain sufficient appropriate audit evidence regarding the amount at which the sewer system is recorded in the financial statements of the business-type activity.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on Governmental and Business-Type Activities” section, the financial statements referred to above do not present fairly the financial position of the governmental and business-type activities of the City, as of December 31, 2019, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective position of each major fund, the pension trust fund, and the aggregate remaining fund information of the City as of December 31, 2019, and the respective changes in financial position 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 IV - VIII, the schedules of changes in the City's net pension liability and related ratios, schedule of the City contributions - pension plans, schedule of changes in the City's OPEB liability and related ratios, and supplemental schedules of revenue and expenditures - budget and actual on pages 50 - 65 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.

Kohanski & Co., PC

Moosic, PA
November 12, 2020



City of Nanticoke Pennsylvania

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City of Nanticoke Management's Discussion and Analysis December 31, 2019

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, 2019. 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 \$605,808 from \$283,276 (2018) in the previous year to \$889,084 in the current year (2019).
- The assets of the City decreased by 54 thousand from \$18.834 million (2018) in the previous year to \$18.780 million in the current year.
- Total liabilities of the City decreased \$671 thousand from \$18.562 million (2018) to \$17.891 million in the current year.
- Total net position is comprised of the following:
 - 1) Invested in capital assets, net of related debt, of \$2.911 million include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the capital leases.
 - 2) Unrestricted net assets of \$(3,103,177) represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.

The City's governmental funds reported total ending fund balance of \$9.526 million as compared to \$9.503 million in 2018 and to \$8.851 million (2017).

At the end of the current fiscal year, the General Fund balance was \$5.354 million. This compares to the prior year ending fund balance of \$4.916 million and the 2017 ending fund balance of \$4.223 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

The City has three kinds of funds:

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

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 reconciliations to the government-wide statements to assist in understanding the differences between these two perspectives.

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

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

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

Notes to the financial statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information* concerning the City's general fund budgetary comparison and its progress in funding its obligation to provide pension benefits and other post-employment benefits ("OPEB") to its employees. Supplementary information follows the notes to the financial statements.

Overview of Net Position

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

Financial Analysis of the City as a Whole

(Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amount Change
	2019	2018	2019	2018	2019	2018	
Current and Other Assets	\$ 10,404	\$ 10,238	\$ 1,380	\$ 958	\$ 11,784	\$ 11,183	\$ 601
Capital Assets	269	291	4,864	4,881	5,133	5,172	(39)
Deferred Outflows	1,863	2,479	-	-	1,863	2,479	(616)
Total Assets	12,536	13,008	6,244	5,839	18,780	18,834	(54)

Total Liabilities	17,622	18,225	269	339	17,891	18,562	(670)
Net Position:							
Invested in Capital Assets, net of related debt	(1,928)	111	4,840	4,543	2,912	4,654	(1,742)
Restricted	1,081	1,117	-	-	1,081	1,117	(36)
Unrestricted	(4,239)	(6,445)	1,135	957	(3,104)	(4,942)	(1,838)
Total Net Position	\$ (5,086)	\$ (5,217)	\$ 5,975	\$ 5,500	\$ 889	\$ 283	\$ 606

The City's net position at fiscal year-end is \$889 thousand. This compares to the prior year adjusted ending net position of \$283 thousand showing an increase of \$606 thousand during the current year. The assets of the City decreased by \$54 thousand from \$18.834 million in the previous year to \$18.780 million in the current year. Total liabilities of the City decreased by \$670 thousand from \$18.561 million in the previous year to \$17.891 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$ 2.912 million, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the leased capital assets. Restricted net assets of \$ 1.081 million represent funds restricted for use by various grantors, laws, regulations or governing bodies. Unrestricted net assets of (\$ 3.104) million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.

The City reported a positive balance of \$5.975 million in net position for business-type activities. This compares to the prior year ending net asset balance of \$5.500 million showing a net increase of \$475,000 during the current year. Business-type activities include the sewer fund activities.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a negative balance of \$ 5.086 million in net assets for governmental activities. This compares to the adjusted prior year ending net asset balance of \$ 5.217 million showing a decrease of \$ 131,000 during the current year. The net activity of \$(131,000) is comprised of a net increase in accounts receivable, and taxes receivable and a decrease in mortgage receivable on the asset side; and offset by an increase of accounts payable of and a decrease of notes payable; and an increase in pension and other post-retirement benefits.

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

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

	2019	2018	2019	2018	2019	2018	.
	Gov's Type	Gov's Type	Business Type	Business Type	Total	Total	Amount Change
Revenues							
Charges for Services	\$ 1,223	\$ 928	\$ 893	\$ 920	\$ 2,116	\$ 1,848	\$ 268
Grants & Contributions	881	1,851	-	-	881	1,851	(970)
Property Taxes	2,503	2,135	-	-	2,503	2,135	368
Other Local Taxes for General Purposes	3,097	3,191	-	-	3,097	3,191	(94)
Misc Gen. Purpose Rev	381	716	-	-	381	716	(335)
Investment Earnings	96	57	6	3	102	60	42
Sale of Assets	-	-	-	-	-	-	
Total Revenue	\$ 8,181	\$ 8,878	\$ 899	\$ 923	\$ 9,080	\$ 9,801	\$ (721)
Total Expense	\$ 8,050	\$ 7,999	\$ 424	\$ 393	\$ 8,474	\$ 8,392	\$ 82
Change in Net Position	\$ 131	879	\$ 475	\$ 530	\$ 606	\$ 1,409	\$ (803)
Net Assets – Beginning(restated)	(5,217)	(5,301)	5,501	4,721	284	(580)	864
Net Assets - Ending	\$ (5,086)	\$ (4,422)	\$ 5,975	\$ 5,251	\$ 889	\$ 829	\$ 60

Total expenses of the City increased by \$ 73 thousand from \$ 8.392 million in 2018 to \$ 8.465 million in 2019.

Comparison of Current vs. Prior Year Expenditures			
(Dollars are in Thousands)			
Expenses	2019	2018	Amount Change
General Government and Administration	\$ 962	\$ 709	\$ 253
Public Safety	4,470	4,407	63
Sanitation	1,030	1,085	(55)
Public Works	1,068	672	396
Community Development	456	1,064	(608)
Parks and Recreation	19	14	5
Other	45	48	(3)
Sewage	415	393	22
Total Expenses	\$ 8,465	\$ 8,392	\$ 73

General Revenue decreased from \$9.801 million in 2018 to \$9.080 million in 2019.

Comparison of Current vs. Prior Year Revenues			
(Dollars are in Thousands)			
General Revenue:	2019	2018	Amount Change
Charges for Services	\$ 2,116	\$ 1,848	\$ 268
Grants & Contributions	881	1,851	(970)
Property Taxes	2,503	2,134	369
Other Local Taxes for General Purposes	3,097	3,191	(94)
Investment Earnings	102	61	41
Misc General Purpose Revenues	381	716	(335)
Other	-	-	-
Total General Revenue	\$ 9,080	\$ 9,801	\$ (721)

Business Type Activities

Charges for services for business type activities decreased by \$27,000 for 2019 over 2018.

Comparison of Current vs. Prior Year Revenues				
(Dollars are in Thousands)				
Sewer	\$ 893		\$ 920	\$ (27)

Sewer expenses increased from \$393,000 million to \$424,000 in 2018 to 2019.

Comparison of Current vs. Prior Year Expenses				
(Dollars are in Thousands)	2019		2018	Amount Change
Sewer	\$ 424		\$ 393	\$ (31)

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 \$437,899, from \$4.916 million to \$5.354 million. Key factors contributing to this increase an increase in tax revenues of approximately \$ 263,000 and an increase in interest earnings of approximately \$31,000. The City moved 2.5 million dollars of general fund operating cash to a money market account for the general fund which yields approximately 4.15% annually.

A balanced budget and cost control efforts are key in the City's financial recovery. General Fund net assets and cash flow analysis reflect the City's continuing need to finance operations, at the current levels, through short term borrowing.

The Debt Service Fund has a fund balance of \$ 1.842 million. Deficit of revenues over expenditures was \$(640,297) for 2019. Borrowings from the Pennsylvania Infrastructure Bank in the amount of \$ 3,000,000 was taken out in 2016 for street reconstruction and paving. Phase 1 began in 2017 and phase 2 began in 2020 and should be completed in 2021. Proceeds from this loan were used to pay for street improvements during 2017, 2018 & 2019.

Proprietary Funds

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

Major Proprietary Fund

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

General Fund Budgetary Highlights

Actual revenues were approximately \$ 46,606 less than budgeted, actual revenue were \$ 5.825 million as compared to a budgeted amount of \$ 5.873 million.

Actual expenditures were approximately \$408,420 less than budgeted, actual expenditures were \$5.388 million as compared to a budgeted amount of \$ 5.873 million.

The General Fund adopted budget was not amended during the 2019 fiscal year. Revenues less expenses exceed budget by \$437,899. Excess of revenues over expenditures were positive in 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 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 \$2.221 million.

Debt Schedule (Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amount Change	
	2019	2018	2019	2018	2019	2018		
General Obligation Notes	\$ -	\$ -	\$ -	\$ 301	\$ -	\$301	\$ (301)	
Capital Leases	115	180	24	37	139	217	(78)	
PIB Loan	2,082	2,370	-	-	2,082	2,370	(288)	
Total	\$ 2,197	\$ 2,550	\$ 24	\$ 338	\$ 2,221	\$ 2,888	\$ (667)	

Economic Environment and Next Year's Budgets and Rates

As a result of relatively stagnant revenues, rising expenditures and borrowing to meet operational expenses, the City faced an approximately \$ 1.200 million structural deficit in 2006. On May 25, 2006, the City was declared a financially distressed municipality by the Pennsylvania Department of Economic and Community Development (DCED) under the Provisions of the Act, DCED retained a Recovery Plan Coordinator to develop a fiscal recovery plan for the City. The City had exited Act 47 and is no longer considered as a distressed city. It is very important for the City to stay on track with the recovery plan in order to stay out of Act 47.

