

CITY OF NANTICOKE, PENNSYLVANIA

**FINANCIAL STATEMENTS
DECEMBER 31, 2020**

CITY OF NANTICOKE, PENNSYLVANIA

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DECEMBER 31, 2020**

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CITY OF NANTICOKE, PENNSYLVANIA

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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, 2020, 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 evaluating the overall presentation of the financial statements.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2020, 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, 2020, 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

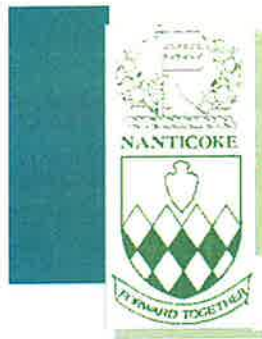
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages IV - VIII, the schedules of changes in the City's net pension liability and related ratios, schedule of the City contributions - pension plans, schedule of changes in the City's OPEB liability and related ratios, and supplemental schedules of revenue and expenditures - budget and actual on pages 50 - 63 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

Scranton, PA
January 25, 2022

Management Discussion & Analysis



City of Nanticoke Pennsylvania

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City of Nanticoke Management's Discussion and Analysis December 31, 2020

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, 2020. 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 \$(645,441) decreasing net position from \$837,972 in the previous year to \$192,531 in the current year.
- The assets of the City increased \$515 thousand from \$18,728 million (2019) in the previous year to \$19,243 million in the current year.
- Total liabilities of the City increased \$ 1,427 million from \$16,399 million (2019) to \$17,826 million in the current year.
- Total net position is comprised of the following:
 - 1) Invested in capital assets, net of related debt, of 5,379 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 \$(6,165,553) 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 \$9,054 million as compared to \$9,526 million in 2019 and to \$9,503 million (2018).

At the end of the current fiscal year, the General Fund balance was \$6,332 million. This compares to the prior year ending fund balance of \$5,354 million and the 2018 ending fund balance of \$4,916 million.

Management Discussion & Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

The City has three kinds of funds:

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

Management Discussion & Analysis

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

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

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

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

Notes to the financial statements

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

Other Information

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

Overview of Net Position

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

Financial Analysis of the City as a Whole

(Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amount Change
	2020	2019	2020	2019	2020	2019	
Current and Other Assets	\$ 10,213	\$ 10,404	\$ 1,372	\$ 1,329	\$ 11,585	\$ 11,784	\$ (148)
Capital Assets	426	269	5,304	4,864	5,730	5,133	597
Deferred Outflows	1,928	1,863	-	-	1,928	1,863	65
Total Assets	12,657	12,536	6,676	6,193	19,333	18,729	604
Long-term Liabilities	16,409	15,511	9	17	16,418	15,528	890
Other Liabilities	1,016	619	392	252	1,408	871	537
Deferred Inflows	1,224	1,492	-	-	1,224	1,492	(268)
Total Liabilities	18,649	17,622	401	269	19,050	17,891	1,159

Management Discussion & Analysis

Net Position:								
Invested in Capital Assets, net of related debt	92	(1,928)	5,287	4,840	5,379	2,912	2,467	
Restricted	979	1,081	-	-	979	1,081	(102)	
Unrestricted	(7,153)	(4,239)	988	1,084	(6,165)	(3,155)	3,010	
Total Net Position	\$ (6,082)	\$(5,086)	\$ 6,275	\$ 5,924	\$ 193	\$ 838	\$ (645)	

The City's net assets at fiscal year-end are \$193 thousand. This compares to the prior year adjusted ending fund balance (net assets) of \$838 thousand showing a decrease of \$645 thousand during the current year. The assets of the City increased by \$604 thousand, from \$18,729 million in the previous year to \$19,333 million in the current year. Total liabilities of the City increased by \$1,159 million from \$17,891 million in the previous year to \$19,050 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$ 5.379 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 \$979 million represent funds restricted for use by various grantors, laws, regulations or governing bodies. Unrestricted net assets of (\$6,165) million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.

The City reported a positive balance of \$6,275 million in net assets for business-type activities. This compares to the prior year ending net asset balance of \$5,924million showing a net increase of \$351,000 during the current year. Business-type activities include the sewer fund activities. The net activity of \$351,000 was due to interfund transfers.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a negative balance of (\$6,082) million in net assets for governmental activities. This compares to the adjusted prior year ending negative net asset balance of (\$5,086) showing a increase of \$996,000 during the current year. The net activity of (\$6,082) million is comprised of a net increase in accounts receivable, and taxes receivable and a decrease in mortgage receivable on the asset side; and offset by an increase of accounts payable of and a decrease of notes payable; and an increase in pension and other post-retirement benefits.

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

Management Discussion & Analysis

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

	2020	2019	2020	2019	2020	2019	
	Gov's Type	Gov's Type	Business Type	Business Type	Total	Total	Amount Change
Revenues							
Charges for Services	\$ 1,235	\$ 1,223	\$ 744	\$ 842	\$ 1,979	\$ 2,065	\$ (86)
Grants & Contributions	805	881	-	-	805	881	(76)
Property Taxes	2,124	2,503	-	-	2,124	2,503	(379)
Other Local Taxes for General Purposes	3,797	3,097	-	-	3,797	3,097	700
Misc Gen. Purpose Rev	490	381	-	-	490	381	109
Investment Earnings	27	96	2	6	27	102	(75)
Sale of Assets	-	-	-	-	-	-	-
Total Revenue	\$ 8,448	\$ 8,181	\$ 746	\$ 848	\$ 9,224	\$ 9,029	\$ 195
Total Expense	\$ 9,474	\$ 8,050	\$ 394	\$ 424	\$ 9,868	\$ 8,474	\$ 1,394
Change in Net Position	\$ (990)	\$ 131	\$ 351	\$ 424	\$ (645)	\$ 555	\$ (1,200)
Net Assets – Beginning(restated)	(5,086)	(5,217)	5,924	5,500	838	283	555
Prior Period Adj	-	-	-	-	-	-	-
Net Assets - Ending	\$ (6,082)	\$ (5,086)	\$ 6,275	\$ 5,924	\$ 193	\$ 838	\$ 645

Management Discussion & Analysis

Total expenses of the City increased by \$1,403 million from \$ 8,465 million in 2019 to \$9,868 million in 2020. Specifically, General Government expense increased by \$68 thousand.

Comparison of Current vs. Prior Year Expenditures			
(Dollars are in Thousands)			
Expenses	2020	2019	Amount Change
General Government and Administration	\$ 1,030	\$ 962	68
Public Safety	4,975	4,470	(505)
Sanitation	1,055	1,030	25
Public Works	2,331	1,068	1,263
Community Development	40	456	(416)
Parks and Recreation	4	19	(15)
Other	39	45	(6)
Sewage	394	415	(21)
Total Expenses	\$ 9,868	8,465	1,403

General Revenue decreased from \$9,029 million in 2019 to \$9,223 million in 2020.

Comparison of Current vs. Prior Year Revenues			
(Dollars are in Thousands)			
General Revenue:	2020	2019	Amount Change
Charges for Services	\$ 1,979	\$ 2,065	(86)
Grants & Contributions	805	881	(76)
Property Taxes	2,124	2,503	(379)
Other Local Taxes for General Purposes	3,611	3,097	514
Investment Earnings	28	102	(74)
Misc General Purpose Revenues	676	381	(295)
Other	-	-	-
Total General Revenue	9,223	9,029	(194)

Management Discussion & Analysis

Business Type Activities

Charges for services for business type activities decreased by \$98,000 for 2020 over 2019.

Comparison of Current vs. Prior Year Revenues				
(Dollars are in Thousands)	2020		2019	Amount Change
Sewage	744		842	(98)

Sewer Expenses decreased from \$ 424,000 to \$ 394,000 in 2019 to 2020

Comparison of Current vs. Prior Year Expenses				
(Dollars are in Thousands)	2020		2019	Amount Change
Sewage	394		424	(30)

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 \$978 million from \$5,354 million to \$6,332 million.

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 \$ 392,590 thousand. Decrease in the fund balance was due to completing all projects financed by the borrowings from the Pennsylvania Infrastructure Bank for 2020. 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 & 2020.

Proprietary Funds

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

Major Proprietary Fund

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

Management Discussion & Analysis

General Fund Budgetary Highlights

Actual revenues were approximately \$369,717 less than budgeted at \$6,317 million as compared to a budgeted amount of \$5,947 million.

