
CITY OF NANTICOKE

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

FOR THE YEAR ENDED DECEMBER 31, 2016

Prepared By;

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

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Patrick T. Hopkins C.P.A.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund of City of Nanticoke, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. Except as noted in the Opinion paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

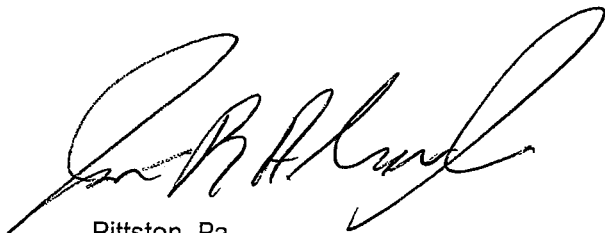
Management has not recorded general infrastructure and most capital assets in governmental activities and accordingly, has not recorded depreciation expense on those assets nor has depreciation expense been recorded in the sewer system in the business type activities. Accounting principles generally accepted in the United States of America require that such assets be capitalized, which would increase the assets and net position of the governmental activities. Accounting principles generally accepted in the United States of America also require that such assets be depreciated which would increase expenses of the governmental and business type activities. Also the amount of assets listed in the Business Type Activities was not audited. The amount by which these departures would affect financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position of the Proprietary Funds are not reasonably determinable.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Nanticoke, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the various pension schedules pages 50-56, Retiree health plan schedules on page 57, and the budgetary comparison on pages 58 through 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.



Pittston, Pa
June 30, 2017

Management Discussion & Analysis



City of Nanticoke Pennsylvania

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City of Nanticoke Management's Discussion and Analysis December 31, 2016

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, 2016. This discussion and analysis should be reviewed in conjunction with the City's accompanying financial statements and notes.

FINANCIAL HIGHLIGHTS

- The City had a change in net position of \$1,019,426 from \$4.5 million (2015 - restated) in the previous year to \$5.6 million in the current year (2016).
- The assets of the City increased \$4.105 million from \$11.774 million in the previous year to \$15.929 million in the current year.
- Total liabilities of the City increased \$3.078 million from \$7.875 million (2015-restated) to \$10.953 million in the current year.
- The City implemented GASB 68 which resulted in the recognition of a net pension liability of \$3.047 million and net deferred inflow/outflows of \$.633 million.
- Total net position are comprised of the following:
 - 1) Invested in capital assets, net of related debt, of \$4.865 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 \$(300) 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 \$849 thousand as compared to \$189 thousand (2015-restated) in 2015 and to \$4.588 million in 2014.

At the end of the current fiscal year, the General Fund balance was \$3.556 million. This compares to the prior year ending fund balance of \$2.942 million and the 2014 ending fund balance of \$2.617 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.

Management Discussion & Analysis

The City has three kinds of funds:

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

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

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

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

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

Notes to the financial statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information* concerning the City's general fund budgetary comparison and its progress in funding its obligation to 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
	2016	2015	2016	2015	2016	2015	
		(restated)				(restated)	
Current and Other Assets	\$ 9,933	\$ 5,902	\$ 771	\$ 681	\$ 10,704	\$ 6,583	\$ 4,121
Capital Assets	287	287	4,938	4,904	5,225	5,191	34
Total Assets	10,220	6,189	5,709	5,585	15,429	11,774	4,155
Deferred Outflows	641	691	-	-	641	691	(50)

Management Discussion & Analysis

Long-term Liabilities	9,012	5,946	649	902	9,661	6,848	2,813
Other Liabilities	993	745	299	28	1,292	1,026	266
Total Liabilities	10,004	6,691	948	1,184	10,952	7,875	3,077
Deferred Inflows	8	-	-	-	8	-	8
Net Position:							
Invested in Capital Assets, net of related debt	142	(12)	3,993	3,773	4,135	3,761	374
Restricted	1,774	381	-	-	1,774	381	1,393
Unrestricted	(1,068)	(181)	767	628	(300)	447	(747)
Total Net Position	\$ 849	\$ 189	\$ 4,760	\$ 4,401	\$ 5,610	\$ 4,590	\$ 1,020

The City's net assets at fiscal year-end are \$ 5.609 million. This compares to the prior year adjusted ending fund balance (net assets) of \$ 4.590 million showing an increase of \$ 1.020 million during the current year. The assets of the City increased by \$ 3.655 million, from \$ 11,774 million in the previous year to \$ 15,429 million in the current year. Total liabilities of the City increased \$3.077million from \$ 7.875 million in the previous year to \$ 10.952 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$ 4.135 million, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the leased capital assets. Restricted net assets of \$ 1.774 million represent funds restricted for use by various grantors, laws, regulations or governing bodies. Unrestricted net assets of (\$ 300) thousand represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.

The City reported a positive balance of \$ 4.760 million in net assets for business-type activities. This compares to the prior year ending net asset balance of \$ 4.401 million showing a net increase of \$ 359,000 during the current year. Business-type activities include the sewer fund activities. The net activity of \$ 359,000 was due to an increase in rates and grant income.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a positive balance of \$ 848,000 in net assets for governmental activities. This compares to the adjusted prior year ending net asset balance of \$ 189,000 showing an increase of \$660,000 during the current year. The net activity of \$ 848,000 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.