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

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

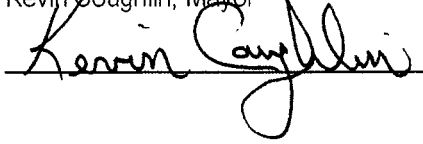
A Revised Recovery plan was adopted in 2010, outlining the City's exit strategy from Act 47. The exit strategy consisted of a change in the form of government from 3rd Class City to Home Rule Municipality, thus allowing the City to restructure

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 future years based on the new form of government. The amended Recovery Plan is an updated road map of the City's strategy to exit from Act 47.

Contacting the City's Financial Management

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

Kevin Coughlin, Mayor

A handwritten signature in black ink that reads "Kevin Coughlin". The signature is written in a cursive style and is positioned below the printed name.

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 8,759,281	\$ 1,143,894	\$ 9,903,175
Taxes receivable	1,413,477	-	1,413,477
Accounts receivable, net	4,800	235,966	240,766
Prepaid expenses	1,189	-	1,189
Due from sewer fund	225,066	-	225,066
	<hr/>	<hr/>	<hr/>
Total Current Assets	10,403,813	1,379,860	11,783,673
 CAPITAL ASSETS, net	 269,053	 4,863,796	 5,132,849
 DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows related to OPEB	756,299	-	756,299
Deferred outflows related to pensions	1,106,845	-	1,106,845
	<hr/>	<hr/>	<hr/>
	<u>\$ 12,536,010</u>	<u>\$ 6,243,656</u>	<u>\$ 18,779,666</u>

	Primary Government		
	Governmental Activities	Business-Type Activity	Total
CURRENT LIABILITIES:			
Current portion of long-term debt:			
Note payable	\$ 294,435	\$ -	\$ 294,435
Capital leases	36,409	7,081	43,490
Accounts payable	70,892	9,205	80,097
Accrued payroll	116,385	-	116,385
Other liabilities	8,445	-	8,445
Unearned revenue	92,563	10,109	102,672
Due to library	308	-	308
Due to general fund	-	225,066	225,066
	<u>619,437</u>	<u>251,461</u>	<u>870,898</u>
LONG-TERM OBLIGATIONS, net of current portion:			
Note payable	1,787,724	-	1,787,724
Capital leases	78,752	17,083	95,835
Net OPEB obligation	10,170,860	-	10,170,860
Net pension liability	2,909,969	-	2,909,969
Compensated absences	563,521	-	563,521
	<u>15,510,826</u>	<u>17,083</u>	<u>15,527,909</u>
Total Long-term Obligations, net of current portion:	<u>15,510,826</u>	<u>17,083</u>	<u>15,527,909</u>
Total Liabilities	<u>16,130,263</u>	<u>268,544</u>	<u>16,398,807</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to OPEB	444,588	-	444,588
Deferred inflows related to pensions	1,047,187	-	1,047,187
	<u>1,491,775</u>	<u>-</u>	<u>1,491,775</u>
Total Deferred Inflows of Resources	<u>1,491,775</u>	<u>-</u>	<u>1,491,775</u>

	Primary Government		
	Governmental Activities	Business-Type Activity	Total
NET POSITION:			
Net investment in capital assets	(1,928,267)	4,839,632	2,911,365
Restricted for:			
Debt service	373,735	-	373,735
Restricted for escrow agreements	4,500	-	4,500
Restricted for externally imposed restrictions	702,661	-	702,661
Unrestricted	<u>(4,238,657)</u>	<u>1,135,480</u>	<u>(3,103,177)</u>
Total Net Position	<u>(5,086,028)</u>	<u>5,975,112</u>	<u>889,084</u>
	<u>\$ 12,536,010</u>	<u>\$ 6,243,656</u>	<u>\$ 18,779,666</u>

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

PROGRAMS: al Activities:	Program Revenues				Net Revenue (Expense) and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activity	Total
			Capital Grants and Contributions				
Government - administrative	\$ 962,802	\$ 26,621	\$ 11,493	\$ -	\$ (924,688)	\$ -	\$ (924,688)
Society	4,470,234	249,426	57,425	-	(4,163,383)	-	(4,163,383)
arks	2,097,800	946,863	367,985	-	(782,952)	-	(782,952)
y development	455,748	-	-	444,478	(11,270)	-	(11,270)
id recreation	18,651	-	-	-	(18,651)	-	(18,651)
id fees on long-term debt	44,717	-	-	-	(44,717)	(9,163)	(53,880)
overnmental Activities	8,049,952	1,222,910	436,903	444,478	(5,945,661)	(9,163)	(5,954,824)
ne Activity	414,982	892,648	-	-	-	477,666	477,666
	\$ 8,464,934	\$ 2,115,558	\$ 436,903	\$ 444,478	(5,945,661)	468,503	(5,477,158)
General Revenues:							
Taxes:							
			Property taxes		2,502,780	-	2,502,780
			Other taxes		3,097,078	-	3,097,078
			Cable television franchise revenue		142,408	-	142,408
			Payments in lieu of taxes		45,669	-	45,669
			Interest earnings		96,175	6,133	102,308
			Miscellaneous		174,407	-	174,407
			Rents and concessions		18,316	-	18,316
			Total General Revenues		6,076,833	6,133	6,082,966
			CHANGE IN NET POSITION		131,172	474,636	605,808
			NET POSITION - Previously Reported		(4,421,920)	5,251,075	829,155
			Restatement (Note 11)		(795,280)	249,401	(545,879)
			As restated		(5,217,200)	5,500,476	283,276
			NET POSITION - Ending		\$ (5,086,028)	\$ 5,975,112	\$ 889,084

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

CITY OF NANTICOKE, PENNSYLVANIA

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	Non-Major Funds						Total Government Funds
	General Fund	Special Revenue Fund	Refuse Fund	Debt Service Fund	CDBG Fund	Highway Aid Fund	
Cash equivalents	\$ 4,238,107	\$ 1,750,073	\$ 160,401	\$ 1,884,109	\$ 3,906	\$ 15,524	\$ 8,052,117
Accounts receivable	1,305,024	-	-	108,453	-	-	1,413,477
Prepaid expenses	4,800	-	-	-	-	-	4,800
Inventory	1,190	-	-	-	-	-	1,190
Cash and cash equivalents	86,723	62,680	240,256	-	198,635	118,867	707,161
Other funds	375,810	-	-	-	4,219	-	380,029
	<u>\$ 6,011,654</u>	<u>\$ 1,812,753</u>	<u>\$ 400,657</u>	<u>\$ 1,992,562</u>	<u>\$ 206,760</u>	<u>\$ 134,391</u>	<u>\$ 10,558,777</u>
Accounts payable	\$ 36,904	\$ 11,926	\$ 3,495	\$ -	\$ 3,044	\$ 15,524	\$ 70,895
Accrued payroll	116,385	-	-	-	-	-	116,385
Accrued liabilities	-	8,445	-	-	-	-	8,445
Accrued revenue	-	-	92,563	-	-	-	92,563
Accrued liability	308	-	-	-	-	-	308
Other funds	4,219	19,874	64,343	61,446	5,081	-	154,963
	<u>157,816</u>	<u>40,245</u>	<u>160,401</u>	<u>61,446</u>	<u>8,125</u>	<u>15,524</u>	<u>443,557</u>
Liabilities	<u>500,235</u>	<u>-</u>	<u>-</u>	<u>88,935</u>	<u>-</u>	<u>-</u>	<u>589,170</u>
CASH FLOWS OF GOVERNMENTAL FUNDS:							
Operating revenue	86,723	62,680	240,256	373,735	198,635	118,867	1,080,816
Capital revenue	-	1,740,718	-	1,468,446	-	-	3,209,174
Other revenue	5,266,880	(30,890)	-	-	-	-	5,235,990
	<u>5,353,603</u>	<u>1,772,508</u>	<u>240,256</u>	<u>1,842,181</u>	<u>198,635</u>	<u>118,867</u>	<u>9,526,011</u>
End Balances	<u>\$ 6,011,654</u>	<u>\$ 1,812,753</u>	<u>\$ 400,657</u>	<u>\$ 1,992,562</u>	<u>\$ 206,760</u>	<u>\$ 134,391</u>	<u>\$ 10,558,777</u>

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

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

TOTAL GOVERNMENTAL FUND BALANCES \$ 9,526,050

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in the fund financial statements:

Capital assets	565,076
Accumulated depreciation	(296,023)

Unavailable revenue in the governmental-fund balance sheet includes taxes receivable balances that are not considered a current resource. 589,170

The City's net pension liability, deferred outflows of resources, and deferred inflows of resources related to the City's pension plans are not reported in the governmental funds but are reported in the statement of net position:

Net pension liability	(2,909,969)
Deferred outflows of resources	1,106,845
Deferred inflows of resources	(1,047,187)

The City's net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to the City's OPEB plan are not reported in the governmental funds but are reported in the statement of net position:

Net OPEB obligation	(10,170,860)
Deferred outflows of resources	756,299
Deferred inflows of resources	(444,588)

Long-term obligations are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term obligations at year end consist of the following:

Note payable	(2,082,159)
Capitalized lease obligations	(115,161)