Actual expenditures were approximately \$374,029 less than budgeted at \$5,658 million as compared to a budgeted amount of \$6,032 million.

The General Fund adopted budget was not amended during the 2020 fiscal year. Revenues less expenses exceed budget by \$658,746. 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 \$2,140 million.

Debt Schedule (Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amount Change
	2020	2019	2020	2019	2020	2019	
Capital Leases	\$ 334	\$ 115	\$ 117	\$ 24	\$ 351	\$ 139	\$ 212
PIB Loan	1,789	2,082	-	-	1,789	2,082	(293)
Total	\$ 2,123	\$ 2,197	\$ 17	\$ 24	\$ 2,140	\$ 2,221	\$ (81)

Economic Environment and Next Year's Budgets and Rates

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

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

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

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

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.

Management Discussion & Analysis

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 7,913,506	\$ 1,178,333	\$ 9,091,839
Taxes receivable	1,719,853	-	1,719,853
Accounts receivable, net	260,000	193,745	453,745
Prepaid expenses	123,920	-	123,920
Due from sewer fund	<u>195,833</u>	<u>-</u>	<u>195,833</u>
Total Current Assets	10,213,112	1,372,078	11,585,190
CAPITAL ASSETS, net	425,854	5,303,950	5,729,804
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows related to OPEB	1,183,102	-	1,183,102
Deferred outflows related to pensions	<u>745,140</u>	<u>-</u>	<u>745,140</u>
	<u>\$ 12,567,208</u>	<u>\$ 6,676,028</u>	<u>\$ 19,243,236</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF NET POSITION (CONT'D)
DECEMBER 31, 2020**

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
CURRENT LIABILITIES:			
Current portion of long-term debt:			
Note payable	\$ 299,623	\$ -	\$ 299,623
Capital leases	79,016	7,390	86,406
Accounts payable	369,031	178,825	547,856
Accrued payroll	193,113	-	193,113
Unearned revenue	74,820	9,498	84,318
Due to library	279	-	279
Due to general fund	-	195,833	195,833
	<u>1,015,882</u>	<u>391,546</u>	<u>1,407,428</u>
Total Current Liabilities			
	<u>1,015,882</u>	<u>391,546</u>	<u>1,407,428</u>
LONG-TERM OBLIGATIONS, net of current portion:			
Note payable	1,489,388	-	1,489,388
Capital leases	254,726	9,693	264,419
Net OPEB obligation	11,474,005	-	11,474,005
Net pension liability	2,533,781	-	2,533,781
Compensated absences	657,415	-	657,415
	<u>16,409,315</u>	<u>9,693</u>	<u>16,419,008</u>
Total Long-term Obligations, net of current portion:			
	<u>16,409,315</u>	<u>9,693</u>	<u>16,419,008</u>
Total Liabilities	<u>17,425,197</u>	<u>401,239</u>	<u>17,826,436</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to OPEB	296,392	-	296,392
Deferred inflows related to pensions	927,877	-	927,877
	<u>1,224,269</u>	<u>-</u>	<u>1,224,269</u>
Total Deferred Inflows of Resources			
	<u>1,224,269</u>	<u>-</u>	<u>1,224,269</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

STATEMENT OF NET POSITION (CONT'D)
DECEMBER 31, 2020

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
NET POSITION:			
Net investment in capital assets	92,112	5,286,867	5,378,979
Restricted for:			
Debt service	392,590	-	392,590
Restricted for escrow agreements	4,500	-	4,500
Restricted for externally imposed restrictions	582,015	-	582,015
Unrestricted	<u>(7,153,475)</u>	<u>987,922</u>	<u>(6,165,553)</u>
Total Net Position	<u>(6,082,258)</u>	<u>6,274,789</u>	<u>192,531</u>
	<u>\$ 12,567,208</u>	<u>\$ 6,676,028</u>	<u>\$ 19,243,236</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

	Program Revenues				Net Revenue (Expense) and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activity	Primary Government
FUNCTIONS/PROGRAMS:							
Governmental Activities:							
General government - administrative	\$ 1,030,448	\$ 23,896	\$ 35,210	\$ -	\$ (971,342)	\$ -	\$ (971,342)
Public safety	4,975,143	216,107	310,699	-	(4,448,337)	-	(4,448,337)
Public works	3,386,248	995,225	373,866	-	(2,017,157)	-	(2,017,157)
Community development	40,042	-	-	85,353	45,311	-	45,311
Culture and recreation	3,540	-	-	-	(3,540)	-	(3,540)
Interest and fees on long-term debt	38,875	-	-	-	(38,875)	(925)	(39,800)
Total Governmental Activities	9,474,296	1,235,228	719,775	85,353	(7,433,940)	(925)	(7,434,865)
Business-Type Activity							
Total Business-Type Activity	393,724	743,697	-	-	-	349,973	349,973
	\$ 9,868,020	\$ 1,978,925	\$ 719,775	\$ 85,353	(7,433,940)	349,048	(7,084,892)
General Revenues:							
Taxes:							
Property taxes					2,124,183	-	2,124,183
Other taxes					3,611,329	-	3,611,329
Cable television franchise revenue					146,327	-	146,327
Payments in lieu of taxes					21,582	-	21,582
Interest earnings					26,552	1,741	28,293
Miscellaneous					489,737	-	489,737
Rents and concessions					18,000	-	18,000
Total General Revenues					6,437,710	1,741	6,439,451
CHANGE IN NET POSITION					(996,230)	350,789	(645,441)
NET POSITION - Previously Reported					(5,086,028)	5,975,112	889,084
Restatement (Note 12)					-	(51,112)	(51,112)
As restated					(5,086,028)	5,924,000	837,972
NET POSITION - Ending					\$ (6,082,258)	\$ 6,274,789	\$ 192,531

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

CITY OF NANTICOKE, PENNSYLVANIA

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General Fund	Non-Major Funds					Total Governmental Funds
		Special Revenue Fund	Refuse Fund	Debt Service Fund	CDBG Fund	Highway Aid Fund	
ASSETS:							
Cash and cash equivalents	\$ 4,800,222	\$ 1,711,985	\$ 244,658	\$ 519,015	\$ 202,227	\$ 289,005	\$ 7,767,112
Taxes receivable	1,612,663	-	-	107,190	-	-	1,719,853
Accounts receivable	-	260,000	-	-	-	-	260,000
Prepaid expenses	41,509	-	82,411	-	-	-	123,920
Restricted cash and cash equivalents	92,060	54,334	-	-	-	-	146,394
Due from other funds	438,521	-	-	-	4,219	-	442,740
	<u>\$ 6,984,975</u>	<u>\$ 2,026,319</u>	<u>\$ 327,069</u>	<u>\$ 626,205</u>	<u>\$ 206,446</u>	<u>\$ 289,005</u>	<u>\$ 10,460,019</u>
LIABILITIES:							
Accounts payable	\$ 24,536	\$ 310,710	\$ 3	\$ -	\$ 24,887	\$ 8,895	\$ 369,031
Accrued payroll	193,113	-	-	-	-	-	193,113
Unearned revenue	-	-	74,820	-	-	-	74,820
Due to Library	279	-	-	-	-	-	279
Due to other funds	4,219	19,874	72,124	141,863	8,827	-	246,907
	<u>222,147</u>	<u>330,584</u>	<u>146,947</u>	<u>141,863</u>	<u>33,714</u>	<u>8,895</u>	<u>884,150</u>
Deferred Inflows of Resources:							
Unavailable revenue	430,440	-	-	91,752	-	-	522,192
	<u>92,339</u>	<u>41,334</u>	<u>-</u>	<u>392,590</u>	<u>172,732</u>	<u>280,110</u>	<u>979,105</u>
Restricted	-	1,645,001	180,122	-	-	-	1,825,123
Assigned	6,240,049	9,400	-	-	-	-	6,249,449
Unassigned							
	<u>6,332,388</u>	<u>1,695,735</u>	<u>180,122</u>	<u>392,590</u>	<u>172,732</u>	<u>280,110</u>	<u>9,053,677</u>
Total Fund Balances	<u>\$ 6,984,975</u>	<u>\$ 2,026,319</u>	<u>\$ 327,069</u>	<u>\$ 626,205</u>	<u>\$ 206,446</u>	<u>\$ 289,005</u>	<u>\$ 10,460,019</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**RECONCILIATION OF FUND BALANCE IN THE BALANCE SHEET -
GOVERNMENTAL FUNDS WITH NET POSITION IN THE
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