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)

	2016	2015	2016	2015	2016	2015	.
	Gov's Type	Gov's Type	Business Type	Business Type	Total	Total	Amount Change
Revenues							
Charges for Services	\$ 932	\$ 905	\$ 885	\$ 578	\$ 1,187	\$ 1,483	\$ 343
Grants & Contributions	1,024	958	500	-	1,024	958	566
Property Taxes	2,175	1,764	-	-	2,176	1,764	411
Other Local Taxes for General Purposes	2,925	2,907	-	-	2,925	2,907	18
Grants, Etc	4	7	-	-	4	7	(3)
Misc Gen. Purpose Rev	561	538	-	-	561	538	23
Investment Earnings	2	2	-	-	2	2	-
Sale of Assets	-	39	-	-	-	39	(39)
Total Revenue	\$ 7,623	\$ 7,120	\$ 1,385	\$ 578	\$ 9,008	\$ 7,698	\$ 1,310
Total Expense	\$ 6,963	\$ 6,716	\$ 1,026	\$ 261	\$ 7,989	\$ 6,977	\$ (1,012)
Change in Net Position	\$ 660	\$ 404	\$ 359	\$ 317	\$ 1,019	\$ 721	\$ 298
Net Assets - Beginning	2,505	2,101	4,401	4,084	6,906	6,185	721
Prior Period Adj	(2,316)	-	-	-	\$ (2,316)	-	2,316
Net Assets - Ending	\$ 849	\$ 2,505	\$ 4,760	\$ 4,401	\$ 5,609	\$ 6,906	\$ (1,297)

Management Discussion & Analysis

Total expenses of the City increased \$1.012 million from \$6.977 million in 2015 to \$ 7,989 million in 2016. Specifically, General Government expense decreased by \$ 31,397; Public Safety expense increased \$ 206,536; Refuse expense increased \$ 26,720; Public Works increased \$ 65,095; Community Development increased \$ 67,802 and Parks and Recreation increased \$ 1,066.

Comparison of Current vs. Prior Year Expenditures			
(Dollars are in Thousands)			
Expenses	2016	2015	Amount Change
General Government and Administration	\$ 782	\$ 812	\$ (30)
Public Safety	4,165	3,959	206
Sanitation	945	918	27
Public Works	741	676	65
Community Development	303	235	68
Parks and Recreation	20	19	1
Other	7	96	(89)
Sewage	1,026	262	764
Total Expenses	\$ 7,989	6,977	1,012

General Revenue increased from \$7.698 million in 2015 to \$9.008 million in 2016.

Comparison of Current vs. Prior Year Revenues			
(Dollars are in Thousands)			
General Revenue:	2016	2015	Amount Change
Charges for Services	\$ 1,817	\$ 1,483	334
Grants & Contributions	1,524	958	566
Property Taxes	2,175	1,764	411
Other Local Taxes for General Purposes	2,925	2,907	18
Other Grants	4	7	(3)
Investment Earnings	561	538	23
Misc General Purpose Revenues	2	2	-
Other	-	39	(39)
Total General Revenue	9,008	7,698	1,310

Management Discussion & Analysis

Business Type Activities

An increase of \$ 334,000 was realized for business type activities for 2016 over 2015.

Comparison of Current vs. Prior Year Revenues			
(Dollars are in Thousands)			
	2016	2015	Amount Change
Charges for Services			
Sanitation	\$ 932	\$ 905	\$ 27
Sewage	885	578	307
Total Charges for Services	\$ 1,817	\$ 1,483	\$ 334

Charges for Services increase from \$ 1.180 million to \$ 1.971 million in 2016.

Comparison of Current vs. Prior Year Expenses			
(Dollars are in Thousands)			
	2016	2015	Amount Change
Sanitation	\$ 945	\$ 918	27
Sewage	1,026	262	764
Total Expenses	\$ 1,971	\$ 1,180	\$ 791

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 \$ 613,283, from \$ 2.942 million to \$ 3.556 million. Key factors contributing to this increase are an increase in tax revenues of approximately \$ 202,000 and License and Permits of \$ 71,000. 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 \$ 3,797,342. Excess of revenue over expenditures was \$ 3,283,111 for 2016. 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 should be completed in 2018.

Proprietary Funds

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

Major Proprietary Fund

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

General Fund Budgetary Highlights

Actual revenues were approximately \$ 77,496 more than budgeted at \$ 5.615 million as compared to a budgeted amount of \$ 5.537 million.

Management Discussion & Analysis

Actual expenditures were approximately \$ 613,283 less than budgeted at \$ 5 million as compared to a budgeted amount of \$ 5.537 million.

The General Fund adopted budget was not amended during the 2016 fiscal year. Revenues less expenses exceed budget by \$ 613,283. Excess of revenues over expenditures were positive in 2010, 2011, 2012, 2013, 2014, 2015, and 2016 thus reversing the negative trend of prior years.

Long-Term Debt

At the end of the fiscal year, the City had total debt outstanding of \$3,895 million.

Debt Schedule (Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amount Change
	2016	2015	2016	2015	2016	2015	
General Obligation	\$	\$ -	\$ 865	\$ 1,131	\$ 865	\$ 1,131	\$ (266)
Muni-financial Recovery Loans	30	165	-	-	30	165	(135)
PIB Loan	3,000	-	-	-	3,000	-	3,000
Total	\$ 3,030	\$ 165	\$ 865	\$ 1,131	\$ 3,895	\$ 1296	2,599

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

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.