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019**

	General Fund	Special Revenue Fund	Refuse Fund	Debt Service Fund	CDBG Fund	Non-Major Fund	Total Governmental Funds
	\$ 4,991,529	\$ -	\$ -	\$ 378,100	\$ -	\$ -	\$ 5,369,629
Governmental revenue	101,920	36,420	27,373	-	457,225	316,859	939,797
Investment earnings	149,623	-	-	-	-	-	149,623
Grants, reimbursements, and costs	42,011	-	-	-	-	-	42,011
Transfers-in	229,975	-	943,709	-	-	-	1,173,684
Transfers-out	67,802	10,773	5,758	7,515	1,590	2,736	96,174
Change in fund balances	18,316	-	-	-	-	-	18,316
Beginning fund balances	140,057	33,350	-	-	-	-	173,407
Revenues	5,741,233	80,543	976,840	385,615	458,815	319,595	7,962,641
EXPENDITURES:							
General government	890,235	63,340	-	-	-	-	953,575
Public safety	3,985,155	12,667	-	-	-	-	3,997,822
Community development	415,436	66,868	1,030,122	98,242	-	455,284	2,065,952
Public works and recreation	-	-	-	-	455,748	-	455,748
Police and fire	18,651	-	-	-	-	-	18,651
Public utility	64,821	-	-	288,074	-	-	352,895
Interest	5,121	-	-	39,596	-	-	44,717
Debt service	-	-	-	-	-	51,656	51,656
Capital expenditures	5,379,419	142,875	1,030,122	425,912	455,748	506,940	7,941,016
Other financing sources (uses)	361,814	(62,332)	(53,282)	(40,297)	3,067	(187,345)	21,625
DEFICIENCY OF REVENUES AND (SURPLUS) EXPENDITURES							
FINANCING SOURCES (USES):							
Transfers-in	83,744	608,659	-	-	-	44,983	737,386
Transfers-out	(8,659)	(44,983)	-	(600,000)	(83,744)	-	(737,386)
Change in fund balances	1,000	-	-	-	-	-	1,000
Other Financing Sources (Uses)	76,085	563,676	-	(600,000)	(83,744)	44,983	1,000
DEFICIENCY OF REVENUES AND (SURPLUS) EXPENDITURES							
FINANCING SOURCES OVER (UNDER) EXPENDITURES	437,899	501,344	(53,282)	(640,297)	(80,677)	(142,362)	22,625
Change in fund balances	4,915,704	1,271,164	293,538	2,482,478	279,312	261,229	9,503,425
Beginning fund balances	5,353,603	1,772,508	240,256	1,842,181	198,635	118,867	9,526,050
Ending fund balances							

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

YEAR ENDED DECEMBER 31, 2019

CHANGE IN FUND BALANCE \$ 22,625

The change in net position reported in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlays exceeds depreciation.

Capital outlays	51,656
Depreciation	(73,354)

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. (12,748)

Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The effect of these transactions in the statement of activities is shown below:

Repayment of note payable	288,074
Repayment of capitalized lease	64,821

In the statement of revenues, expenditures, and changes in fund balance, non-exchange revenue is only recognized when measurable and available. Therefore, any non-exchange balances collected past sixty-days of the balance sheet date are not recognized as revenue until the period collected. This amount is the net change in revenue accrued between the prior and the current year. 230,230

Certain items reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These items consists of:

Change in compensated absences	(7,853)
Change in OPEB and related deferrals	(388,673)
Change in net pension liability and related deferrals	(43,606)

	Business-Type Activity
	<u>Sewer Fund</u>
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,143,894
Accounts receivable, net	<u>235,966</u>
Total Current Assets	1,379,860
CAPITAL ASSETS, net	<u>4,863,796</u>
	<u>\$ 6,243,656</u>
CURRENT LIABILITIES:	
Current portion of capital leases	\$ 7,081
Accounts payable	9,205
Deferred revenue	10,109
Due to general fund	<u>225,066</u>
Total Current Liabilities	251,461
LONG-TERM OBLIGATIONS, NET OF CURRENT PORTION:	
Capital leases	<u>17,083</u>
Total Liabilities	<u>268,544</u>
NET POSITION:	
Net investment in capital assets	4,839,632
Unrestricted	<u>1,135,480</u>
Total Net Position	<u>5,975,112</u>
	<u>\$ 6,243,656</u>

PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2019

	Business-Type Activity
	<u>Sewer Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 890,513
Other Income	<u>2,135</u>
Total Operating Revenues	<u>892,648</u>
OPERATING EXPENSES:	
Personnel services	224,253
Supplies and materials	168,611
Depreciation	17,403
Other operating expenses	<u>4,715</u>
Total Operating Expenses	<u>414,982</u>
INCOME FROM OPERATIONS	<u>477,666</u>
NON-OPERATING REVENUES(EXPENSES):	
Investment income	6,133
Interest expense	<u>(9,163)</u>
Non-operating Expenses, net	<u>(3,030)</u>
CHANGE IN NET POSITION	<u>474,636</u>
NET POSITION - Beginning:	
As previously reported	5,251,075
Prior-period adjustment	<u>249,401</u>
As restated	<u>5,500,476</u>
NET POSITION - Ending	<u>\$ 5,975,112</u>

	Business-Type Activity
	<u>Sewer Fund</u>
CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 906,135
Cash paid to employees for salaries and benefits	(198,548)
Cash paid for operating expenses	<u>(141,242)</u>
Net Cash Provided By Operating Activities	<u>566,345</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest received	<u>6,133</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments on long-term debt	(301,000)
Payments on capital leases	(12,657)
Cash paid for interest	<u>(9,163)</u>
Net Cash Used by Investing Activities	<u>(322,820)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	249,658
CASH AND CASH EQUIVALENTS - Beginning	<u>894,236</u>
CASH AND CASH EQUIVALENTS - Ending	<u><u>\$ 1,143,894</u></u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Income from operations	\$ 477,666
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	17,403
Change in assets and liabilities:	
Accounts receivable	13,487
Accounts payable	8,237
Due to general fund	<u>49,552</u>

	Pension Trust <u>Fund</u>
ASSETS:	
Cash	\$ 33,462
Investments	9,173,869
Other assets	<u>40,075</u>
	<u>\$ 9,247,406</u>
NET POSITION:	
Held-in-trust for pension benefits	<u>\$ 9,247,406</u>

	Pension Trust <u>Fund</u>
ADDITIONS:	
Contributions:	
Employer contributions	\$ 389,021
State aid	243,285
Contributions by members	<u>61,368</u>
Total Contributions	<u>693,674</u>
Investment Income:	
Net appreciation in fair-value of investments	1,236,840
Interest and dividends, net of fees	<u>97,702</u>
Total Investment Income	<u>1,334,542</u>
Total Additions	<u>2,028,216</u>
DEDUCTIONS:	
Retirement benefits paid	515,769
Administrative expenses	<u>42,563</u>
Total Deductions	<u>558,332</u>
CHANGE IN NET POSITION	1,469,884
NET POSITION - Beginning	<u>7,777,522</u>
NET POSITION - Ending	<u>\$ 9,247,406</u>

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the City of Nanticoke, Pennsylvania (the "City").

Reporting Entity

The City is governed by a Home Rule Charter and operates under a mayor-council form of government, with the appointment of a professional manager to run the day-to-day operations of the City.

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, sanitation, public works, culture and recreation, community development, and general administrative services for its residents.

The City has evaluated its relationship with the following organizations to determine if these organizations should be included in the annual government-wide and fund financial statements of the City:

- The Housing Authority of the City of Nanticoke
- The General Municipal Authority of the City of Nanticoke

Component Unit

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. This type of entity may then be reported in one or two following manners:

Discrete presentation

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Reporting Entity (Cont'd)****Component Unit (Cont'd)****Blended presentation**

Financial data for the component unit is presented in the same manner as that of the City's financial data and is reported as part of the City's financial operations.

As a result of applying these criteria, the two authorities are not required to be included in the City's financial statements as component units.

Joint Venture

A legal entity or other organization resulting from a contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility. There are no such entities included in the City's reporting entity.

Related Organization

An organization for which the City is not financially accountable even though the City appoints a voting majority of the organization's governing board.

Government-Wide Financial Statements

The City's government-wide financial statements include a statement of net position and a statement of activities. These statements present information about the reporting government as a whole. They include all funds of the reporting government except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from legally separate component units for which the primary government is financially accountable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Government-Wide Financial Statements (Cont'd)

All of the City's assets and liabilities, including capital assets (except as discussed under Capital Assets), and long-term liabilities, are included in the accompanying statement of net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among other program revenues are reported as general revenues.

Fund Financial Statements

Financial statements of the reporting government are organized into funds each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net assets/fund equity, revenues, and expenditures/expenses. The City reports the difference between its governmental-fund assets and liabilities and deferred outflows/inflows of resources as fund balance.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Governmental-fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has presented all major funds that met the applicable criteria. An accompanying schedule is presented to reconcile and explain the differences in governmental-fund balances as presented in these statements to the net position presented in the government-wide financial statements.

Governmental-Fund Types

The following is a description of the governmental funds of the City:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Governmental-Fund Types (Cont'd)

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are legally restricted to expenditures for specified purposes. The following funds included in the accompanying government-wide and fund financial statements are accounted for as special revenue funds: special revenue fund, refuse, CDBG, and highway aid.

Debt Service Fund

The debt service fund accounts for the accumulation of resources for and the payment of general long-term debt principal and interest. The City annually levies property taxes restricted for the retirement of general obligation bonds, interest, and judgements.

Proprietary Fund Types

The focus of proprietary funds measurement is the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations.

The City's proprietary fund is classified as an enterprise fund.

Enterprise Fund

Enterprise funds are used for activities which are financed and operated in a manner similar to businesses in the private sector, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The principal operating revenue for the City's proprietary fund is the collection of sewer fees. Operating expenses for the City's enterprise fund includes salaries and administrative costs. All revenue or expenses not meeting this definition are reported as non-operating revenue and expenses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fiduciary Fund Types

Fiduciary funds account for the assets held by the City in a trustee capacity or an agent for individuals, private organizations, other governmental units, and/or other funds. The fiduciary fund included in this category is:

Pension Trust Fund

The pension trust fund accounts for the assets held-in-trust in the City's pension plans.

Measurement Focus and Basis of Accounting

The government-wide statement of net position and statement of activities are reported using the "economic resources measurement focus" and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental-fund financial statements are reported using the "current financial resources measurement focus" and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources. General capital asset acquisitions are reported

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Measurement Focus and Basis of Accounting (Cont'd)

Property taxes are recorded in the year levied as receivables and deferred inflows of resources. Intergovernmental aids and grants are recognized as revenues in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and unavailable revenue. Amounts received prior to the entitlement period are recorded as unearned revenues.

Revenues susceptible to accrual include property taxes and sewer fees. In general, other taxes and revenue are recognized when received in cash or when measurable and available under the criteria described above.

Fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting and do not have a measurement focus.

Encumbrances

No provisions are made for the recording of encumbrances.

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.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and all other investment instruments with original maturities of three months or less.

Restricted Cash

Several governmental fund cash accounts, which were funded through grants from the Federal Government and the Commonwealth of Pennsylvania, are restricted for various

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Investments**

Investments are stated at fair-value based on quoted market prices. Fair-value is the amount at which a financial investment could be exchanged in a current transaction between willing parties.