TOTAL GOVERNMENTAL FUND BALANCES	\$ 9,053,677
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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	820,065
Accumulated depreciation	(394,211)

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

	522,192
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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	(2,533,781)
Deferred outflows of resources	745,140
Deferred inflows of resources	(927,877)

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	(11,474,005)
Deferred outflows of resources	1,183,102
Deferred inflows of resources	(296,392)

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	(1,789,011)
Capitalized lease obligations	(333,742)
Compensated absences	<u>(657,415)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (6,082,258)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020**

	General Fund	Non-Major Funds					Total Governmental Funds
		Special Revenue Fund	Refuse Fund	Debt Service Fund	CDBG Fund	Highway Aid Fund	
REVENUES:							
Taxes	\$ 5,457,687	\$ -	\$ -	\$ 344,803	\$ -	\$ -	\$ 5,802,490
Intergovernmental revenue	95,160	337,805	-	-	85,353	308,392	826,710
Departmental earnings	151,862	-	-	-	-	-	151,862
Fines, forfeitures, and costs	39,731	-	-	-	-	-	39,731
Charges for services	197,689	-	992,273	-	-	-	1,189,962
Interest	15,129	6,188	2,194	1,640	488	913	26,552
Rent	18,000	-	-	-	-	-	18,000
Other	304,945	148,028	-	-	-	-	452,973
Total Revenues	6,280,203	492,021	994,467	346,443	85,841	309,305	8,508,280
EXPENDITURES:							
Current:							
General government - administration	1,007,054	-	-	-	-	-	1,007,054
Public safety	3,982,951	285,331	-	-	-	-	4,268,282
Public works	368,925	208,615	1,054,601	1,549,865	-	148,062	3,330,068
Community development	-	-	-	-	40,042	-	40,042
Culture and recreation	3,540	-	-	-	-	-	3,540
Debt Service:							
Debt service principal	36,408	-	-	293,148	-	-	329,556
Debt service interest/fees	4,354	-	-	34,521	-	-	38,875
Capital Outlay	254,989	-	-	-	-	-	254,989
Total Expenditures	5,658,221	493,946	1,054,601	1,877,534	40,042	148,062	9,272,406
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	621,982	(1,925)	(60,134)	(1,531,091)	45,799	161,243	(764,126)
OTHER FINANCING SOURCES (USES):							
Operating transfers-in	65,050	6,652	-	81,500	-	-	153,202
Operating transfers-out	-	(81,500)	-	-	(71,702)	-	(153,202)
Proceeds from capital leases	254,989	-	-	-	-	-	254,989
Proceeds from sale of assets	36,764	-	-	-	-	-	36,764
Total Other Financing Sources (Uses)	356,803	(74,848)	-	81,500	(71,702)	-	291,753

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2020**

	Non-Major Funds					Total Governmental Funds	
	General Fund	Special Revenue Fund	Refuse Fund	Debt Service Fund	CDBG Fund		Highway Aid Fund
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	978,785	(76,773)	(60,134)	(1,449,591)	(25,903)	161,243	(472,373)
FUND BALANCE - Beginning	<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>9,526,050</u>
FUND BALANCE - Ending	<u>\$ 6,332,388</u>	<u>\$ 1,695,735</u>	<u>\$ 180,122</u>	<u>\$ 392,590</u>	<u>\$ 172,732</u>	<u>\$ 280,110</u>	<u>\$ 9,053,677</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**RECONCILIATION OF CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS
WITH CHANGE IN NET POSITION
YEAR ENDED DECEMBER 31, 2020**

CHANGE IN FUND BALANCE	\$ (472,373)
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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.

Capital outlays	254,989
Depreciation	(98,188)

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	293,148
Repayment of capitalized lease	36,408

Proceeds from capital lease agreements are considered a current financial resource and are reported in the statement of changes in fund balances but not in the statement of activities. (254,989)

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. (66,978)

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	(93,894)
Change in OPEB and related deferrals	(728,146)
Change in net pension liability and related deferrals	<u>133,793</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (996,230)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2020**

	Business-Type Activity
	<u>Sewer Fund</u>
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,178,333
Accounts receivable, net	<u>193,745</u>
Total Current Assets	1,372,078
CAPITAL ASSETS, net	<u>5,303,950</u>
	<u>\$ 6,676,028</u>
CURRENT LIABILITIES:	
Current portion of capital leases	\$ 7,390
Accounts payable	178,825
Unearned revenue	9,498
Due to general fund	<u>195,833</u>
Total Current Liabilities	391,546
LONG-TERM OBLIGATIONS, net of current portion	
Capital leases	<u>9,693</u>
Total Liabilities	<u>401,239</u>
NET POSITION:	
Net investment in capital assets	5,286,867
Unrestricted	<u>987,922</u>
Total Net Position	<u>6,274,789</u>
	<u>\$ 6,676,028</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2020**

	Business-Type Activity
	<u>Sewer Fund</u>
OPERATING REVENUES:	
Charges for services	\$ 729,431
Other Income	<u>14,266</u>
Total Operating Revenues	<u>743,697</u>
OPERATING EXPENSES:	
Personnel services	194,562
Supplies and materials	189,563
Depreciation	7,934
Other operating expenses	<u>1,665</u>
Total Operating Expenses	<u>393,724</u>
INCOME FROM OPERATIONS	<u>349,973</u>
NON-OPERATING REVENUES(EXPENSES):	
Investment income	1,741
Interest expense	<u>(925)</u>
Non-operating Revenues, net	<u>816</u>
CHANGE IN NET POSITION	<u>350,789</u>
NET POSITION - Previously reported	5,975,112
Restatement (Note 12)	<u>(51,112)</u>
As restated	<u>5,924,000</u>
NET POSITION - Ending	<u>\$ 6,274,789</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2020**

	Business-Type Activity
	<u>Sewer Fund</u>
CASH FLOW FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 734,195
Cash paid to employees for salaries and benefits	(193,871)
Cash paid for operating expenses	<u>(51,532)</u>
Net Cash Provided By Operating Activities	<u>488,792</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest received	<u>1,741</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments on capital leases	(7,081)
Cash paid for interest	(925)
Cash paid for capital asset additions	<u>(448,088)</u>
Net Cash Used by Investing Activities	<u>(456,094)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	34,439
CASH AND CASH EQUIVALENTS - Beginning	<u>1,143,894</u>
CASH AND CASH EQUIVALENTS - Ending	<u>\$ 1,178,333</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Income from operations	\$ 349,973
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	7,934
Decrease in allowance for doubtful accounts	(4,692)
Change in assets and liabilities:	
Accounts receivable	(3,197)
Accounts payable	169,620
Deferred revenue	(1,613)
Due to general fund	<u>(29,233)</u>
Net Cash Provided by Operating Activities	<u>\$ 488,792</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2020**

	<u>Pension Trust Fund</u>
ASSETS:	
Cash	\$ 48,083
Investments	10,121,526
Other assets	<u>4,547</u>
	<u>\$ 10,174,156</u>
 NET POSITION:	
Held-in-trust for pension benefits	<u>\$ 10,174,156</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2020**

	Pension Trust Fund
ADDITIONS:	
Contributions:	
Employer contributions	\$ 402,363
State aid	216,649
Contributions by members	<u>72,713</u>
Total Contributions	<u>691,725</u>
Investment Income:	
Net appreciation in fair-value of investments	662,925
Interest and dividends, net of fees	<u>152,948</u>
Total Investment Income	<u>815,873</u>
Total Additions	<u>1,507,598</u>
DEDUCTIONS:	
Retirement benefits paid	515,769
Administrative expenses	11,812
Refunds of employee contributions	13,192
Other adjustments	<u>40,075</u>
Total Deductions	<u>580,848</u>
CHANGE IN NET POSITION	926,750
NET POSITION - Beginning	<u>9,247,406</u>
NET POSITION - Ending	<u>\$ 10,174,156</u>

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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.

For financial reporting purposes, in accordance with generally accepted accounting principles, the City includes any entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations. Therefore, data from these component units are combined with the data of the primary government. The City has determined that it has no potential component units that should be included.

Related Organizations

Organizations for which the City is not financially accountable even though the City appoints a voting majority of the Organization's governing body are:

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

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.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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, liabilities, deferred inflows of resources, net assets/fund equity, revenues, and expenditures/expenses. The City reports the difference between its governmental funds assets, and liabilities and deferred inflows of resources as fund balance and as net position in the proprietary fund.

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:

General Fund (Major)

The general fund accounts for the general operations of the City and all financial transactions not accounted for in another fund.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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 and interest.