Richard Wiaterowski, Mayor

CITY OF NANTICOKE
STATEMENT OF NET POSITION
DECEMBER 31, 2016

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and Investments	\$ 8,856,865	\$ 422,739	\$ 9,279,604
Receivables:			
Ad Valorem Taxes	841,356	-	841,356
Accounts	59,654	-	59,654
Grants	1,500	500,000	501,500
Mortgage	21,836	-	21,836
Due from Internal Parties	151,982	(151,982)	-
Capital Assets:			
Equipment	412,043	231,791	643,834
Sewer System	-	4,844,474	4,844,474
Accumulated Depreciation	(125,311)	(138,338)	(263,649)
TOTAL ASSETS	10,219,925	5,708,684	15,928,609
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows of resources for pensions	641,079	-	641,079
<u>LIABILITIES</u>			
Accrued Payroll	149,067	-	149,067
Payables:			
Accounts	36,913	3,257	40,170
Revenue Received in Advance	76,975	-	76,975
Other	984	-	984
Non Current Liabilities			
Due within one year			
Note Payable	366,985	275,000	641,985
Lease Payable	32,231	21,197	53,428
Compensated Absences	48,052	-	48,052
Other Post Employment Benefits-Current	281,383	-	281,383
Due in More than one Year			
Note Payable	2,663,015	590,000	3,253,015
Lease Payable	112,200	58,911	171,111
Compensated Absences	432,000	-	432,000
Other Post Employment Benefits	2,757,556	-	2,757,556
Net Pension Liability	3,047,071	-	3,047,071
TOTAL LIABILITIES	10,004,432	948,365.00	10,952,797.00
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows of resources for pensions	8,049	-	8,049
<u>NET POSITION</u>			
Invested in net assets, net of related debt	142,301	3,992,819	4,135,120
Restricted For:			
Debt Service	767,342	-	767,342
Public Safety	254,189	-	254,189
Sanitation	290,792	-	290,792
Public Works	138,494	-	138,494
Community Development	323,217	-	323,217
Unrestricted	(1,067,812)	767,500	(300,312)
TOTAL NET POSITION	\$ 848,523	\$ 4,760,319	\$ 5,608,842

**CITY OF NANTICOKE
STATEMENT OF ACTIVITIES
DECEMBER 31, 2016**

FUNCTIONS/PROGRAMS GOVERNMENTAL ACTIVITIES:	Program Revenues		Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	TOTAL
General Government and Administration	\$ 781,755	-	-	-	\$ (781,755)	-	\$ (781,755)
Public Safety	4,165,333	-	648,639	13,907	(3,502,787)	-	(3,502,787)
Sanitation	944,618	931,945	-	-	(12,673)	-	(12,673)
Public Works	741,537	-	298,808	-	(442,729)	-	(442,729)
Community Development	302,944	-	48,029	14,574	(240,341)	-	(240,341)
Parks and Recreation	19,601	-	-	-	(19,601)	-	(19,601)
Other	7,237	-	-	-	(7,237)	-	(7,237)
TOTAL GOVERNMENTAL ACTIVITIES	6,963,025	931,945	995,476	28,481	(5,007,123)	-	(5,007,123)
BUSINESS TYPE ACTIVITIES:							
Sewer	973,873	885,120	500,000	-	-	411,247	411,247
Interest	51,936	-	-	-	-	(51,936)	(51,936)
	1,025,809	885,120	500,000	-	-	359,311	359,311
TOTAL PRIMARY GOVERNMENT	7,988,834	1,817,065	1,495,476	28,481	(5,007,123)	359,311	(4,647,812)
GENERAL REVENUE:							
TAXES:							
Ad Valorem (Property Taxes)					2,175,560	-	2,175,560
Other Local Taxes Levied For General Purposes					2,925,055	-	2,925,055
Grants, Subsidies, and Contributions Not Restricted					3,650	-	3,650
Miscellaneous General Purpose Revenues					561,091	-	561,091
Investment Earnings					1,651	231	1,882
Total General Revenues and Transfers					5,667,007	231	5,667,238
CHANGE IN NET POSITION					659,884	359,542	1,019,426
NET POSITION:							
BEGINNING OF YEAR - RESTATED					188,639	4,400,777	4,589,416
END OF YEAR					848,523	4,760,319	5,608,842

CITY OF NANTICOKE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	Governmental Fund Types						Totals Governmental Funds
	General Fund	Special Revenue	CDBG Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	
Cash and Investments	\$ 2,898,071	\$ 1,289,426	\$ 285,432	\$ 435,719	\$ 3,801,340	\$ 146,877	\$ 8,856,865
Accounts Receivable	59,654	-	-	-	-	-	59,654
Grant Funds Receivable	-	1,500	-	-	-	-	1,500
Taxes Receivable	921,224	-	-	-	-	-	921,224
Due from Other Funds	240,536	9,956	-	-	-	-	250,492
TOTAL ASSETS	\$ 4,119,485	\$ 1,300,882	\$ 285,432	\$ 435,719	\$ 3,801,340	\$ 146,877	\$ 10,089,735
LIABILITIES & FUND BALANCE							
LIABILITIES:							
Accounts Payable	\$ 13,922	\$ 10,574	\$ -	\$ 36	\$ 3,998	\$ 8,383	\$ 36,913
Accrues Expense	149,067	-	-	-	-	-	149,067
Due to Other Funds	-	19,874	10,710	67,926	-	-	98,510
Revenue Received in Advance	399,342	-	-	76,975	-	-	476,317
TOTAL LIABILITIES	\$ 563,315	\$ 30,448	\$ 10,710	\$ 144,937	\$ 3,998	\$ 8,383	\$ 761,791
FUND BALANCE:							
Restricted	100,716	201,968	274,722	290,782	3,797,342	138,494	4,804,024
Assigned	-	1,028,625	-	-	-	-	1,028,625
Unassigned	3,455,454	39,841	-	-	-	-	3,495,295
TOTAL FUND BALANCE	\$ 3,556,170	\$ 1,270,434	\$ 274,722	\$ 290,782	\$ 3,797,342	\$ 138,494	\$ 9,327,944
TOTAL LIABILITIES & FUND BALANCES	\$ 4,119,485	\$ 1,300,882	\$ 285,432	\$ 435,719	\$ 3,801,340	\$ 146,877	\$ 10,089,735

CITY OF NANTICOKE

Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position DECEMBER 31, 2016

Total Fund Balances - Governmental Funds **\$ 9,327,944**

Amounts reported for governmental activities in the statement of net assets are different because:

Other Assets used in governmental activities that are not financial resources and therefore are not reported as assets in governmental funds are as follows:

Mortgage Receivable 21,836

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 412,043 and the accumulated depreciation is \$ 125,311. 286,732

Property Taxes receivable will be collected this year but are not available soon enough to pay the current period's expenditures and therefore are deferred in the funds. (\$399,342 - \$79,868 provision for uncollectible.) 319,474