Receivables

Accounts and taxes receivable in the governmental-fund financial statements are shown at the total amount due. Taxes, franchise fees and grants not collected within 60 days are offset by deferred inflows of resources in the fund financial statements.

The City provides an allowance for doubtful sewer fees receivable equal to the estimated collection losses that will be incurred. The estimate is based on historical collection experience and a review of the current status of outstanding accounts. Accounts receivable in business-type activities are reported net of an allowance of \$26,219 at December 31, 2019.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as due to and due from funds. Short-term interfund loans are reported as interfund receivables and payables. Long-term interfund loans are reported as advances from and to other funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Capital Assets

Capital assets are reported in the government-wide statement of net assets but are reported in the governmental-fund financial statements as expenditures. Capital assets used in proprietary fund operations are accounted for in the same manner as in the government-wide statements.

The City has not capitalized and depreciated all capital assets in governmental activities and has not depreciated sewer system assets in business-type activities. These policies

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has two types of deferred outflows of resources. Accordingly, these items, deferred pension charges and deferred OPEB obligation are reported in the statement of net position in connection with the City's pension plans and other post-employment benefit plan. These deferred charges are either (a) recognized in the subsequent period as a reduction of the net pension liability or other post-employment benefit obligation (which includes contributions made after the measurement date) or (b) amortized in a systematic and rational method as expense in future periods in accordance with Generally Accepted Accounting Principles ("GAAP").

In addition to liabilities, the statement of financial position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has two types of deferred inflows of resources. On the statement of net position, deferred inflows of resources are related to pensions and other post-employment benefits for certain actuarially determined differences between projected and actual investment earnings. In the governmental-funds balance sheet, deferred inflows of resources are related to unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental-fund operations or proprietary fund operations.

All long-term debt to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. Long-term debt consists primarily of notes payable, leases, and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Compensated Absences

For governmental activities, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

In governmental funds, compensated absences are recorded as expenditures in the year paid.

Property Taxes

The provisions of the Pennsylvania Revenue and Taxation Code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are computed by applying approved property tax rates to the assessed value of properties as determined by the Chief Assessor's Office of the County of Luzerne, in the case of locally assessed property, or as determined by the State Board of Equalization. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

The total tax on real estate in 2019 was 5.9258 mills. Of this amount, 4.9994 mills were levied for general purposes, .907 mills were levied for debt service, and .0194 mills for the Mill Memorial Library.

The current portion of real estate taxes are collected by the appointed Tax Collection Agency and submitted to the City. Delinquent real estate taxes are collected by a third-party collector and are remitted to the City.

The schedule for real estate taxes levied each year is as follows:

March 1	Levy date
March 1 - April 30	2.0% discount period
May 1 - June 30	Face payment period
July 1 - December 31	10% penalty period
January 1	Lien date

Delinquent real estate taxes receivable at December 31, 2019 were \$707,723. The City believes all delinquent real estate taxes receivable to be fully collectible.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Budgetary Accounting**

The City follows the following 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. Departments for budgetary purposes are general government, public safety, sanitation, public works, parks and recreation, debt service, and employee benefits and miscellaneous. Public hearings are conducted to obtain taxpayer comment.
2. By December 15, the budget is approved by motion of the Council. Expenditures for the budget may not legally exceed appropriations and prior-year fund balance reserves. This is done as a level of budgetary control.
3. All modifications over a certain threshold, transfers and amendments must be approved by the Council.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The legally adopted budgets of the City are for the general fund and all special revenue funds.
6. The Council may authorize supplemental appropriations during the year. The City's Council must approve all over expenditures of appropriations or transfers of appropriated amounts.
7. The budgetary basis of accounting for the general fund differs from generally accepted accounting principles in that it includes certain expenditures and expenses of the liquid fuels fund, CDBG fund, and proprietary fund and accounts for reimbursement from these funds as operating transfers in. Such expenditures and expenses are those of the respective funds and not of the City's general fund. The adjustments necessary to reconcile the budgetary basis with generally accepted accounting principles are provided in the accompanying notes. As a result, the budgeted amounts are

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Interfund Transactions

The City had numerous transactions between funds to finance operations, provide services, construct assets, and service debt. These transactions are classified as operating transfers-in/out, and due from/to other governmental funds. The following illustrations summarize interfund transactions (as presented in the City's fund financial statements) for the year ended December 31, 2019.

The operating transfers between funds for the year ended December 31, 2019 are as follows:

	<u>Transfers-In</u>	<u>Transfers-Out</u>
General Fund:		
CDBG fund	\$ 83,744	\$ -
Special revenue	<u>-</u>	<u>8,659</u>
Total General Fund	<u>\$ 83,744</u>	<u>\$ 8,659</u>
Debt Service Fund:		
Special revenue fund	<u>\$ -</u>	<u>\$ 600,000</u>
Special Revenue Fund:		
General fund	\$ 8,659	\$ -
Highway aid fund	-	44,983
Debt service fund	<u>600,000</u>	<u>-</u>
Total Special Revenue Fund	<u>\$ 608,659</u>	<u>\$ 44,983</u>
Highway Aid Fund:		
Special revenue fund	<u>\$ 44,983</u>	<u>\$ -</u>
CDBG Fund:		
General fund	<u>\$ -</u>	<u>\$ 83,744</u>

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Interfund Transactions (Cont'd)

The following summarizes the receivables and payables between funds for the year ended December 31, 2019:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Sewer fund	\$ 225,066	\$ -
Refuse fund	64,343	-
Special revenue fund	19,874	-
CDBG fund	5,081	4,219
Debt service fund	<u>61,446</u>	<u>-</u>
Total General Fund	<u>\$ 375,810</u>	<u>\$ 4,219</u>
Debt Service Fund:		
General fund	<u>\$ -</u>	<u>\$ 61,446</u>
CDBG Fund:		
General fund	<u>\$ 4,219</u>	<u>\$ 5,081</u>
Special Revenue Fund:		
General fund	<u>\$ -</u>	<u>\$ 19,874</u>
Sewer Fund:		
General fund	<u>\$ -</u>	<u>\$ 225,066</u>
Refuse Fund:		
General fund	<u>\$ -</u>	<u>\$ 64,343</u>

Pensions and OPEB

For purposes of measuring the net pension liability, total OPEB liability, deferred outflows and deferred inflows of resources, pension and OPEB expense, fiduciary net position and additions to/deductions from the Plan's fiduciary net position, have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fund Equity

Fund equity at the governmental-fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Governmental-Fund Balances

Generally, governmental-fund balances represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those resources can be spent. Fund balances are classified as follows:

Non-spendable: amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation, or because of constraints that are externally imposed by creditors, granters, contributors, or the laws or regulations of other governments.

Committed: fund balance that contains self-imposed constraints of the government from its highest level of decision making authority, the City Council. The City Council commits revenue streams through adopted motions.

Assigned: amounts constrained by the City's intent to use them for a specific purpose. Fund balance is assigned by City Council by passage of a new resolution.

Unassigned: all other spendable amounts.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is to pay the expenditure from restricted fund balance and then from less restrictive classifications; committed, assigned, then unassigned.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Effects of New Pronouncements

The following summarizes recent Governmental Accounting Standards Board ("GASB") pronouncements and their impact, if any, on the financial statements:

In June 2017, GASB issued Statement No. 87, *Leases*. The statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract.

The provisions of Statement No. 87 are effective for fiscal years beginning after June 15, 2021. The City is currently evaluating the effects of this statement on its financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the local information that is described in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

The provisions of Statement No. 88 are effective for fiscal years beginning after June 15,

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Effects of New Pronouncements (Cont'd)**

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are; 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and 2) to simplify accounting for interest cost incurred before the end of a construction period.

The provisions of Statement No. 89 are effective for fiscal years beginning after December 15, 2020. The City is currently evaluating the effects of this statement on its financial statements.

GASB has issued the following pronouncements which management of the City does not expect to impact the financial statements.

- Statement No. 84, *Fiduciary Activities*, with an effective date for fiscal years beginning after December 15, 2019.
- Statement No. 90, *Majority Equity Interests - an Amendment of GASB Standards No. 14 and No. 61*, with an effective date for fiscal years beginning after December 15, 2019.
- Statement No. 91, *Conduit Debt Obligations*, with an effective date for fiscal years beginning after December 15, 2021.
- Statement No. 92, *Omnibus 2020*, with an effective date for fiscal years beginning after June 15, 2021.
- Statement No. 93, *Replacement of Interbank Offered Rates*, with an effective date for fiscal years ending after June 15, 2021.
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, with an effective date for fiscal years ending after June 15, 2022.
- Statement No. 96, *Subscription-Based Information Technology Arrangements*, with an effective date for fiscal years ending after June 15, 2022.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
Subsequent Events

Management has evaluated subsequent events through November 12, 2020, which is the date the financial statements were available to be issued.

NOTE 2: CASH AND INVESTMENTSCash

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City's custodial credit risk policy requires depository institutions to pledge securities as collateral for deposits that exceed insured balances. At December 31, 2019, \$9,512,941 of the City's bank balance of \$10,156,936 was uninsured but was collateralized by collateral held by the pledging bank's trust department not in the City's name.

Investments

The fair-value of investments are presented on the accompanying statement of fiduciary net position. Refer to Note 6 for the method of valuation. All of the fiduciary fund's investments are held by the custodian in the name of the Police Pension Plan and the Firemen Pension Plan.

Pension investments by type were as follows at December 31, 2019:

	<u>Fair-Value</u>
Managed equity	\$ 6,118,164
Government bonds	607,290
Corporate bonds	1,213,347
Fixed income fund	1,063,392
Real estate	<u>171,676</u>
	<u>\$ 9,173,869</u>

Custodial Credit Risk

5. Investment in custodial credit risk is the risk that, in the event of the failure of the

NOTE 2: CASH AND INVESTMENTS (CONT'D)

Concentration of Credit Risk

The City places no limit on the amount invested in any one issue. At December 31, 2019, there is a 5% or more concentration of corporate bonds, government bonds, and fixed income securities.