Proprietary Fund Types

The focus of proprietary funds measurement is the determination of operating income, changes in net 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.

Sewer 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. 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, supplies and materials. All revenue or expenses not meeting this definition are reported as non-operating revenue and expenses.

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:

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Fiduciary Fund Types (Cont'd)

Pension Trust Fund

The pension trust fund accounts for the assets held-in-trust in the City's police and firemen 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.

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 as expenditures in governmental funds. Proceeds from long-term debt and repayment of principal are reported as other financing sources/uses, respectively.

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.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Measurement Focus and Basis of Accounting (Cont'd)

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.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

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

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 ("GAAP") 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 programs undertaken by the City.

Investments

Investments are stated at fair-value; changes in fair-value are included with investment income in the operating statements.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

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 \$21,527 at December 31, 2020.

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 are not in accordance with accounting principles generally accepted in the United States of America which require that all capital assets (excluding some infrastructure capital assets) be capitalized and depreciated.

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 other post-employment benefit ("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 GAAP.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Deferred Outflows/Inflows of Resources (Cont'd)

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 OPEB 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 and leases.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

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.

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

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 2020 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, 2020 were \$700,129. The City believes all delinquent real estate taxes receivable to be fully collectible.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within the fiscal year and are distributed to the City within 60 days after the fiscal year-end.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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. Council may authorize supplemental appropriations during the year and 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 not ascertainable. As a result, the budgeted amounts are compared to actual amounts, not actual on budgetary basis.

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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, 2020.

The following summarizes the receivables and payables between funds as of December 31, 2020:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Sewer fund	\$ 195,833	\$ -
Refuse fund	72,124	-
Special revenue fund	19,874	-
CDBG fund	8,827	4,219
Debt service fund	<u>141,863</u>	<u>-</u>
Total General Fund	<u>\$ 438,521</u>	<u>\$ 4,219</u>
Debt Service Fund:		
General fund	<u>\$ -</u>	<u>\$ 141,863</u>
CDBG Fund:		
General fund	<u>\$ 4,219</u>	<u>\$ 8,827</u>
Special Revenue Fund:		
General fund	<u>\$ -</u>	<u>\$ 19,874</u>
Sewer Fund:		
General fund	<u>\$ -</u>	<u>\$ 195,833</u>
Refuse Fund:		
General fund	<u>\$ -</u>	<u>\$ 72,124</u>

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

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Interfund Transactions (Cont'd)

The operating transfers between funds for the year ended December 31, 2020 are as follows:

	<u>Transfers-In</u>	<u>Transfers-Out</u>
General Fund:		
CDBG fund	<u>\$ 65,050</u>	<u>\$ -</u>
Debt Service Fund:		
Special revenue fund	<u>\$ 81,500</u>	<u>\$ -</u>
Special Revenue Fund:		
CDBG Fund	<u>\$ 6,652</u>	<u>\$ -</u>
Debt service fund	<u>-</u>	<u>81,500</u>
Total Special Revenue Fund	<u>\$ 6,652</u>	<u>\$ 81,500</u>
CDBG Fund:		
General fund	<u>\$ -</u>	<u>\$ 65,050</u>
Special revenue fund	<u>-</u>	<u>6,652</u>
Total CDBG Fund	<u>\$ -</u>	<u>\$ 71,702</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 accordance with the benefit terms. Investments are reported at fair value.

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".

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Governmental-Fund Balances

Generally, governmental-fund balances represent the difference between current assets 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.

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.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Net Position (Cont'd)

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 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. 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.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Effects of New Pronouncements (Cont'd)

- 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.
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statement No. 14 and No. 84, and a suppression of GASB Statement No. 32*, with effective dates through June 15, 2021.
- Statement No. 98, *The Annual Comprehensive Financial Report*, with an effective date for fiscal years ending after December 15, 2021.

Subsequent Events

Management has evaluated subsequent events through January 25, 2022, which is the date the financial statements were available to be issued.

NOTE 2: CASH AND INVESTMENTS

Cash

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, 2020, \$8,597,253 of the City's bank balance of \$9,437,427 was uninsured but was collateralized by collateral held by the pledging bank's trust department not in the City's name. Of the remaining balance, \$443,336 was invested in an external investment pool with the Pennsylvania Local Government Investment Trust ("PLGIT"). The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool. At December 31, 2020 PLGIT carried a AAA rating and had an average weighted maturity of less than one year.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2: CASH AND INVESTMENTS (CONT'D)

Investments

The fair-value of investments are presented on the accompanying statement of fiduciary net position. Refer to Note 8 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, 2020:

	<u>Fair-Value</u>
Managed equity	\$ 6,810,143
Corporate bonds	1,284,848
Fixed income fund	1,223,865
Government bonds	642,645
Real estate	<u>160,025</u>
	<u>\$ 10,121,526</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the investments are either insured by SPIC, commercial insurer, or evidenced by a contract with the insurance company.

Concentration of Credit Risk

The City places no limit on the amount invested in any one issue. At December 31, 2020, 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.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2: CASH AND INVESTMENTS (CONT'D)

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>			
Corporate Bonds	\$ 1,037,096	6.5 years	AA
Fixed Income Fund	646,784	11.2 years	A-
Government Bonds	<u>143,244</u>	8.1 years	A
	<u>\$ 1,827,124</u>		
<u>Firemen Pension Plan:</u>			
Corporate Bonds	\$ 247,752	6.5 years	AA
Fixed Income Fund	577,081	11.2 years	A-
Government Bonds	<u>499,401</u>	8.1 years	A
	<u>\$ 1,324,234</u>		

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:

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

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, 2020:

	<u>Fair-Value Measurements Using</u>			
	<u>Fair-Value</u>	<u>(Level 1) Inputs</u>	<u>(Level 2) Inputs</u>	<u>(Level 3) Inputs</u>
Investments:				
Managed Equity	\$ 6,810,143	\$ 6,810,143	\$ -	\$ -
Corporate Bonds	1,284,848	1,284,848	-	-
Fixed Income Fund	1,223,865	1,223,865	-	-
Government Bonds	642,645	642,645	-	-
Real Estate	<u>160,025</u>	<u>160,025</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,121,526</u>	<u>\$ 10,121,526</u>	<u>\$ -</u>	<u>\$ -</u>

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.

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 4: TAXES RECEIVABLE

Taxes receivable consist of the following at December 31, 2020:

General Fund:		
Real estate taxes		\$ 592,939
Other taxes:		
Earned income		710,135
Business privilege		14,742
LST		20,220
Real estate transfer tax		<u>274,627</u>
		<u>\$ 1,612,663</u>
Debt Service Fund:		
Real estate taxes		<u>\$ 107,190</u>

NOTE 5: CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Vehicles	\$ 565,076	\$ 254,989	\$ -	\$ 820,065
Less: Accumulated depreciation	<u>(296,023)</u>	<u>(98,188)</u>	<u>-</u>	<u>(394,211)</u>
Capital Assets, net	<u>\$ 269,053</u>	<u>\$ 156,801</u>	<u>\$ -</u>	<u>\$ 425,854</u>

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

Governmental Activities:		
Public safety		\$ 48,848
Public works		<u>49,340</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 98,188</u>

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5: CAPITAL ASSETS (CONT'D)

Capital asset activity for business-type activities for the year ended December 31, 2020, 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	<u>231,791</u>	<u>-</u>	<u>-</u>	<u>231,791</u>
Sewer system	<u>-</u>	<u>448,088</u>	<u>-</u>	<u>448,088</u>
Total capital assets, being depreciated	<u>231,791</u>	<u>448,088</u>	<u>-</u>	<u>679,879</u>
Less: accumulated depreciation				
Equipment	<u>(212,469)</u>	<u>(6,441)</u>	<u>-</u>	<u>(218,910)</u>
Sewer system	<u>-</u>	<u>(1,493)</u>	<u>-</u>	<u>(1,493)</u>
Total accumulated depreciation	<u>(212,469)</u>	<u>(7,934)</u>	<u>-</u>	<u>(220,403)</u>
Total capital assets, being depreciated	<u>19,322</u>	<u>440,154</u>	<u>-</u>	<u>459,476</u>
Capital Assets, net	<u>\$ 4,863,796</u>	<u>\$ 440,154</u>	<u>\$ -</u>	<u>\$ 5,303,950</u>

NOTE 6: TAX ABATEMENTS

As of December 31, 2020, 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 on the date that the improvement or new construction is assessed by the Luzerne County Assessor's Office and is applied to property taxes for ten years decreasing to 70% from year eight through year ten. For the year ended December 31, 2020, the amount of taxes abated through LERTA was \$174,908.