Long Term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year end consist of the following:

Notes Payable	\$ (3,030,000)	
Capital Leases Payable	(144,431)	
Compensated Absences	(480,052)	
Other Post employment benefits	(3,038,939)	
Net Pension Liability net of related deferred inflows and outflows of resources	<u>(2,414,041)</u>	<u>(9,107,463)</u>

TOTAL NET POSITIONS (DEFICIT)-Governmental Activity **\$ 848,523**

CITY OF NANTICOKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Governmental Fund Types						Totals Governmental Funds
	General Fund	Special Revenue	CDBG Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	
REVENUES:							
Taxes	\$ 4,464,990	-	-	\$ -	\$ 419,629	\$ -	\$ 4,884,619
Charges for Services	-	-	-	932,680	-	-	932,680
Fines, Forfeitures and Costs	65,758	-	-	-	-	-	65,758
Interest	836	340	40	193	194	49	1,652
License and Permits	372,896	-	-	-	-	-	372,896
Intergovernmental-State and Local Sources	473,578	13,907	-	17,339	-	281,469	786,293
Intergovernmental-Federal	-	-	62,603	-	-	-	62,603
Other	236,865	206,636	24,245	-	-	-	467,746
Total Revenue	\$ 5,614,923	\$ 220,883	\$ 86,888	\$ 950,212	\$ 419,823	\$ 281,518	\$ 7,574,247
EXPENDITURES:							
General Government	\$ 806,597	-	-	-	-	-	\$ 806,597
Public Safety	3,653,857	13,335	-	-	-	-	3,667,192
Sanitation	-	-	-	944,618	-	-	944,618
Public Works	514,368	-	-	-	46,692	178,765	739,825
Community Development	-	254,647	48,297	-	-	-	302,944
Parks and Recreation	19,601	-	-	-	-	-	19,601
Debt Service and Bond Payments	-	-	-	-	90,000	-	90,000
Other	7,217	-	-	-	20	-	7,237
Total Expenditures	\$ 5,001,640	\$ 267,982	\$ 48,297	\$ 944,618	\$ 136,712	\$ 178,765	\$ 6,578,014
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 613,283	\$ (47,099)	\$ 38,591	\$ 5,594	\$ 283,111	\$ 102,753	\$ 996,233
OTHER FINANCING SOURCES (USES)							
PIB 2016 Loan	-	-	-	-	3,000,000	-	3,000,000
Interfund Transfers in (out)	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 613,283	\$ (47,099)	\$ 38,591	\$ 5,594	\$ 3,283,111	\$ 102,753	\$ 3,996,233
Fund Balance (Deficit) - Beginning - Restated	\$ 2,942,887	\$ 1,317,533	\$ 236,131	\$ 285,188	\$ 514,231	\$ 35,741	\$ 5,331,711
FUND BALANCE (DEFICIT) - ENDING	\$ 3,556,170	\$ 1,270,434	\$ 274,722	\$ 290,782	\$ 3,797,342	\$ 138,494	\$ 9,327,944

CITY OF NANTICOKE

**Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to Statement of Activities
DECEMBER 31, 2016**

Total net change in fund balances - Governmental Funds	\$ 3,996,233
Amounts reported for governmental activities in the statement of net Activities are different because:	
Because some property taxes will not be collected for several months after the City's year end, they are not considered as "available" revenues in the governmental funds. Deferred revenues were reduced by this amount during the year.	62,828
Capital Outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of these assets is allocated over their estimated useful life as depreciation expense. This is the amount by which depreciation expense (\$39,675) exceeds capital outlays (\$0) in the period.	(39,675)
Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets	164,123
The issuance of long-term debt provides current financial resources to the governmental funds.	(3,000,000)
In the statement of activities, certain operating expenses compensated absences (sick leave & vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid.)	
	(Earned) Paid
Compensated Absences	(49,657)
Other Post Employment Healthcare	(362,381)
	(412,038)
The net pension liability is recorded as a liability in the government-wide financial statements, but not in the fund financial statements. This amount represents the change in the net pension liability, net of related deferred inflows and outflows of resources.	(97,421)
Mortgage principal payments received are reported as income in the fund financial statements; However, the payment reduces mortgage receivable in the Statement of Net Position.	(14,166)
CHANGE IN NET ASSETS - Governmental Activities	\$ 659,884

**CITY OF NANTICOKE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

	Business Type Activities
	Enterprise Fund
	Sewer Fund
	<u> </u>
ASSETS:	
Cash and Investments	\$ 422,739
Grant Receivable	\$ 500,000
Machinery & Equipment	231,791
Sewer System	4,844,474
Accumulated Depreciation	(138,338)
TOTAL ASSETS	<u>\$ 5,860,666</u>
LIABILITIES:	
CURRENT LIABILITIES	
Accounts Payable	\$ 3,257
Due to other Funds	151,982
NONCURRENT LIABILITIES	
Portion Due or Payable within one year	
Capital Lease	21,197
Note Payable	275,000
Due in more than one year	
Capital Lease	58,911
Note Payable	590,000
TOTAL LIABILITIES	<u>\$ 1,100,347</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	\$ 3,992,819
Unrestricted (Deficit)	767,500
TOTAL NET POSITION	<u>\$ 4,760,319</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,860,666</u>