Credit Risk

The Plan assumes that its callable investments will not be called.

The City targets the overall rating of its fixed income assets to be at least "BBB" by Standard and Poor's or "Baa" by Moody's rating systems.

Interest Rate Risk

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

The following schedule details the City's exposure to credit risk and interest rate risk:

<u>Investment Type:</u>	<u>Fair-Value</u>	<u>Average Maturity</u>	<u>Average Rating</u>
<u>Police Pension Plan:</u>			
Government Bonds	\$ 136,127	8.1 years	A
Corporate Bonds	978,933	6.5 years	AA
Fixed Income Fund	<u>524,639</u>	11.2 years	A-
	<u>\$ 1,639,699</u>		

Firemen Pension Plan:

Government Bonds	\$ 471,163	8.1 years	A
Corporate Bonds	234,414	6.5 years	AA
Fixed Income Fund	<u>538,753</u>	11.2 years	A-

NOTE 3: FAIR-VALUE MEASUREMENTS

U.S. GAAP defines fair-value as the price that would be received upon the sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. U.S. GAAP specifies a hierarchy of inputs to valuation techniques, which categorizes inputs to fair-value measurement that reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair-value hierarchy:

Level 1 Inputs - Unadjusted quoted market prices for identical assets and liabilities in an active market that an organization has the ability to access.

Level 2 Inputs - Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs - Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair-value measurements.

U.S. GAAP requires the use of observable market data, when available, in making fair-value measurements. When inputs used to measure fair-value fall within different levels of the hierarchy, the level within which the fair-value measurement is categorized is based on the lowest level input that is significant to the fair-value measurement.

The following tables present the fair-value measurements of assets recognized in the accompanying statements of financial position measured at fair-value on a recurring basis and the level within the fair-value hierarchy in which the fair-value measurements fall at December 31, 2019:

	<u>Fair-Value Measurements Using</u>			
	<u>Fair-Value</u>	<u>(Level 1)</u> <u>Inputs</u>	<u>(Level 2)</u> <u>Inputs</u>	<u>(Level 3)</u> <u>Inputs</u>
Investments:				
Managed Equity	\$ 6,118,164	\$ 6,118,164	\$ -	\$ -
Government Bonds	607,290	607,290	-	-
Corporate Bonds	1,213,347	1,213,347	-	-
Fixed Income Fund	1,063,392	1,063,392	-	-
Real Estate	171,676	171,676	-	-

NOTE 3: FAIR-VALUE MEASUREMENTS (CONT'D)

The carrying values of cash, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and other payables, approximate fair-value due to the short maturity of these financial instruments.

NOTE 4: TAXES AND FEES RECEIVABLE

Taxes receivable consist of the following at December 31, 2019:

General Fund:

Real estate taxes	\$ 599,928
Other taxes:	
Earned income	625,956
Business privilege	46,796
LST	18,975
Real estate transfer tax	<u>13,369</u>
	<u>\$ 1,305,024</u>

Debt Service Fund:

Real estate taxes	<u>\$ 108,453</u>
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NOTE 5: CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Vehicles	\$ 513,420	\$ 51,656	\$ -	\$ 565,076
Less: Accumulated depreciation	<u>(222,669)</u>	<u>(73,354)</u>	<u>-</u>	<u>(296,023)</u>
Total capital assets	<u>\$ 290,751</u>	<u>\$ (21,698)</u>	<u>\$ -</u>	<u>\$ 269,053</u>

NOTE 5: CAPITAL ASSETS (CONT'D)

Depreciation expense charged to functions/programs of governmental activities was as follows:

Governmental Activities:		
Public safety		\$ 47,205
Public works		<u>26,149</u>
 Total Depreciation Expense - Governmental Activities		 <u>\$ 73,354</u>

Capital asset activity for business-type activities for the year ended December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Sewer system	<u>\$ 4,844,474</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,844,474</u>
Capital assets, being depreciated:				
Equipment	231,791	-	-	231,791
Less: accumulated depreciation	<u>(195,066)</u>	<u>(17,403)</u>	<u>-</u>	<u>(212,469)</u>
Total capital assets, being depreciated	<u>36,725</u>	<u>(17,403)</u>	<u>-</u>	<u>19,322</u>
Capital assets, net	<u>\$ 4,881,199</u>	<u>\$ (17,403)</u>	<u>\$ -</u>	<u>\$ 4,863,796</u>

NOTE 6: TAX ABATEMENTS

As of December 31, 2019, the City provides tax abatements through a program, Local Economic Revitalization Tax Assistance ("LERTA"). The City established a local LERTA to provide property tax abatements to encourage revitalization of existing buildings and the construction of new structures. Abatements are obtained through application by the property owner, forty five days before starting construction. The exemption commences

NOTE 7: LONG-TERM OBLIGATIONS

Governmental Activities

At December 31, 2019, notes payable were as follows:

	Balance Outstanding January 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2019</u>	Amounts Due Within <u>One Year</u>
2016 PIB Loan	<u>\$ 2,370,233</u>	<u>\$ -</u>	<u>\$ 288,074</u>	<u>\$ 2,082,159</u>	<u>\$ 294,435</u>

PIB Loan

In September 2016, the City borrowed \$3,000,000 from the Commonwealth of Pennsylvania, through the Department of Transportation loan program, for various paving projects. The loan requires quarterly installments of \$81,917, including interest at 1.75%, through September 2026.

The following summarizes the City's future debt service requirements on the above note payable as of December 31, 2019:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 294,435	\$ 33,233	\$ 327,669
2021	299,623	28,046	327,669
2022	304,901	21,768	326,669
2023	309,170	17,500	326,669
2024	314,673	11,997	326,669
2025-2026	<u>559,357</u>	<u>8,142</u>	<u>567,500</u>
	<u>\$ 2,082,159</u>	<u>\$ 120,686</u>	<u>\$ 2,202,845</u>

NOTE 7: LONG-TERM OBLIGATIONS (CONT'D)

Governmental Activities (Cont'd)

At December 31, 2019, capitalized lease obligations were as follows:

	Balance Outstanding January 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2019</u>	Amounts Due Within <u>One Year</u>
Capitalized Leases	\$ 179,982	\$ -	\$ 64,821	\$ 115,161	\$ 36,409

Capitalized Leases

The City has entered into various leases for vehicles with a net book value of \$108,436 at December 31, 2019, payable in annual installments including interest from 3.94% to 4.00%, with final payments through February 2023.

The following summarizes the City's future debt service requirements on the above capital leases as of December 31, 2019:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 36,409	\$ 4,354	\$ 40,763
2021	31,307	2,913	34,220
2022	30,346	1,693	32,039
2023	<u>17,099</u>	<u>674</u>	<u>17,773</u>
	<u>\$ 115,161</u>	<u>\$ 9,634</u>	<u>\$ 124,795</u>

Business-Type Activities

At December 31, 2019 capitalized lease obligations were as follows:

Balance Outstanding January 1,	Balance Outstanding December 31,	Amounts Due Within
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NOTE 7: LONG-TERM OBLIGATIONS (CONT'D)

Business-Type Activities (Cont'd)Capitalized Leases

The City has entered into various leases for vehicles with a net book value of \$19,322 at December 31, 2019 payable in annual installments including interest at 4.00%, with final payments through February 2023.

The following summarizes the City's future debt service requirements on the above capital leases as of December 31, 2019:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 7,081	\$ 925	\$ 8,006
2021	7,390	616	8,006
2022	7,713	293	8,006
2023	<u>1,980</u>	<u>21</u>	<u>2,001</u>
Total	<u>\$ 24,164</u>	<u>\$ 1,855</u>	<u>\$ 26,019</u>

2005 General Obligation Note

In July 2005, the City issued its \$3,155,000 General Obligation Note, for the purposes of refunding the City's outstanding 1999 Guaranteed Sewer Revenue Bonds and paying the costs of issuance. This note was repaid in 2019.

Other Long-Term Obligations

	Balance Outstanding January 1, 2019	Net Additions (Reductions)	Balance Outstanding December 31, 2019
Net OPEB obligations	9,470,475	700,385	10,170,860
Net pension liability	3,953,301	(1,043,532)	2,909,969
Compensated absences	<u>555,668</u>	<u>7,853</u>	<u>563,521</u>

NOTE 8: PENSION PLANS

Plan Description and Administration

The City maintains two single-employer defined benefit pension plans covering police and firemen. The Police Pension Plan provides retirement income and other benefits for the exclusive benefit of members of the police department and is controlled by provisions of Ordinance #17 of 1989 adopted pursuant to Act 317. The Firemen's Pension Plan provides retirement income and other benefits for the exclusive benefit of the members of the Fire Department and is controlled by provisions of Ordinance #10 of 1986 adopted pursuant to Act 317. For detailed financial information, refer to financial management reports covering the period January 1, 2019 to December 31, 2019 as prepared by AFG Pension Administration.

The Police Pension Plan and Firemen's Pension Plan do not issue stand-alone financial statements but are included as a fiduciary fund in these financial statements.

The Nanticoke City non-uniformed pension plan is administered by the Pennsylvania Municipal Retirement System ("PMRS"), an agent multiple-employer defined benefit pension plan. PMRS acts as a common investment and administrative agent for participating municipal pension plans and issues a separate Comprehensive Annual Financial Report ("CAFR").

Plan Membership

The following table provides information concerning types of covered employees and benefit provision for each of the Plans. Benefit provisions and their amendments are authorized by the separate pension boards.

<u>Covered Employees:</u>	<u>Police Pension Plan</u>	<u>Firemen Pension Plan</u>	<u>Non-Uniform PMRS Plan</u>
Active members	13	10	14
Inactive members, entitled to but not yet receiving benefits	0	1	0
Inactive members and beneficiaries currently receiving benefits	16	8	4

NOTE 8: PENSION PLANS (CONT'D)

Basis of Accounting

The City's Pension Plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan 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.