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7: LONG-TERM OBLIGATIONS

Governmental Activities

At December 31, 2020, note payable were as follows:

	Balance Outstanding January 1, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2020</u>	Amounts Due Within <u>One Year</u>
2016 PIB Loan	\$ 2,082,159	\$ -	\$ 293,148	\$ 1,789,011	\$ 299,623

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, 2020:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 299,623	\$ 28,046	\$ 327,669
2022	304,901	22,768	327,669
2023	309,170	18,499	327,669
2024	314,673	12,996	327,669
2025	320,095	7,574	327,669
2026	240,549	1,569	242,118
	<u>\$ 1,789,011</u>	<u>\$ 91,452</u>	<u>\$ 1,880,463</u>

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Governmental Activities (Cont'd)

At December 31, 2020, capitalized lease obligations were as follows:

	Balance Outstanding January 1, 2020	Additions	Reductions	Balance Outstanding December 31, 2020	Amounts Due Within One Year
Capitalized Leases	<u>\$ 115,161</u>	<u>\$ 254,989</u>	<u>\$ 36,408</u>	<u>\$ 333,742</u>	<u>\$ 79,016</u>

Capitalized Leases

The City has entered into various leases for vehicles and fire equipment with a net book value of \$286,895 at December 31, 2020, payable in annual installments including interest from 3.33% to 4.00%, with final payments through March 2025.

The following summarizes the City's future debt service requirements on the above capital leases as of December 31, 2020:

Year Ending December 31,	Principal	Interest	Total
2021	\$ 79,016	\$ 11,413	\$ 90,429
2022	79,646	8,602	88,248
2023	68,043	5,940	73,983
2024	52,641	3,568	56,209
2025	<u>54,396</u>	<u>1,813</u>	<u>56,209</u>
	<u>\$ 333,742</u>	<u>\$ 31,336</u>	<u>\$ 365,078</u>

Business-Type Activities

At December 31, 2020 capitalized lease obligations were as follows:

	Balance Outstanding January 1, 2020	Additions	Reductions	Balance Outstanding December 31, 2020	Amounts Due Within One Year
Capitalized Leases	<u>\$ 24,164</u>	<u>\$ -</u>	<u>\$ 7,081</u>	<u>\$ 17,083</u>	<u>\$ 7,390</u>

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Business-Type Activities (Cont'd)

Capitalized Leases

The City has entered into a lease for a vehicle with a net book value of \$12,881 at December 31, 2020 payable in quarterly 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, 2020:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 17,083</u>	<u>\$ 930</u>	<u>\$ 18,013</u>

Other Long-Term Obligations

	<u>Balance Outstanding January 1, 2020</u>	<u>Net Additions (Reductions)</u>	<u>Balance Outstanding December 31, 2020</u>
Net OPEB obligations	\$ 10,170,860	\$ 1,303,145	\$ 11,474,005
Net pension liability	2,909,969	(376,188)	2,533,781
Compensated absences	<u>563,521</u>	<u>93,894</u>	<u>657,415</u>
	<u>\$ 13,644,350</u>	<u>\$ 1,020,851</u>	<u>\$ 14,665,201</u>

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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, 2020 to December 31, 2020 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.

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	11	9	14
Inactive members, entitled to but not yet receiving benefits	1	1	0
Inactive members and beneficiaries currently receiving benefits	<u>15</u>	<u>9</u>	<u>4</u>
Total	<u>27</u>	<u>19</u>	<u>18</u>

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

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

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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>\$ 2,591,102</u>	<u>\$ 1,595,396</u>	<u>\$ 766,988</u>
	1% Decrease <u>(7.0%)</u>	Current Discount Rate <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
Firemen	<u>\$ 1,399,999</u>	<u>\$ 849,751</u>	<u>\$ 388,730</u>
	1% Decrease <u>(4.25%)</u>	Current Discount Rate <u>(5.25%)</u>	1% Increase <u>(6.25%)</u>
Non-Uniform PMRS	<u>\$ 241,025</u>	<u>\$ 88,634</u>	<u>\$ (41,617)</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 3% of compensation to the plan. They may also contribute up to an additional ten percent of compensation to fund the optional contribution annuity.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 8: PENSION PLANS (CONT'D)

Plan Contributions (Cont'd)

During the year ended December 31, 2020, the City contributed \$431,422 to the Police Pension Plan, of which \$128,020 were Act 205 funds; \$187,590 to the Firemen Pension Plan, of which \$88,629 were Act 205 funds; and \$62,164 to the PMRS Pension Plan, of which \$59,086 were Act 205 funds. During the year ended December 31, 2020, active members contributed \$49,700 to the Police Pension Plan, \$23,013 to the Firemen Pension Plan, and \$17,140 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, 2020 for the Police and Firemen Pension Plan, and December 31, 2019 for the non-uniform pension plan. The City's pension plans' total pension liability as of December 31, 2020 was \$13,935,887 less the City pension plans' fiduciary net position of \$11,402,106, resulting in a net pension liability of \$2,533,781 at December 31, 2020. Accordingly, as of December 31, 2020, the City reported a net pension liability in the government-wide statement of net-position. For the year ended December 31, 2020, the City recognized pension expense of \$547,403. At December 31, 2020, 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	\$ 347,025	\$ (336,529)
Firemen Pension Plan	197,874	(298,763)
Non-Uniform PMRS Plan	-	(91,523)

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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	27,133	-
Firemen Pension Plan	21,229	-
Non-Uniform PMRS Plan	11,249	(2,681)
Net difference between expected and actual experience:		
Police Pension Plan	-	(130,135)
Firemen Pension Plan	12,705	(68,246)
Non-Uniform PMRS Plan	65,761	-
Contributions made subsequent to the measurement date:		
Non-Uniform PMRS Plan	<u>62,164</u>	<u>-</u>
	<u>\$ 745,140</u>	<u>\$ (927,877)</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	\$ -	\$ -	\$ (5,489)
2021	(23,842)	(17,433)	(6,876)
2022	15,515	13,479	14,367
2023	(88,400)	(102,426)	(19,196)
2024	<u>4,221</u>	<u>(28,821)</u>	<u>-</u>
	<u>\$ (92,506)</u>	<u>\$ (135,201)</u>	<u>\$ (17,194)</u>

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Contributions (Cont'd)

Firemen

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, 2020:

Retired participants or beneficiaries currently receiving benefits	18
Retired participants entitled to but not yet receiving benefits	0
Active participants	<u>15</u>
Total	<u>33</u>

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. As of December 31, 2020, no trust has been established for the funding of the City's post-employment benefit obligation.

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Changes in the Total OPEB Liability

Balance at January 1, 2020	\$ 10,170,860
Service cost	313,634
Interest	374,941
Changes of benefit terms	-
Differences between expected and actual experience	392,221
Changes in assumptions or other inputs	561,847
Benefit payments	<u>(339,498)</u>
Balance at December 31, 2020	<u>\$ 11,474,005</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>(2.26%)</u>	Current Rate <u>(3.26%)</u>	1% Increase <u>(4.26%)</u>
Discount rate	<u>\$ 12,921,057</u>	<u>\$ 11,474,005</u>	<u>\$ 10,264,932</u>
	1% Decrease	Current Rate	1% Increase
Healthcare cost trend rate	<u>\$ 10,083,012</u>	<u>\$ 11,474,005</u>	<u>\$ 13,143,550</u>

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

For the year ended December 31, 2020, the City recognized \$1,066,801 in OPEB expense, which was determined as follows:

Service cost	\$ 313,634
Interest	374,941
Current benefit changes	-
Amortization of deferred outflows	526,422
Amortization of deferred inflows	<u>(148,196)</u>
	<u>\$ 1,066,801</u>

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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, 2020, 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	\$ 582,966	\$ (296,392)
Net difference between expected and actual experience	261,481	-
Benefits paid subsequent to the measurement date (1/1/2020)	<u>338,655</u>	<u>-</u>
	<u>\$ 1,183,102</u>	<u>\$ (296,392)</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>
2021	\$ 378,227
2022	<u>169,828</u>
	<u>\$ 548,055</u>

NOTE 10: FUND BALANCE

The following is a summary of the governmental fund balances of the City at December 31, 2020:

General Fund

Restricted:	
Various grants and projects	\$ 92,339
Unassigned	<u>6,240,049</u>
	<u>6,332,388</u>

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 10: FUND BALANCE (CONT'D)

Special Revenue Fund

Restricted:	
Various grants and projects	41,334
Assigned:	
Capital reserve	1,645,001
Unassigned	<u>9,400</u>
	<u>1,695,735</u>

Refuse Fund

Assigned:	
Refuse collections	<u>180,122</u>

Debt Service Fund

Restricted:	
Debt service	<u>392,590</u>

CDBG Fund

Restricted:	
Community development	<u>172,732</u>

Highway Aid Fund

Restricted:	
Roads and streets	<u>280,110</u>

Total Governmental Fund Balance	<u>\$ 9,053,677</u>
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NOTE 11: 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.