**CITY OF NANTICOKE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

	Business Type Activities
	Enterprise Fund
	Sewer Fund
	<u> </u>
OPERATING REVENUES:	
Sewer User Fees	\$ 841,083
Grant Income	500,000
Other Income	44,037
TOTAL OPERATING REVENUES	<u>1,385,120</u>
 OPERATING EXPENSES:	
Supplies and Materials	779,981
Personal Services	147,644
Depreciation	14,261
Other Operating Expenses	31,987
TOTAL OPERATING EXPENSES	<u>973,873</u>
 OPERATING INCOME	<u>411,247</u>
 NONOPERATING REVENUES (EXPENSES):	
Investment Income	231
Interest Expense	(51,936)
TOTAL NONOPERATING REVENUES (EXPENSES):	<u>(51,705)</u>
 INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	359,542
 Interfund Transfers in/(out)	<u>-</u>
 CHANGES IN NET POSITION	359,542
 TOTAL NET POSITION-Beginning of Year	<u>4,400,777</u>
 TOTAL NETPOSITION -End of Year	<u><u>\$ 4,760,319</u></u>

**CITY OF NANTICOKE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016**

**Business Type Activities
Enterprise Fund
Sewer Fund**

CASH FLOWS FROM OPERATION ACTIVITIES

Received from User Charges	\$ 885,120
Cash Payments to Employees for Services	(147,644)
Cash Payment to Suppliers for Goods and Services	<u>(785,750)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(48,274)</u>

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Principal Paid on Debt	(266,000)
Interest Paid on Debt	(48,173)
Principal Paid on Lease	(20,468)
Interest Paid on Leases	<u>(3,763)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(338,404)</u>

CASH FLOWS FROM INVESTMENT ACTIVITIES

Interest on Investments	<u>231</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>809,186</u>
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CASH AND CASH EQUIVALENTS END OF YEAR

<u>\$ 422,739</u>

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

Operating Income or Loss	\$ 411,247
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities	
Depreciation	14,261
Changes in Assets and Liabilities	
Grant Recievable	(500,000)
Payables	2,726
Due to other funds	<u>23,492</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (48,274)</u>

NONCASH NON CAPITAL FINANCING ACTIVITIES

**CITY OF NANTICOKE
 FIDUCIARY FUND TYPE-PENSION FUNDS
 STATEMENT OF NET POSITION
 DECEMBER 31, 2016**

	Retirement Trusts
ASSETS	
Cash	\$ 65,402
Investments	7,198,340
Due from Police Plan	-
Benefits Paid in Advance	39,060
Receivable Member Contribution	-
Total Assets	<u>\$ 7,302,802</u>
 NET POSITION	
Held in trust for pension benefits	<u>\$ 7,302,802</u>
TOTAL NET POSITION	<u><u>\$ 7,302,802</u></u>

CITY OF NANTICOKE
 FIDUCIARY FUNDS-PENSION FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 DECEMBER 31, 2016

ADDITIONS	Retirement Trusts
Contributions	
Employer	\$ 285,493
Employee	58,955
State Aid	240,072
Appreciation (Depreciation) in Fair Value of Investments	391,318
Dividend	54,114
Other	39,060
Total Additions	\$ 1,069,012
DEDUCTIONS	
Investment Expense	\$ 30,620
Pension Benefits	477,216
Administrative Expense	4,511
Total Deductions	\$ 512,347
Change in Net Position	556,665
Net Position At the Beginning of Year	\$ 6,746,137
Net Position End of Year End of Year	\$ 7,302,802

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 1 - Description of the City and Reporting Entity

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

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

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

Reporting Entity

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

Component Units

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

- ◆ the organization is legally separate (can sue and be sued in their own name)
- ◆ the City holds the corporate powers of the organization
- ◆ the City appoints a voting majority of the organization's board
- ◆ the City can impose its will on the organization
- ◆ the organization has the potential to impose a financial benefit/burden on the City
- ◆ there is fiscal dependency by the organization on the City.

In conformity with accounting principles, generally accepted in the United States of America, the following entities have been considered for inclusion in the financial reporting entity as a discretely presented component unit:

1. The Housing Authority of the City of Nanticoke.
2. The General Municipal Authority of the City of Nanticoke.

The Two were determined to be legally separate and not required to be included in the City's financial statements as discretely presented component units, but are considered related parties for disclosure purposes.

Note 2 - Summary of Significant Accounting Policies

A. Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City. These statements include the financial activities of the primary government, except for fiduciary funds and discretely presented component units. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

B. Basis of Accounting

These financial statements are presented using accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City uses the financial reporting model required by the provisions of GASB Statement No 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

C. Measurement Focus

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met. Fiduciary funds nor component units that are fiduciary in nature are not included in the Government Wide financial statements.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

D. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds per the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund

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

Debt Service Fund

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

Special Revenue, CDBG, Refuse, Highway Aid

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

Proprietary Funds

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

Sewer Fund

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

Fiduciary Funds

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

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting

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

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

F. Use of Estimates

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

G. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

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

Note 2 - Summary of Significant Accounting Policies (continued)

Investments

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

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

Real Estate Taxes

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

Tax levies are collected by the appointed Tax Collection Agency, in their capacity as tax collector. The tax levy for 2016 was 5.9258 mills on every dollar of assessed value; 4.7514 mills for the General Fund, 1.1550 mills for the Debt Service Fund, and .0194 mills for the Mill Memorial Library. The total estimated assessed value of taxable property was approximately \$364,000,000.

Compensated Absences

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

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

Brotherhood of Teamsters Local # 401 employees can accumulate sick leave at one day per month up to 130. If sick days are not used the City will buy back 60 days at 100% and any remaining days at 50% of the days accumulated when the employee retires, resigns, or is terminated for cause at their effective rate of pay.

Long Term Obligations

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Resources for Pensions

In conjunction with pension accounting requirements, the effect of the differences in the City's expected and actual experience, the difference between projected and actual earnings on pension plan investments, the PMRS contributions subsequent to the measurement date and changes to assumptions are recorded as deferred inflows or outflows of resources related to pensions on the government-wide financial statement. These amounts are determined based on actuarial valuations performed for the pension plans. Note 10 presents additional information about pension plans.