Plan Investments

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

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

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

Method Used to Value Investments

NOTE 8: PENSION PLANS (CONT'D)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease <u>(6.0%)</u>	Current Discount Rate <u>(7.0%)</u>	1% Increase <u>(8.0%)</u>
Police	<u>\$ 2,581,393</u>	<u>\$ 1,635,645</u>	<u>\$ 849,637</u>
	1% Decrease <u>(7.0%)</u>	Current Discount Rate <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
Firemen	<u>\$ 1,580,217</u>	<u>\$ 1,045,109</u>	<u>\$ 596,960</u>
	1% Decrease <u>(4.25%)</u>	Current Discount Rate <u>(5.25%)</u>	1% Increase <u>(6.25%)</u>
Non-Uniform PMRS	<u>\$ 370,552</u>	<u>\$ 229,215</u>	<u>\$ 108,412</u>

Plan Contributions

Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation ("MMO") which is based upon each Plan's biennial actuarial valuation. The MMO includes the normal cost and estimated administrative expenses. The Plans may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO more than employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Each full-time policeman contributes 4% of compensation plus \$2.00 per month. No interest is credited. Each full-time fireman contributes 3% of total compensation plus \$1.00 per month. Active members of the PMRS Pension Plan are required to contribute

NOTE 8: PENSION PLANS (CONT'D)

Plan Contributions (Cont'd)

December 31, 2019, the City contributed \$388,996 to the Police Pension Plan, of which \$137,004 were Act 205 funds; \$243,310 to the Firemen Pension Plan, of which \$106,281 were Act 205 funds; and \$22,956 to the PMRS Pension Plan, all of which were Act 205 funds. During the year ended December 31, 2019, active members contributed \$39,624 to the Police Pension Plan, \$21,744 to the Firemen Pension Plan and \$16,229 to the PMRS Pension Plan.

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

City's Recognition of the Net Pension Liability, Pension Expense, and Deferred Outflows/ Inflows of Resources

As allowed by GASB Statement No. 68, the City is reporting on its government-wide financial statements, its net pension liability, and related deferred outflows of resources and inflows of resources using information from the City's pension plans measured as of December 31, 2019 for the Police and Firemen Pension Plan, and December 31, 2018 for the non-uniform pension plan. The City's pension plans' total pension liability as of December 31, 2019 was \$13,112,079, less the City pension plans' fiduciary net position of \$10,202,110, resulting in a net pension liability of \$2,909,969 at December 31, 2019. Accordingly, as of December 31, 2019, the City reported a net pension liability in the government-wide statement of net-position. For the year ended December 31, 2019, the City recognized pension expense of \$733,100. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the City's pension plans from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on investments:		
Police Pension Plan	\$ 504,905	\$ (487,816)
Firemen Pension Plan	305,840	(265,240)
Non-Uniform PMRS Plan	34,813	-

NOTE 8: PENSION PLANS (CONT'D)

City's Recognition of the Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources (Cont'd)

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions:		
Police Pension Plan	54,264	-
Firemen Pension Plan	31,843	-
Non-Uniform PMRS Plan	14,998	(4,023)
Net difference between expected and actual experience:		
Police Pension Plan	-	(199,114)
Firemen Pension Plan	19,057	(90,994)
Non-Uniform PMRS Plan	87,421	-
Contributions made subsequent to the measurement date:		
Non-Uniform PMRS Plan	53,704	-
	<u>\$ 1,106,845</u>	<u>\$ (1,047,187)</u>

Amounts reported as deferred outflows (inflows) of resources will be recognized as an increase (decrease) in pension expense as follows:

<u>Year ending December 31,</u>	<u>Police Pension Plan</u>	<u>Firemen Pension Plan</u>	<u>Non-Uniform PMRS Plan</u>
2020	\$ (18,370)	\$ 20,419	\$ 87,444
2021	(28,064)	11,390	23,677
2022	11,294	42,301	22,290
2023	(92,621)	(73,604)	43,533
2024	-	-	9,969
	<u>\$ (127,761)</u>	<u>\$ 506</u>	<u>\$ 186,913</u>

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City of Nanticoke administers a single-employer, defined benefit post-employment health insurance plan for eligible retired police and firemen.

Benefits Provided

Police Officers

A police officer who was hired prior to January 1, 2009 and retires after attainment of age 50 and completion of 20 years of service shall be entitled to receive medical, prescription drug, dental and vision coverage for himself and his spouse until age 65. Upon attaining Medicare eligibility, the retired Officer or spouse is entitled to the deductible not covered by Medicare.

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

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

A police officer hired on or after January 1, 2009 shall not be entitled to post-employment medical benefits.

Firemen

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.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (CONT'D)

Benefits Provided (Cont'd)

Firemen (Cont'd)

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.

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 post-employment medical benefits.

Contributions

Police Officers

Police officers retiring prior to January 1, 2009 do not contribute toward coverage. Officers retiring on or after January 1, 2009 but prior to January 1, 2013 will contribute toward coverage until Medicare eligibility based upon a percentage, ranging from 10% to 30%, of the increase in the cost of benefits over the rate in effect September 2009 and retirement year. Officers retiring on or after January 1, 2013 will contribute toward coverage until Medicare eligibility up to an annual cap based on coverage level and retirement date. The City pays the full cost for dental and vision coverage.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (CONT'D)

Contributions (Cont'd)

Firemen (Cont'd)

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, ranging from 2.5% to 7.5%, of the increase in the cost of benefits over the rate in effect September 2009 and retirement year. Fire fighters retiring on or after January 1, 2013 will contribute toward coverage until Medicare eligibility up to an annual cap based on coverage level and retirement date. The City pays the full cost for dental and vision coverage.

Specific information on benefits and coverages can be found in the retirees' respective collective bargaining agreement.

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

Plan Membership

The following employees were covered by the benefit terms at December 31, 2019:

Retired participants or beneficiaries currently receiving benefits	20
Retired participants entitled to but not yet receiving benefits	0
Active participants	<u>16</u>
Total	<u>36</u>

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. As of December 31, 2019, no trust has been established for the funding of the City's post-employment benefit obligation.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (CONT'D)

Changes in the Total OPEB Liability

Balance at January 1, 2018	\$ 10,415,666
Service cost	333,764
Interest	334,204
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(592,784)
Benefit payments	<u>(319,990)</u>
Balance at January 1, 2019	<u>\$ 10,170,860</u>

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the City, calculated using a discount rate and healthcare trend rate that is one percentage point lower and one percentage point higher than the current discount rate and healthcare cost trend rate.

	1% Decrease <u>(2.64%)</u>	Current Rate <u>(3.64%)</u>	1% Increase <u>(4.64%)</u>
Discount rate	<u>\$ 11,469,052</u>	<u>\$ 10,170,860</u>	<u>\$ 9,088,038</u>
	1% <u>Decrease</u>	Current <u>Rate</u>	1% <u>Increase</u>
Healthcare cost trend rate	<u>\$ 8,824,249</u>	<u>\$ 10,170,860</u>	<u>\$ 11,805,309</u>

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

For the year ended December 31, 2019, the City recognized \$728,172 in OPEB expense, which was determined as follows:

Service cost	\$ 333,764
Interest	334,204

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (CONT'D)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Cont'd)

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions or other inputs	\$ 416,801	\$ (444,588)
Benefits paid subsequent to the measurement date (1/1/2019)	<u>339,498</u>	<u>-</u>
	<u>\$ 756,299</u>	<u>\$ (444,588)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2020	\$ 399,702
2021	60,205
2022	<u>(148,196)</u>
	<u>\$ 311,711</u>

NOTE 10: FUND BALANCE

The following is a summary of the governmental fund balances of the City at December 31, 2019:

General Fund

Restricted:	
Various grants and projects	\$ 86,723

NOTE 10: FUND BALANCE (CONT'D)

Special Revenue Fund

Restricted:	
Various grants and projects	72,221
Assigned:	
Roads and streets	1,740,718
Unassigned	<u>(30,890)</u>
	<u>1,782,049</u>

Refuse Fund

Restricted:	
Sewer upgrades	<u>240,256</u>

Debt Service Fund

Restricted:	
Debt service	443,328
Assigned:	
Roads and streets	<u>1,468,446</u>
	<u>1,911,774</u>

CDBG Fund

Restricted:	
Externally imposed restrictions	198,635

Highway Aid Fund

Restricted:	
Roads and streets	<u>118,867</u>

Total Governmental Fund Balance \$ 9,535,591

NOTE 11: ACCOUNTING RESTATEMENT

Governmental Activities

The December 31, 2018 statement of net position understated the amount of the net pension liability.

The effect of this correction is as follows:

Net Position - As previously reported:	\$ (4,421,920)
Understatement of net pension liability	<u>(795,280)</u>
Net Position - As restated	<u>\$ (5,217,200)</u>

Business-Type Activity - Sewer Fund

The December 31, 2018 statement of net position of the sewer fund did not report accounts receivable from residents related to outstanding sewer fees.

The cumulative effect of this correction is as follows:

Net Position - As previously reported:	\$ 5,251,075
Understatement of accounts receivable	<u>249,401</u>
Net Position - As restated	<u>\$ 5,500,476</u>

NOTE 12: RISK MANAGEMENT

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

NOTE 13: COMMITMENTS AND CONTINGENCIES

Commitments

In August 2019, the City awarded a contract for its streetscape project. The total amount of this contract is approximately \$1,965,000 and will be funded through a loan and tax revenue. The project is expected to be completed in 2020.

NOTE 13: COMMITMENTS AND CONTINGENCIES (CONT'D)

Commitments (Cont'd)

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

<u>Year ending December 31,</u>	<u>Amount</u>
2020	\$ 969,692
2021	\$ 990,932
2022	\$ 1,030,696
2023	\$ 1,071,982

Total charges incurred by the City during 2019 amounted to \$948,572.

Contingency

Substantially, all of the City's non-management employees are covered by collective bargaining agreements between the City and various unions.

Litigation

As of December 31, 2019, the City is involved in various legal issues. 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 result.

Grant Programs

The City participates in both state and Federally assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. The City is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs.