CITY OF NANTICOKE, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 12: ACCOUNTING RESTATEMENT

Business-Type Activity - Sewer Fund

The December 31, 2019 statement of net position of the sewer fund incorrectly reported the amount of accounts receivable from residents related to outstanding sewer fees.

The cumulative effect of this correction is as follows:

Net Position - As previously reported:	\$ 5,975,112
Overstatement of accounts receivable	<u>(51,112)</u>
Net Position - As restated	<u>\$ 5,924,000</u>

NOTE 13: COMMITMENTS AND CONTINGENCIES

Commitments

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>
2021	\$ 990,932
2022	\$ 1,030,696
2023	\$ 1,071,982

Total charges incurred by the City during 2020 were \$968,817.

Contingency

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

On March 11, 2020, the World Health Organization declared, a novel strain of coronavirus disease ("COVID-19") a pandemic. The extent of COVID-19's effect on the City's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 13: COMMITMENTS AND CONTINGENCIES (CONT'D)

Management currently believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19 for twelve months from the date of this report.

Litigation

As of December 31, 2020, 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

In July 2021, the City leased a vehicle. The lease requires annual lease payments of \$11,446 through July 2026.

CITY OF NANTICOKE, PENNSYLVANIA

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

POLICE PENSION PLAN

UNAUDITED

DECEMBER 31, 2020

Measurement Date - December 31:	2020	2019	2018	2017	2016	2015
Total Pension Liability:						
Service cost	\$ 223,316	\$ 212,682	\$ 229,056	\$ 218,149	\$ 189,132	\$ 180,126
Interest	519,310	493,450	485,712	460,806	430,425	409,354
Change in benefits terms	75,919	-	-	-	-	-
Differences between expected and actual experience	-	(244,620)	-	(39,121)	-	-
Change of assumptions	-	-	-	135,657	-	-
Benefit payments, including refunds of member contributions	<u>(353,927)</u>	<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	464,618	120,776	369,037	453,102	319,730	294,372
Total Pension Liability - Beginning	<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>	<u>5,815,344</u>
Total Pension Liability - Ending (a)	<u>7,836,979</u>	<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	431,422	388,996	339,971	351,559	329,240	317,945
Contributions - member	49,700	39,624	36,994	37,681	40,107	37,586
Net investment income (loss)	384,672	805,419	(455,077)	617,301	253,272	(194,289)
Benefit payments, including refunds of member contributions	<u>(353,927)</u>	<u>(340,736)</u>	<u>(345,731)</u>	<u>(322,389)</u>	<u>(299,827)</u>	<u>(295,108)</u>
Administrative expense	<u>(7,000)</u>	<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	504,867	887,703	(426,243)	676,752	322,792	(138,466)
Plan Fiduciary Net Position - Beginning	<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>	<u>4,414,178</u>
Plan Fiduciary Net Position - Ending (b)	<u>6,241,583</u>	<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>\$ 1,595,396</u>	<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>79.64%</u>	<u>77.81%</u>	<u>66.87%</u>	<u>76.65%</u>	<u>71.52%</u>	<u>69.98%</u>
Covered-employee payroll	<u>\$ 868,095</u>	<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>183.78%</u>	<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.

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

CITY OF NANTICOKE, PENNSYLVANIA

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
FIREMEN PENSION PLAN

UNAUDITED

DECEMBER 31, 2020

Measurement Date - December 31,:	2020	2019	2018	2017	2016	2015
Total Pension Liability:						
Service cost	\$ 77,935	\$ 74,224	\$ 91,522	\$ 87,164	\$ 81,551	\$ 77,668
Interest	363,697	343,949	334,364	315,783	291,359	276,702
Change in benefits terms	-	(113,742)	-	38,113	-	-
Differences between expected and actual experience	-	-	-	63,685	-	-
Change of assumptions	-	-	(175,033)	(175,033)	(175,033)	(175,033)
Benefit payments, including refunds of member contributions	(175,033)	(175,033)	(175,033)	(175,033)	(175,033)	(175,033)
Net Change in Total Pension Liability	266,599	129,398	250,853	329,712	197,877	179,337
Total Pension Liability - Beginning	4,555,799	4,426,401	4,175,548	3,845,836	3,647,959	3,468,622
Total Pension Liability - Ending (a)	4,822,398	4,555,799	4,426,401	4,175,548	3,845,836	3,647,959
Plan Fiduciary Net Position:						
Contributions - employer	187,590	243,310	208,152	203,541	196,325	198,440
Contributions - member	23,013	21,744	21,247	20,315	18,848	16,864
Net investment income (loss)	426,387	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)	(175,033)
Administrative expense	-	-	(2,000)	(6,500)	-	(4,600)
Net Change in Plan Fiduciary Net Position	461,957	582,181	(190,691)	414,902	197,168	(27,418)
Plan Fiduciary Net Position - Beginning	3,510,690	2,928,509	3,119,200	2,704,298	2,507,130	2,534,548
Plan Fiduciary Net Position - Ending (b)	3,972,647	3,510,690	2,928,509	3,119,200	2,704,298	2,507,130
City's Net Pension Liability - Ending (a) - (b)	\$ 849,751	\$ 1,045,109	\$ 1,497,892	\$ 1,056,348	\$ 1,141,538	\$ 1,140,829
Plan fiduciary net position as a percentage of the total pension liability	82.38%	77.06%	66.16%	74.70%	70.32%	68.73%
Covered-employee payroll	\$ 669,862	\$ 723,709	\$ 703,909	\$ 672,823	\$ 643,146	\$ 558,244
City's net pension liability as a percentage of covered-employee payroll	126.85%	144.41%	212.80%	157.00%	177.49%	204.36%

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.

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

CITY OF NANTICOKE, PENNSYLVANIA

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
NON-UNIFORM PMRS PLAN

UNAUDITED
 DECEMBER 31, 2020

Measurement Date - December 31,:	2019	2018	2017	2016	2015	2014
Total Pension Liability:						
Service cost	\$ 64,889	\$ 60,941	\$ 60,347	\$ 53,753	\$ 55,661	\$ 50,916
Interest	64,606	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	(36,904)	(15,164)	(15,250)	(16,469)	(35,106)	(35,954)
Net Change in Total Pension Liability	92,591	162,060	96,454	157,897	52,593	83,680
Total Pension Liability - Beginning	1,183,919	1,021,859	925,405	767,508	714,915	631,235
Total Pension Liability - Ending (a)	1,276,510	1,183,919	1,021,859	925,405	767,508	714,915
Plan Fiduciary Net Position:						
Contributions - employer	53,724	51,333	42,532	38,320	43,573	35,911
Contributions - member	17,140	16,229	16,071	14,981	14,935	15,123
Net investment income (loss)	201,475	(63,982)	142,896	57,447	(11,029)	34,324
Benefit payments, including refunds of member contributions	(36,904)	(15,164)	(15,250)	(16,469)	(35,106)	(35,964)
Administrative expense	(2,263)	(2,534)	(2,316)	(2,307)	(1,979)	(1,707)
Net Change in Plan Fiduciary Net Position	233,172	(14,118)	183,933	91,972	10,394	47,687
Plan Fiduciary Net Position - Beginning	954,704	968,822	784,889	692,917	682,523	634,836
Plan Fiduciary Net Position - Ending (b)	1,187,876	954,704	968,822	784,889	692,917	682,523
City's Net Pension Liability - Ending (a) - (b)	\$ 88,634	\$ 229,215	\$ 53,037	\$ 140,516	\$ 74,591	\$ 32,392
Plan fiduciary net position as a percentage of the total pension liability	93.06%	80.64%	94.61%	84.82%	90.28%	95.47%
Covered-employee payroll	\$ 571,333	\$ 540,955	\$ 535,689	\$ 499,390	\$ 497,827	\$ 463,127
City's net pension liability as a percentage of covered-employee payroll	15.51%	42.37%	9.90%	28.14%	14.98%	6.99%

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.