Fund Equity

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

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

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

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

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Interfund Activity

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

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

Adoption of Government Accounting Standards Board (GASB) Statements

GASB Statement No. 68, "Accounting and Financial Reporting for Pension Plans," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," were adopted for the year ended December 31, 2016 by the City. As a result of this implementation, net position was restated as follows:

	Governmental Activities
Net position at January 1, 2016 as originally stated	\$ 2,505,059
Net pension liability at January 1, 2016	(3,007,225)
Differences between expected and actual experience	27,579
City contribution subsequent to the measurement date	43,533
Differences between projected and actual earnings on pension plan investments	<u>619,493</u>
Net position at January 1, 2016	<u>\$ 188,439</u>

Pending Changes in Accounting Principles

The Government Accounting Standards Board has issued GASB's Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan." This Statement addresses reporting by other post-employment benefit (OPEB) plans that administer benefits on behalf of governments. The provisions of GASB Statement No. 74 are effective for the City's December 31, 2017 financial statements.

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Pending Changes in Accounting Principles (continued)

The Government Accounting Standards Board has issued GASB's Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*" This Statement addresses reporting by governments that provide OPEB to their employees and for government that finance OPEB for employees of other governments. The provisions of GASB Statement No. 75 are effective for the City's December 31, 2018 financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.*" This Statement amends the blending criteria to include a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of GASB Statement No. 80 are effective for the City's December 31, 2017 financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 82, "*Pension Issues — an amendment of GASB Statement No. 67, No. 68 and No. 73.*" This statement addresses certain issues that have been raised with respect to previous pension standards. The provisions of Statement No 82 are effective for the City's December 31, 2017 and 2018 financial statements.

The Government Accounting Standards Board has issued GASB's Statement No.84, "*Fiduciary Activities.*" This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB statement No. 84 are effective for the City's December 31, 2019 financial statements.

The Government Accounting Standards Board has issued GASB's Statement No.85, "*Omnibus 2017.*" This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and post-employment benefits. The provisions of GASB Statement No. 85 are effective for the City's December 31, 2018 financial statements.

The Government Accounting Standards Board has issued GASB's Statement No.86, "*Certain Debt Extinguishment Issues.*" This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provision of GASB Statement No 86 are effective for the city's December 31, 2018 financial statements.

The effect of implementation of these Statements has not yet been determined.

Note 3 - Stewardship, Compliance and Accountability

A. Compliance with Finance Related Legal and Contractual Provisions

The City has no material violations of finance related legal and contractual provisions.

B. Excess of Expenditures over Appropriations in Individual Funds

For the year ended December 31, 2016, none of the City's funds had expenditures in excess of appropriations.

C. Budgetary Compliance

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 4 – Cash

Primary Government

Custodial Credit Risk- Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does have a policy for custodial credit risk. As of December 31, 2016, \$ 9,561,928 of the City's bank balance of \$ 10,034,571. was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the City's name.	9,561,928
Total	\$ 9,561,928

Reconciliation to Financial Statements:

Uncollateralized Amount Above	\$ 9,561,928
Plus: Insured Amount	472,643
Deposits in transit	111,095
Less: Outstanding Checks	(866,162)
Carrying Amount-Bank Balances	9,279,504
Plus: Petty Cash	100
Total Cash Per Financial Statements	\$ 9,279,604

Note 5 - Investments

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

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

Fiduciary Funds

As of December 31, 2016, the Nanticoke City's Firemen's Pension Plan and Police Pension Plan consisted of the following.

Investment Type	Police Pension Fair Value	Firemen's Pension Fair Value	Total
Managed Equity	3,012,091	1,703,738	4,715,829
Corporate Bonds	522,655	204,509	727,164
Government Securities	487,329	440,582	927,911
Pooled Fixed Income	346,451	340,883	687,334
Real Estate	140,102	-	140,102
Cash & Cash Equivalents	65,402	-	65,402
Total	4,574,030	2,689,712	7,263,742

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 5 – Investments (continued)

Fiduciary Funds (continued)

Credit Risk. Nanticoke City targets the overall rating of its fixed income assets to be at least "BBB" by S & P or "Baa" by Moody's rating systems. See Details Below:

<u>Investment Type</u>	<u>Police Pension Fair Value</u>	<u>Firemen's Pension Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Corporate Bonds	\$ 522,655	\$ 204,509	Avg. of 8 Years	Avg. of AA
Government Bonds	487,329	440,582	Avg. of 8 Years	Avg. of A
Fixed Income Fund	<u>346,451</u>	<u>340,883</u>	Avg. of 3.69 Years	A -
Total	<u>\$ 1,356,435</u>	<u>\$ 985,974</u>		

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

Concentrations of Credit Risk. As of December 31, 2016, the City has several individual investments of 5% or more of net assets in its Pension Funds. The Pensions are invested in managed investment accounts and annuities with various managed sub accounts. The City's three pension plans issue a stand-alone financial report, which explain the various investments in detail. For information on how to obtain a specific pension financial report see note 10.

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

	<u>Police</u>	<u>Firemen</u>	<u>Total</u>
NationWide	\$ 1,790,962	\$ 2,689,712	\$ 4,480,674
TD Ameritrade	<u>2,783,068</u>	<u>-</u>	<u>2,783,068</u>
Total	<u>\$ 4,574,030</u>	<u>\$ 2,689,712</u>	<u>\$ 7,263,742</u>

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 6 - Capital Assets

A summary of transactions in capital assets for 2016 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Governmental Activities		
Capitalized Leased Equipment 12/31/2015	\$ 372,695	\$ 85,636
Additions/Disposals	39,348	39,675
Capitalized Leased Equipment 12/31/2016	<u>\$ 412,043</u>	<u>\$ 125,311</u>
Business-Type Activities		
Sewer System 12/31/2015	\$ 4,844,474	\$ -
Additions	-	-
Sewer System 12/31/2016	<u>\$ 4,844,474</u>	<u>\$ -</u>
Capitalized leased equipment 12/31/2015	\$ 183,485	\$ 124,077
Additions	48,306	14,261
Capitalized leased equipment 12/31/2016	<u>\$ 231,791</u>	<u>\$ 138,338</u>

There were no disposals in 2016. Amortization of business-type activities capitalized leases is reported as depreciation expense.