NOTE 14: SUBSEQUENT EVENT

Subsequent to year end, the coronavirus (COVID-19) pandemic had a significant impact

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability:					
Service cost	\$ 212,682	\$ 229,056	\$ 218,149	\$ 189,132	\$ 180,126
Interest	493,450	485,712	460,806	430,425	409,354
Change in benefits terms	-	-	-	-	-
Differences between expected and actual experience	(244,620)	-	(39,121)	-	-
Change of assumptions	-	-	135,657	-	-
Benefit payments, including refunds of member contributions	<u>(340,736)</u>	<u>(345,731)</u>	<u>(322,389)</u>	<u>(299,827)</u>	<u>(295,108)</u>
Net Change in Total Pension Liability	120,776	369,037	453,102	319,730	294,372
Total Pension Liability - Beginning	<u>7,251,585</u>	<u>6,882,548</u>	<u>6,429,446</u>	<u>6,109,716</u>	<u>5,815,344</u>
Total Pension Liability - Ending (a)	<u>7,372,361</u>	<u>7,251,585</u>	<u>6,882,548</u>	<u>6,429,446</u>	<u>6,109,716</u>
Plan Fiduciary Net Position:					
Contributions - employer	388,996	339,971	351,559	329,240	317,945
Contributions - member	39,624	36,994	37,681	40,107	37,586
Net investment income (loss)	805,419	(455,077)	617,301	253,272	(194,289)
Benefit payments, including refunds of member contributions	(340,736)	(345,731)	(322,389)	(299,827)	(295,108)
Administrative expense	<u>(5,600)</u>	<u>(2,400)</u>	<u>(7,400)</u>	<u>-</u>	<u>(4,600)</u>
Net Change in Plan Fiduciary Net Position	887,703	(426,243)	676,752	322,792	(138,466)
Plan Fiduciary Net Position - Beginning	<u>4,849,013</u>	<u>5,275,256</u>	<u>4,598,504</u>	<u>4,275,712</u>	<u>4,414,178</u>
Plan Fiduciary Net Position - Ending (b)	<u>5,736,716</u>	<u>4,849,013</u>	<u>5,275,256</u>	<u>4,598,504</u>	<u>4,275,712</u>
City's Net Pension Liability - Ending (a) - (b)	<u>\$ 1,635,645</u>	<u>\$ 2,402,572</u>	<u>\$ 1,607,292</u>	<u>\$ 1,830,942</u>	<u>\$ 1,834,004</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77.81%</u>	<u>66.87%</u>	<u>76.65%</u>	<u>71.52%</u>	<u>69.98%</u>
Covered-employee payroll	<u>\$ 982,145</u>	<u>\$ 916,238</u>	<u>\$ 881,226</u>	<u>\$ 959,962</u>	<u>\$ 951,319</u>
City's net pension liability as a percentage of covered-employee payroll	<u>166.54%</u>	<u>262.22%</u>	<u>182.39%</u>	<u>190.73%</u>	<u>192.79%</u>

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is shown.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability:					
Service cost	\$ 74,224	\$ 91,522	\$ 87,164	\$ 81,551	\$ 77,668
Interest	343,949	334,364	315,783	291,359	276,702
Change in benefits terms	-	-	-	-	-
Differences between expected and actual experience	(113,742)	-	38,113	-	-
Change of assumptions	-	-	63,685	-	-
Benefit payments, including refunds of member contributions	<u>(175,033)</u>	<u>(175,033)</u>	<u>(175,033)</u>	<u>(175,033)</u>	<u>(175,033)</u>
Net Change in Total Pension Liability	129,398	250,853	329,712	197,877	179,337
Total Pension Liability - Beginning	<u>4,426,401</u>	<u>4,175,548</u>	<u>3,845,836</u>	<u>3,647,959</u>	<u>3,468,622</u>
Total Pension Liability - Ending (a)	<u>4,555,799</u>	<u>4,426,401</u>	<u>4,175,548</u>	<u>3,845,836</u>	<u>3,647,959</u>
Plan Fiduciary Net Position:					
Contributions - employer	243,310	208,152	203,541	196,325	198,440
Contributions - member	21,744	21,247	20,315	18,848	16,864
Net investment income (loss)	492,160	(243,057)	372,579	157,028	(63,089)
Benefit payments, including refunds of member contributions	(175,033)	(175,033)	(175,033)	(175,033)	(175,033)
Administrative expense	-	(2,000)	(6,500)	-	(4,600)
Net Change in Plan Fiduciary Net Position	582,181	(190,691)	414,902	197,168	(27,418)
Plan Fiduciary Net Position - Beginning	<u>2,928,509</u>	<u>3,119,200</u>	<u>2,704,298</u>	<u>2,507,130</u>	<u>2,534,548</u>
Plan Fiduciary Net Position - Ending (b)	<u>3,510,690</u>	<u>2,928,509</u>	<u>3,119,200</u>	<u>2,704,298</u>	<u>2,507,130</u>
City's Net Pension Liability - Ending (a) - (b)	<u>\$ 1,045,109</u>	<u>\$ 1,497,892</u>	<u>\$ 1,056,348</u>	<u>\$ 1,141,538</u>	<u>\$ 1,140,829</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77.06%</u>	<u>66.16%</u>	<u>74.70%</u>	<u>70.32%</u>	<u>68.73%</u>
Covered-employee payroll	<u>\$ 723,709</u>	<u>\$ 703,909</u>	<u>\$ 672,823</u>	<u>\$ 643,146</u>	<u>\$ 558,244</u>
City's net pension liability as a percentage of covered-employee payroll	<u>144.41%</u>	<u>212.80%</u>	<u>157.00%</u>	<u>177.49%</u>	<u>204.36%</u>

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is shown.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:					
Service cost	\$ 60,941	\$ 60,347	\$ 53,753	\$ 55,661	\$ 50,916
Interest	56,454	51,357	44,723	41,429	36,543
Change in benefits terms	-	-	49,645	-	-
Differences between expected and actual experience	59,829	-	26,245	-	32,175
Change of assumptions	-	-	-	(9,391)	-
Benefit payments, including refunds of member contributions	<u>(15,164)</u>	<u>(15,250)</u>	<u>(16,469)</u>	<u>(35,106)</u>	<u>(35,954)</u>
Net Change in Total Pension Liability	162,060	96,454	157,897	52,593	83,680
Total Pension Liability - Beginning	<u>1,021,859</u>	<u>925,405</u>	<u>767,508</u>	<u>714,915</u>	<u>631,235</u>
Total Pension Liability - Ending (a)	<u>1,183,919</u>	<u>1,021,859</u>	<u>925,405</u>	<u>767,508</u>	<u>714,915</u>
Plan Fiduciary Net Position:					
Contributions - employer	51,333	42,532	38,320	43,573	35,911
Contributions - member	16,229	16,071	14,981	14,935	15,123
Net investment income (loss)	(63,982)	142,896	57,447	(11,029)	34,324
Benefit payments, including refunds of member contributions	(15,164)	(15,250)	(16,469)	(35,106)	(35,964)
Administrative expense	<u>(2,534)</u>	<u>(2,316)</u>	<u>(2,307)</u>	<u>(1,979)</u>	<u>(1,707)</u>
Net Change in Plan Fiduciary Net Position	(14,118)	183,933	91,972	10,394	47,687
Plan Fiduciary Net Position - Beginning	<u>968,822</u>	<u>784,889</u>	<u>692,917</u>	<u>682,523</u>	<u>634,836</u>
Plan Fiduciary Net Position - Ending (b)	<u>954,704</u>	<u>968,822</u>	<u>784,889</u>	<u>692,917</u>	<u>682,523</u>
City's Net Pension Liability - Ending (a) - (b)	<u>\$ 229,215</u>	<u>\$ 53,037</u>	<u>\$ 140,516</u>	<u>\$ 74,591</u>	<u>\$ 32,392</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>80.64%</u>	<u>94.81%</u>	<u>84.82%</u>	<u>90.28%</u>	<u>95.47%</u>
Covered-employee payroll	<u>\$ 540,955</u>	<u>\$ 535,689</u>	<u>\$ 499,390</u>	<u>\$ 497,827</u>	<u>\$ 463,127</u>
City's net pension liability as a percentage of covered-employee payroll	<u>42.37%</u>	<u>9.90%</u>	<u>28.14%</u>	<u>14.98%</u>	<u>6.99%</u>

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is shown.

CITY OF NANTICOKE, PENNSYLVANIA

PENSION PLANS
 SCHEDULE OF CITY CONTRIBUTIONS
 LAST 10 FISCAL YEARS
 UNAUDITED
 DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Required contribution	\$ 388,996	\$ 339,971	\$ 351,559	\$ 329,240	\$ 317,945	\$ 198,670	\$ 193,520	\$ 120,321	\$ 112,411	\$ -
Contribution to the actuarially determined contribution	<u>388,996</u>	<u>339,971</u>	<u>351,559</u>	<u>329,240</u>	<u>317,945</u>	<u>198,670</u>	<u>193,520</u>	<u>120,321</u>	<u>117,861</u>	<u>-</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,450)	\$ -
Required payroll	\$ 982,145	\$ 916,238	\$ 881,226	\$ 959,962	\$ 951,319	\$ 887,820	\$ -	\$ -	\$ -	\$ -
Percentage of covered-employee payroll	<u>39.61%</u>	<u>37.11%</u>	<u>39.89%</u>	<u>34.30%</u>	<u>33.42%</u>	<u>22.38%</u>	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>
Plan										
Required contribution	\$ 243,310	\$ 208,152	\$ 203,541	\$ 196,325	\$ 198,440	\$ 129,371	\$ 127,021	\$ 153,646	\$ 150,522	\$ -
Contribution to the actuarially determined contribution	<u>243,310</u>	<u>208,152</u>	<u>203,541</u>	<u>196,325</u>	<u>198,440</u>	<u>129,371</u>	<u>127,021</u>	<u>153,646</u>	<u>155,972</u>	<u>-</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,450)	\$ -
Required payroll	\$ 723,709	\$ 703,909	\$ 672,823	\$ 643,146	\$ 558,244	\$ 537,960	\$ -	\$ -	\$ -	\$ -
Percentage of covered-employee payroll	<u>33.62%</u>	<u>29.57%</u>	<u>30.25%</u>	<u>30.53%</u>	<u>35.55%</u>	<u>24.05%</u>	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>
Plan										
Required contribution	\$ 53,704	\$ 47,849	\$ 42,532	\$ 38,320	\$ 43,533	\$ 35,871	\$ 35,891	\$ 39,637	\$ 39,568	\$ -
Contribution to the actuarially determined contribution	<u>53,704</u>	<u>51,333</u>	<u>42,532</u>	<u>38,320</u>	<u>43,573</u>	<u>35,911</u>	<u>35,891</u>	<u>39,637</u>	<u>39,568</u>	<u>-</u>
Contribution deficiency (excess)	\$ -	\$ (3,484)	\$ -	\$ -	\$ (40)	\$ (40)	\$ -	\$ -	\$ -	\$ -
Required payroll	\$ -	\$ 540,955	\$ 535,689	\$ 499,390	\$ 497,827	\$ 463,127	\$ -	\$ -	\$ -	\$ -
Percentage of covered-employee payroll	<u>0.00%</u>	<u>9.49%</u>	<u>7.94%</u>	<u>7.67%</u>	<u>8.75%</u>	<u>7.75%</u>	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>
Information not available										

See independent auditors' report and note to required supplementary information.