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

CITY OF NANTICOKE, PENNSYLVANIA

**PENSION PLANS
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 FISCAL YEARS
UNAUDITED
DECEMBER 31, 2020**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<u>Police Pension Plan</u>										
Actuarially determined contribution	\$ 431,422	\$ 388,996	\$ 339,971	\$ 351,559	\$ 329,240	\$ 317,945	\$ 198,670	\$ 193,520	\$ 120,321	\$ 112,411
Contributions in relation to the actuarially determined contribution	431,422	388,996	339,971	351,559	329,240	317,945	198,670	193,520	120,321	117,861
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,450)
Covered-employee payroll	\$ 868,095	\$ 982,145	\$ 916,238	\$ 881,226	\$ 959,962	\$ 951,319	\$ 887,820	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	49.70%	39.61%	37.11%	39.89%	34.30%	33.42%	22.38%	N.A.	N.A.	N.A.
<u>Firemen's Pension Plan</u>										
Actuarially determined contribution	\$ 187,590	\$ 243,310	\$ 208,152	\$ 203,541	\$ 196,325	\$ 198,440	\$ 129,371	\$ 127,021	\$ 153,646	\$ 150,522
Contributions in relation to the actuarially determined contribution	187,590	243,310	208,152	203,541	196,325	198,440	129,371	127,021	153,646	155,972
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,450)
Covered-employee payroll	\$ 669,862	\$ 723,709	\$ 703,909	\$ 672,823	\$ 643,146	\$ 558,244	\$ 537,960	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	28.00%	33.62%	29.57%	30.25%	30.53%	35.55%	24.05%	N.A.	N.A.	N.A.
<u>Non-Uniform Pension Plan</u>										
Actuarially determined contribution	\$ 59,086	\$ 53,704	\$ 47,849	\$ 42,532	\$ 38,320	\$ 43,533	\$ 35,871	\$ 35,891	\$ 39,637	\$ 39,568
Contributions in relation to the actuarially determined contribution	59,086	53,724	51,333	42,532	38,320	43,573	35,911	35,891	39,637	39,568
Contribution deficiency (excess)	\$ -	(20)	(3,484)	\$ -	\$ -	(40)	(40)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ -	\$ 571,333	\$ 540,955	\$ 535,689	\$ 499,390	\$ 497,827	\$ 463,127	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	0.00%	9.40%	9.49%	7.94%	7.67%	8.75%	7.75%	N.A.	N.A.	N.A.

N.A. - Not available

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

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIREMEN PENSION PLANS
DECEMBER 31, 2020**

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	9 years
Firemen Pension Plan	12 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

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
NON-UNIFORM PMRS PLAN
DECEMBER 31, 2020**

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
Amortization method:	Level dollar based upon the amortization periods in Act 205
Asset valuation method:	Based upon the municipal reserves
Discount rate:	5.25%
Inflation:	2.80%
Salary increases:	Age related scale with merit and inflation component
Mortality:	Based on the Retired Pensioners (RP) - 2000 Tables
Cost-of-Living adjustment:	2.8% 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 Board's annual review of the regular interest rate.

CITY OF NANTICOKE, PENNSYLVANIA

**SCHEDULE OF CHANGES IN THE CITY'S OPEB LIABILITY AND RELATED RATIOS
UNAUDITED
DECEMBER 31, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability:			
Service cost	\$ 313,634	\$ 333,764	\$ 281,311
Interest	374,941	334,204	349,069
Changes of benefit terms	-	-	(65,069)
Differences between expected and actual experience	392,221	-	-
Changes of assumptions	561,847	(592,784)	833,601
Benefit payments, including refunds of member contributions	<u>(339,498)</u>	<u>(319,990)</u>	<u>(277,734)</u>
 Net Change in Total OPEB Liability	 1,303,145	 (244,806)	 1,121,768
 Total OPEB Liability - Beginning	 <u>10,170,860</u>	 <u>10,415,666</u>	 <u>9,293,898</u>
 Total OPEB Liability - Ending	 <u>\$ 11,474,005</u>	 <u>\$ 10,170,860</u>	 <u>\$ 10,415,666</u>
 Covered Employee Payroll	 <u>\$ 1,160,567</u>	 <u>\$ 1,125,619</u>	 <u>\$ 1,125,619</u>
 Total OPEB liability as a percentage of covered payroll	 <u>988.66%</u>	 <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.

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

CITY OF NANTICOKE, PENNSYLVANIA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
OPEB PLAN
DECEMBER 31, 2020**

Valuation date	January 1, 2020
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay
Inflation	2.25%
Healthcare Inflation Rate	5.5% in 2020 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% 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	3.25%

CITY OF NANTICOKE, PENNSYLVANIA

**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Taxes	\$ 5,087,100	\$ 5,087,100	\$ 5,457,687	\$ 370,587
Intergovernmental revenue	352,050	352,050	95,160	(256,890)
Departmental earnings	148,000	148,000	151,862	3,862
Fines, forfeitures, and costs	60,300	60,300	39,731	(20,569)
Charges for services	144,000	144,000	197,689	53,689
Rents	19,000	19,000	18,000	(1,000)
Interest	72,800	72,800	15,129	(57,671)
Other	64,000	64,000	341,709	277,709
Total Revenue	5,947,250	5,947,250	6,316,967	369,717
EXPENDITURES:				
General government - administration	829,535	829,535	1,007,054	(177,519)
Public safety	4,721,486	4,721,486	3,982,951	738,535
Public works	478,629	478,629	368,925	109,704
Culture and recreation	2,600	2,600	3,540	(940)
Debt service	-	-	40,762	(40,762)
Capital Outlay	-	-	254,989	(254,989)
Total Expenditures	6,032,250	6,032,250	5,658,221	374,029
Excess (Deficiency) of Revenues Over (Under) Expenditures	(85,000)	(85,000)	658,746	(4,312)
Other Financing Sources (Uses):				
Proceeds from sale of assets	-	-	-	-
Proceeds from capital leases	-	-	254,989	254,989
Operating transfers in	353,798	353,798	65,050	(288,748)
Operating transfers out	(268,798)	(268,798)	-	268,798
Total Other Financing Sources (Uses)	85,000	85,000	320,039	235,039
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	978,785	978,785
Fund Balance, Beginning	-	-	5,353,603	5,353,603
Fund Balance, Ending	\$ -	\$ -	\$ 6,332,388	\$ 6,332,388

See independent auditors' report.

CITY OF NANTICOKE, PENNSYLVANIA

**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Interest	\$ 12,000	\$ 12,000	\$ 6,188	\$ (5,812)
Intergovernmental revenue - Federal	5,400,000	5,400,000	337,805	(5,062,195)
Other	-	-	148,028	148,028
Total Revenue	5,412,000	5,412,000	492,021	(4,919,979)
EXPENDITURES:				
General government	12,000	12,000	-	12,000
Public safety	-	-	285,333	(285,333)
Public works	5,400,000	5,400,000	208,613	5,191,387
Total Expenditures	5,412,000	5,412,000	493,946	4,918,054
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(1,925)	(1,925)
Other Financing Sources (Uses):				
Operating transfers in	-	-	6,652	6,652
Operating transfers out	-	-	(81,500)	(81,500)
Total Other Financing Sources (Uses)	-	-	(74,848)	(74,848)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	(76,773)	(76,773)
Fund Balance, Beginning	-	-	1,772,508	1,772,508
Fund Balance, Ending	\$ -	\$ -	\$ 1,695,735	\$ 1,695,735

See independent auditors' report.

CITY OF NANTICOKE, PENNSYLVANIA

**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - CDBG FUND
YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Interest	\$ 1,200	\$ 1,200	\$ 488	\$ (712)
Intergovernmental revenue - Federal	<u>813,536</u>	<u>813,536</u>	<u>85,353</u>	<u>(728,183)</u>
Total Revenue	<u>814,736</u>	<u>814,736</u>	<u>85,841</u>	<u>(728,895)</u>
EXPENDITURES:				
Community development	<u>814,736</u>	<u>814,736</u>	<u>40,042</u>	<u>774,694</u>
Total Expenditures	<u>814,736</u>	<u>814,736</u>	<u>40,042</u>	<u>774,694</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>45,799</u>	<u>45,799</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>(71,702)</u>	<u>(71,702)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(71,702)</u>	<u>(71,702)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>-</u>	<u>-</u>	<u>(25,903)</u>	<u>(25,903)</u>
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>198,635</u>	<u>198,635</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,732</u>	<u>\$ 172,732</u>

See independent auditors' report.