Note 7 - Due To / From Other Funds and Transfers

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for payments made on its behalf or for lending/borrowing arrangements outstanding at the end of the year. General Fund interfund payables are not expected to be satisfied within one year. Interfund due from/due to of \$194,512 has been eliminated in the Statement of Net Assets to minimize the grossing up of internal balances, leaving a net amount due of \$151,982 between the governmental and business-type activities, which is reported as Due from Internal Parties. The following reports individual fund due from/due to amounts.

	<u>Due From</u>	<u>Due To</u>
Governmental Activities		
General Fund:		
Sewer Fund	\$ 151,982	\$ -
Refuse Fund	57,970	-
Special Revenue	19,874	-
Community Development	10,710	-
Special Revenue Fund:		
Refuse Fund	9,956	-
General Fund	-	19,874
DCED Fund:		
Community Development	-	10,710
Refuse Fund:		
Special Revenue	-	9,956
General Fund	-	57,970
	<u>250,492</u>	<u>98,510</u>
Buisness Type Activities		
Proprietary Funds:		
Sewer Fund	-	151,982
	<u>250,492</u>	<u>151,982</u>
Total	<u>\$ 250,492</u>	<u>\$ 250,492</u>

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 7 - Due To / From Other Funds and Transfers (Continued)

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. They are permanent and not expected to be reimbursed. There were no permanent transfers during 2016.

Note 8 - Taxes Receivable

Taxes Receivable at December 31, 2016:

Earned Income	\$ 492,547
Real Estate Transfer	6,823
Mercantile/Business Privilege	2,977
Local Service Tax	19,535
Real Estate Taxes	<u>399,342</u>
Total Fund Financial Statements	\$ 921,224
Allowance for Uncollectible Taxes	<u>(79,868)</u>
Total Statement of Net Assets	<u><u>\$ 841,356</u></u>

Note 9 - Mortgages Receivable

Under Urban Development, Redevelopment, Rehabilitation, and Site Development Programs, the City has loaned City resident's funds to rehabilitate or improve real estate within the City. At December 31, 2016, the following amounts were owed to the City under the various programs:

Urban Development	\$ 2,353
Rehabilitation And Redevelopment	<u>19,483</u>
	<u><u>\$ 21,836</u></u>

Note 10 - Pension Plans

Plan Description and Administration

The City maintains two single-employer defined benefit pension plans covering Firemen and Police. The Police Pension Plan provides retirement income and other benefits for the exclusive benefit of members of the Police Department, and is controlled by provisions of Ordinance # 17 of 1989 adopted pursuant to Act 317. The Firemen's Pension Plan provides retirement income and other benefits for the exclusive benefit of the members of the Fire Department, and is controlled by provisions of Ordinance # 10 of 1986 adopted pursuant to Act 317. For detailed financial information, refer to financial management reports covering the period January 1, 2016 to December 31, 2016 as prepared by AFG Pension Administration. A report could be obtained by writing to 575 Peirce Street Suite 301, Kingston, Pa 18704 or calling 570-714-0720.

The Nanticoke City non-uniformed pension plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 15 of 2003 adopted pursuant to Act 15 of 1974. The plan administered by the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the Pennsylvania Municipal Retirement System, P. O. Box 1165 Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

Benefit Provisions

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 10 - Pension Plans (continued)

Benefit Provisions (continued)

Employees of the Police Pension Plan are eligible when they meet the normal retirement requirement of 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death, continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on highest 6 consecutive years of employment or pay at retirement, if higher), plus a service increment (1.25% of average monthly pay per years of service more than 20 and before age 65), plus a one-time cost of living adjustment of \$50 per month after one year of retirement. The Plan also includes death benefit and disability retirement provisions. A member's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to 2.5% of average monthly pay per year of service completed by the member.

Employees of the Firemen Pension Plan are eligible when they meet the normal retirement requirement of 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on the highest 5 years of employment or pay at retirement, if higher), plus an incremental pension equal to 1/40 of the base pension benefit for each year more than 20 and before age 65. The maximum incremental pension is \$100 per month. The Plan also includes late retirement, death benefit, and disability retirement provisions. A member's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to the benefit accrued to the date of termination

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

Summary of significant Accounting Policies

Basis of Accounting

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

Valuation of Investments

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 10 - Pension Plans (continued)

Plan Membership

At December 31, 2016, Plan memberships consisted of the following:

<u>Covered Employees</u>	<u>Police Pension Plan</u>	<u>Firemen Pension Plan</u>	<u>PMRS</u>
Active plan members	13	10	12
Inactive plan members entitled to but not yet receiving benefits	-	-	-
Inactive plan members or beneficiaries currently receiving benefits	16	8	2

Contributions

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

Each full-time policeman contributes 4% month of his compensation plus \$2.00 per month. No interest is credited. Each full-time fireman contributes 3% of total compensation plus \$1.00 per month. Active members of the PMRS Pension Plan are required to contribute 3.0% of compensation to the plan. They may also contribute up to an additional ten percent of compensation to fund the optional contribution annuity. During the year ended December 31, 2016, the city contributed \$ 329,240 to the Police Pension Plan, of which \$ 127,391 were Act 205 funds; \$ 196,325 to the Firemen Pension Plan, of which \$ 83,644 were Act 205 funds; and \$ 38,320 to the PMRS Pension Plan, of which \$ 38,320 were Act 205 funds. During the year ended December 31, 2016, active members contributed \$ 40,107 to the Police Pension Plan, \$18,848 to the Firemen Pension Plan and \$14,803 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.