Valuation date January 1, 2019

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period:	
Police Pension Plan	11 years
Firemen Pension Plan	10 years
Asset valuation method	Smoothed value with a corridor of 80% to 120%
Inflation	3.00%
Salary increases	5.00%
Investment rate of return	7% for police and 8.00% for firemen
Retirement age	Active members are assumed to retire at age 53 and completion of 20 years of service
Mortality:	
Police Pension Plan	IRS 2017 Static Combined Table for Small Plans
Firemen Pension Plan	IRS 2017 Static Combined Table for Small Plans

Valuation date January 1, 2019

Actuarially determined contribution rates are calculated as of January 1, for the odd valuation year at least two years prior to the end of the fiscal year in which contributions are reported. Therefore, the Actuarially Determined Contribution for calendar year 2019 is based upon the January 1, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal
Amortization method:	Level dollar based upon the amortization periods in Act 205
Asset valuation method:	Based upon the municipal reserves
Discount rate:	5.50%
Inflation:	3.00%
Salary increases:	Age related scale with merit and inflation component
Mortality:	Based on the Retired Pensioners (RP) - 2000 Tables
Cost-of-Living adjustment:	3.0% for those eligible for a COLA

For a complete listing of all assumptions and methods, please refer to the PMRS January 1, 2019 actuarial valuation report.

Actuarial assumptions were updated for the January 1, 2019 actuarial valuations, which is used to determine the Minimum Municipal Obligations for 2019 and 2020, based on the PMRS experience study for the five-year period of January 1, 2009 to December 31, 2013 and the annual Board's review of the regular interest rate.

DECEMBER 31, 2019

	<u>2019</u>	<u>2018</u>
Total OPEB Liability:		
Service cost	\$ 333,764	\$ 281,311
Interest	334,204	349,069
Changes of benefit terms	-	(65,069)
Differences between expected and actual experience	-	-
Changes of assumptions	(592,784)	833,601
Benefit payments, including refunds of member contributions	<u>(319,990)</u>	<u>(277,734)</u>
 Net Change in Total OPEB Liability	 (244,806)	 1,121,768
 Total OPEB Liability - Beginning	 <u>10,415,666</u>	 <u>9,293,898</u>
 Total OPEB Liability - Ending	 <u>\$ 10,170,860</u>	 <u>\$ 10,415,666</u>
 Covered Employee Payroll	 <u>\$ 1,125,619</u>	 <u>\$ 1,125,619</u>
 Total OPEB liability as a percentage of covered payroll	 <u>903.58%</u>	 <u>925.33%</u>

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, information for those years for which information is available is shown.

DECEMBER 31, 2019

Valuation date	January 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay
Inflation	2.25%
Healthcare Inflation Rate	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
Salary increases	5.00%
Investment rate of return	There are no invested assets.
Discount rate	3.64%

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Taxes	\$ 4,763,826	\$ 4,763,826	\$ 4,991,529	\$ 227,703
Intergovernmental revenue	357,850	357,850	101,920	(255,930)
Departmental earnings	3,700	3,700	7,215	3,515
Fines, forfeitures, and costs	49,100	49,100	42,011	(7,089)
Charges for services	133,500	133,500	229,975	96,475
Cable television franchise revenue	138,000	138,000	142,408	4,408
Rents	18,500	18,500	18,316	(184)
Interest	40,000	40,000	67,802	27,802
Other	50,000	50,000	140,057	90,057
Total Revenue	5,554,476	5,554,476	5,741,233	186,757
EXPENDITURES:				
General government	862,455	862,455	890,235	27,780
Public safety	4,322,731	4,322,731	3,985,155	(337,576)
Public works	449,191	449,191	415,436	(33,755)
Culture and recreation	3,600	3,600	18,651	15,051
Debt service	-	-	69,942	69,942
Total Expenditures	5,637,977	5,637,977	5,379,419	(258,558)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(83,501)	(83,501)	361,814	445,315
Other Financing Sources (Uses):				
Sale of assets	-	-	1,000	1,000
Operating transfers in	318,107	318,107	83,744	(234,363)
Operating transfers out	(234,606)	(234,606)	(8,659)	225,947
Total Other Financing Sources (Uses)	83,501	83,501	76,085	(7,416)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	437,899	437,899
Fund Balance, Beginning	-	-	4,915,704	4,915,704
Fund Balance, Ending	\$ -	\$ -	\$ 5,353,603	\$ 5,353,603

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Interest	\$ 1,500	\$ 1,500	\$ 10,773	\$ 9,273
Intergovernmental revenue - state	250,000	250,000	36,420	(213,580)
Intergovernmental revenue - Federal	5,400,000	5,400,000	-	(5,400,000)
Other	-	-	33,350	33,350
Total Revenue	5,651,500	5,651,500	80,543	(5,570,957)
EXPENDITURES:				
General government	35,000	35,000	63,340	28,340
Public safety	-	-	12,667	12,667
Public works	5,626,180	5,626,180	66,868	(5,559,312)
Culture and recreation	250,000	250,000	-	(250,000)
Total Expenditures	5,911,180	5,911,180	142,875	(5,796,645)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(259,680)	(259,680)	(62,332)	225,688
Other Financing Sources (Uses):				
Other sources	190,800	190,800	-	(190,800)
Operating transfers in	68,880	68,880	608,659	539,779
Operating transfers out	-	-	(44,983)	(44,983)
Total Other Financing Sources (Uses)	259,680	259,680	563,676	303,996
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	501,344	529,684
Fund Balance, Beginning	-	-	1,271,164	1,271,164
Fund Balance, Ending	\$ -	\$ -	\$ 1,772,508	\$ 1,800,848

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Interest	\$ 1,000	\$ 1,000	\$ 1,590	\$ 590
Intergovernmental revenue - Federal	<u>844,207</u>	<u>844,207</u>	<u>457,225</u>	<u>(386,982)</u>
Total Revenue	<u>845,207</u>	<u>845,207</u>	<u>458,815</u>	<u>(386,392)</u>
EXPENDITURES:				
Community development	<u>845,207</u>	<u>845,207</u>	<u>455,748</u>	<u>389,459</u>
Total Expenditures	<u>845,207</u>	<u>845,207</u>	<u>455,748</u>	<u>389,459</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>3,067</u>	<u>(775,851)</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>(83,744)</u>	<u>(83,744)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(83,744)</u>	<u>(83,744)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	(80,677)	(859,595)
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>279,312</u>	<u>279,312</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,635</u>	<u>\$ (580,283)</u>

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Charges of Service	\$ 960,000	\$ 960,000	943,709	\$ (16,291)
Interest	3,500	3,500	5,758	2,258
Intergovernmental revenue - state and local	21,000	21,000	27,373	6,373
Total Revenue	984,500	984,500	976,840	(7,660)
EXPENDITURES:				
Sanitation	984,500	984,500	1,030,122	45,622
Total Expenditures	984,500	984,500	1,030,122	45,622
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(53,282)	(53,282)
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	(53,282)	(53,282)
Fund Balance, Beginning	-	-	293,538	293,538
Fund Balance, Ending	\$ -	\$ -	\$ 240,256	\$ 240,256

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Real estate taxes	\$ 317,718	\$ 317,718	\$ 318,824	\$ 1,106
Real estate taxes, delinquent	105,906	105,906	59,276	(46,630)
Interest	125	125	7,515	7,390
Total Revenue	423,749	423,749	385,615	(38,134)
EXPENDITURES:				
Debt service - principal	363,749	363,749	288,074	(75,675)
Debt service - interest	57,500	57,500	39,596	(17,904)
Public works	-	-	98,242	98,242
Total Expenditures	421,249	421,249	425,912	4,663
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,500	2,500	(40,297)	(42,797)
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(600,000)	(600,000)
Total Other Financing Sources (Uses)	-	-	(600,000)	(600,000)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	2,500	2,500	(640,297)	(642,797)
Fund Balance, Beginning	-	-	2,482,478	2,482,478
Fund Balance, Ending	\$ 2,500	\$ 2,500	\$ 1,842,181	\$ 1,839,681

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Intergovernmental revenue - state and local	\$ 308,460	\$ 308,460	\$ 316,859	\$ 8,399
Interest	<u>1,500</u>	<u>1,500</u>	<u>2,736</u>	<u>1,236</u>
Total Revenue	<u>309,960</u>	<u>309,960</u>	<u>319,595</u>	<u>9,635</u>
EXPENDITURES:				
Public works	289,960	289,960	455,284	(165,324)
Capital outlay	<u>20,000</u>	<u>20,000</u>	<u>51,656</u>	<u>31,656</u>
Total Expenditures	<u>309,960</u>	<u>309,960</u>	<u>506,940</u>	<u>(133,668)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(187,345)</u>	<u>143,303</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	44,983	44,983
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>44,983</u>	<u>44,983</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>-</u>	<u>-</u>	<u>(142,362)</u>	<u>188,286</u>
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>261,229</u>	<u>261,229</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,867</u>	<u>\$ 449,515</u>

**INDEPENDENT AUDITORS' 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 Mayor and Members of the Council of the
City of Nanticoke, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nanticoke, Pennsylvania (the "City"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 12, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Kohanski & Co., PC

Moosic, PA
November 12, 2020