CITY OF NANTICOKE, PENNSYLVANIA

**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - REFUSE FUND
YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Charges of Service	\$ 1,042,760	\$ 1,042,760	\$ 992,273	\$ (50,487)
Interest	6,000	6,000	2,194	(3,806)
Intergovernmental revenue - state and local	5,000	5,000	-	(5,000)
Total Revenue	1,053,760	1,053,760	994,467	(59,293)
EXPENDITURES:				
Sanitation	1,053,760	1,053,760	1,054,601	(841)
Total Expenditures	1,053,760	1,053,760	1,054,601	(841)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(60,134)	(60,134)
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	-	-	(60,134)	(60,134)
Fund Balance, Beginning	-	-	240,256	240,256
Fund Balance, Ending	\$ -	\$ -	\$ 180,122	\$ 180,122

See independent auditors' report.

CITY OF NANTICOKE, PENNSYLVANIA

**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Real estate taxes	\$ 278,585	\$ 278,585	\$ 285,527	\$ 6,942
Real estate taxes, delinquent	49,162	49,162	59,276	10,114
Interest	2,075	2,075	1,640	(435)
Total Revenue	329,822	329,822	346,443	16,621
EXPENDITURES:				
Debt service - principal	284,000	284,000	293,148	(9,148)
Debt service - interest	44,000	44,000	34,521	9,479
Public works	-	-	1,549,865	(1,549,865)
Total Expenditures	328,000	328,000	1,877,534	(1,549,534)
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,822	1,822	(1,531,091)	(1,532,913)
Other Financing Sources (Uses):				
Operating transfers in	-	-	81,500	81,500
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	81,500	81,500
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	1,822	1,822	(1,449,591)	(1,451,413)
Fund Balance, Beginning	-	-	1,842,181	1,842,181
Fund Balance, Ending	\$ 1,822	\$ 1,822	\$ 392,590	\$ 390,768

See independent auditors' report.

CITY OF NANTICOKE, PENNSYLVANIA

**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - HIGHWAY AID FUND
YEAR ENDED DECEMBER 31, 2020**

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE:				
Intergovernmental revenue - state and local	\$ 302,224	\$ 302,224	\$ 308,392	\$ 6,168
Interest	<u>2,500</u>	<u>2,500</u>	<u>913</u>	<u>(1,587)</u>
Total Revenue	<u>304,724</u>	<u>304,724</u>	<u>309,305</u>	<u>4,581</u>
EXPENDITURES:				
Public works	284,724	284,724	148,062	136,662
Capital outlay	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total Expenditures	<u>304,724</u>	<u>304,724</u>	<u>148,062</u>	<u>156,662</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>161,243</u>	<u>161,243</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>-</u>	<u>-</u>	<u>161,243</u>	<u>161,243</u>
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>118,867</u>	<u>118,867</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,110</u>	<u>\$ 280,110</u>

See independent auditors' report.

KOHANSKI

C o m p a n y · P C

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 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 25, 2022.

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.

CERTIFIED PUBLIC ACCOUNTANTS

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

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

Scranton, PA
January 25, 2022

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020**

REVENUE RECOGNITION

Criteria: 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.

- Intergovernmental 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, refuse fees, 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.
- Proceeds from long-term debt are reported as other financing sources.

Condition – Special Revenue Fund: Grant revenue in the special revenue fund was understated by \$260,000, related to grant funds received for the U.S. Department of Homeland Security Assistance to Firefighters Grant. While expenditures related to the grant were incurred during the year and properly reported, the grant proceeds were not recorded as revenue and accounts receivable in accordance with the revenue recognition criteria noted above.

Condition – Refuse Fund: Refuse fee revenue was overstated by \$56,320, as a result of revenue being recorded when received instead of when it was earned and the City was entitled to the resources in accordance with the criteria noted above. Refuse fee bills are mailed to residents each December for the subsequent year. Payments received before the end of the current year should be recorded as unearned revenue.

Condition – General Fund: Property tax revenue was understated and unavailable revenue was overstated by \$162,499. In accordance with the revenue recognition principles noted above, property tax revenue should be recorded as revenue if it is received within 60 days of the end of the year. An adjustment was not made to reclassify the taxes received in the first 60 days of the year from unavailable revenue to revenue.

CITY OF NANTICOKE, PENNSYLVANIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020**

REVENUE RECOGNITION (CONT'D)

Condition – Debt Service Fund: Property tax revenue was understated and unavailable revenue was overstated by \$15,438. In accordance with the revenue recognition principles noted above, property tax revenue should be recorded as revenue if it is received within 60 days of the end of the year. An adjustment was not made to reclassify the taxes received in the first 60 days of the year from unavailable revenue to revenue.

Condition – General Fund: Proceeds from capital leases and capital outlay were understated by \$254,989 in the general fund as a result of capital leases not being properly recorded in accordance with the criteria noted above.

Condition – General Fund: Property taxes receivable were understated by \$592,939 as a result of delinquent accounts not being recorded. In accordance with the revenue recognition principles noted above, property taxes are recorded in the year levied as receivables and deferred inflows of resources. An adjustment was not made to properly accrue these property taxes.

Effect: Revenue, receivables and unavailable revenue in the fund financial statements were materially misstated.

Cause: Internal controls over financial reporting did not include procedures to ensure the completeness and cutoff of revenue recorded in the financial statements.

Recommendation: We recommend that the City evaluate staffing in the business office as well as policies and procedures related to revenue recognition and reporting. Responsibilities should be assigned in such a way that the finance manager has sufficient time to analyze and review the transactions recorded by other members of the business office. In addition, internal controls over financial reporting should include procedures to reconcile and review general ledger account balances to ensure all transactions are accurately and completely recorded. We would also be available to review required revenue recognition standards with members of the business office to ensure that revenue from all sources is reported in the financial statements in the proper period.

EXPENDITURE REPORTING

Criteria: Expenditures in governmental fund reporting are recorded when a liability is incurred.

Condition – General Fund: Total expenses were overstated by \$74,655 as a result of errors in recording payments on the City's liability insurance.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020**

EXPENDITURE REPORTING (CONT'D)

Condition – Highway Aid Fund: Total expenses were understated by \$7,655 as a result of unrecorded payments for utilities.

Condition – Special Revenue Fund: Total expenses were understated by \$22,706 as a result of unrecorded payments for streetscape expenditures.

Condition – Refuse Fund: Expenses were overstated by \$82,411 as a result of recording payments for 2021 landfill fees in 2020.

Effect – Expenditures in the fund financial statements were materially misstated.

Cause: Internal controls over financial reporting did not include procedures to ensure transactions were recorded in the proper period.

Recommendation: We recommend that the City evaluate staffing in the business office as well as policies and procedures related to recording expenditures. Responsibilities should be assigned in such a way that the finance manager has sufficient time to analyze and review the transactions recorded by other members of the business office. In addition, internal controls over financial reporting should include procedures to reconcile and review general ledger account balances to ensure all transactions are accurately and completely recorded. We would also be available to review required expense recognition standards with members of the business office to ensure that expenditures are reported in the financial statements in the proper period.

ERRORS IN FINANCIAL REPORTING

Criteria: The City levies taxes for general purposes and for debt service. Tax revenues should be allocated to the general fund and the debt service fund based on its proportion share of the total levy.

Condition: Tax revenue was allocated to the debt service fund using an old ratio based on the taxes levied for debt service in a prior year.

Effect: Taxes restricted for debt service were overstated by \$78,932.

Cause: Internal controls over financial reporting did not include procedures to review general journal entries. In addition, controls were not designed to catch and correct errors in financial reporting.

Recommendation: Implement review and approval procedures for all general journal entries. In addition, periodic review procedures should be developed to allow employees and management to identify and correct errors in a timely manner.

If you would like to help meet our financial goal, please mail your donation to the address below by June 15, 2022. If you want to participate in this year's event, please contact the City Manager, Donna Wall at City Hall, Monday thru Friday, dwall@nantiokecity.com or 570-735-2800, Ext 111. We welcome any ideas and/or volunteers to help.

Sincerely Yours,

Kevin Coughlin, Mayor

Please make checks payable to:

City of Nanticoke
15 East Ridge St
Nanticoke, Pa 18634