The City of Nanticoke

Notes to Financial Statements

December 31, 2016

Note 10 - Pension Plans (continued)

Change in the Net Pension Liability

The changes in the net pension liability of the City for the year ended December 31, 2016 were as follows:

Police Pension Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 6,109,716	\$ 4,275,712	\$ 1,834,004
Changes for the year:			
Service Cost	189,132		189,132
Interest	430,425		430,425
Changes in assumptions	-	-	-
Contributions - employer	-	329,240	(329,240)
Contributions – member	-	40,107	(40,107)
Net investment income	-	253,272	(253,272)
Benefit payments, including refunds	<u>(299,827)</u>	<u>(299,827)</u>	<u>-</u>
Net Changes	<u>319,730</u>	<u>322,792</u>	<u>(3,062)</u>
Balance at December 31, 2016	<u>\$ 6,429,446</u>	<u>\$ 4,598,504</u>	<u>\$ 1,830,942</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>71.52%</u>

Firemen Pension Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 3,647,959	\$ 2,507,130	\$ 1,140,829
Changes for the year:			
Service Cost	81,551		81,551
Interest	291,359		291,359
Changes in assumptions	-	-	-
Contributions - employer	-	196,325	(196,325)
Contributions – member	-	18,848	(18,848)
Net Investment income	-	157,028	(157,028)
Benefit payments, including refunds	<u>(175,033)</u>	<u>(175,033)</u>	<u>-</u>
Net Changes	<u>197,877</u>	<u>197,168</u>	<u>709</u>
Balance at December 31, 2016	<u>\$ 3,845,836</u>	<u>\$ 2,704,298</u>	<u>\$ 1,141,538</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>70.32%</u>

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 10 - Pension Plans (continued)

PMRS Pension Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 714,915	\$ 682,523	\$ 32,392
Changes for the year:			
Service Cost	55,661	-	55,661
Interest	41,429	-	41,429
Changes in assumptions	(9,391)	-	(9,391)
Contributions - employer	-	43,233	(43,233)
Contributions - member	-	14,935	(14,935)
PMRS assessment	-	340	(340)
PMRS investment income	-	39,307	(39,307)
Net investment income	-	-	-
Market value investment income	-	(50,336)	50,336
Benefit payments, including refunds	(35,106)	(35,106)	-
PMRS administrative expense	-	(340)	340
Additional administrative expense	-	(1,639)	1,639
Net Changes	<u>52,593</u>	<u>10,394</u>	<u>42,199</u>
Balance at December 31, 2015	<u>\$ 767,508</u>	<u>\$ 692,917</u>	<u>\$ 74,591</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>90.28%</u>

Actuarial Assumptions

The total pension liability for the Police and firemen pension plans was determined as part of the January 1, 2015 actuarial valuation, updated to December 31, 2016, using the following actuarial assumptions, applied to all periods:

	Police	Firemen
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions		
Inflation rate	3.00%	3.00%
Salary increases	5.00%	5.00%
Investment rate of return	7.00%	8.00%
Postretirement Cost of Living Increases		
Mortality	PR 2000 Males & Females Table does not include mortality improvements	PR 2000 Males & Females Table does not include mortality improvements

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 10 - Pension Plans (continued)

Long-Term Expected Rate of Return

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

Asset Class	Target Allocation		Long-Term Expected Rate of Return
	Police	Firemen	
Domestic Equity	65.0%	65.0%	5.5% - 7.5%
Fixed Income	30.0%	35.0%	1.0% - 3.0%
Real Estate	3.0%	0.0%	4.0% - 6.0%
Cash	2.0%	0.0%	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 which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence.

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 10 - Pension Plans (continued)

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2016:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	9.9%	6.9%
Domestic equity (small capitalized firms)	15.0%	9.8%	6.8%
International equity (developed markets)	15.0%	7.0%	4.0%
International equity (emerging markets)	10.0%	10.6%	7.6%
Real Estate	20.0%	10.1%	7.1%
Fixed Income	15.0%	5.4%	2.4%
	<u>100.0%</u>	<u>8.9%</u>	<u>5.9%</u>

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2016.

Confidence Interval	Nominal Rate of Return	Long-Term Expected Rate of Return
95.0%	3.6%	0.6%
90.0%	4.6%	1.6%
85.0%	5.3%	2.3%
80.0%	5.5%	2.5%
75.0%	5.9%	2.9%
70.0%	6.3%	3.3%
50.0%	8.2%	5.2%

Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.5%

In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2015, this rate is equal to 5.5%.

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

PMRS Discount Rate

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 10 - Pension Plans (continued)

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

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

The PMRS Board may then adjust the regular interest rate derived from the formula due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility, trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2015 was 5.5%.

This required equivalence between the regular interest rate and the actuarial discount rate will likely result in a System long-term expected rate of return that will be higher than the actuarial discount rate and higher than the long-term expected rate of return for individual participating municipalities. Should the System experience a prolonged period of investment returns in excess of the regular interest rate, the PMRS Board is authorized to allocate any applicable portion of any such excess in accordance with PMRS Board policies.

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

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Police	<u>\$ 2,645,632</u>	<u>\$ 1,830,942</u>	<u>\$ 1,150,203</u>
	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Firemen	<u>\$ 1,608,715</u>	<u>\$ 1,141,538</u>	<u>\$ 749,334</u>
	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
PMRS	<u>\$ 168,521</u>	<u>\$ 74,591</u>	<u>\$ (5,653)</u>

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 10 - Pension Plans (continued)

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

For the year ended December 31, 2016, the City recognized pension expense of \$ 97,421 in the governmental funds. At December 31, 2016, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,983	\$ -
City contributions subsequent to measurement date	38,320	-
Net differences between projected and actual earnings on pension plan investments	579,776	-
Changes in assumptions	-	8,049
Total	\$ 641,079	\$ 8,049

The amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 187,006
2018	186,916
2019	186,827
2020	32,043
2021	3,257
Thereafter	(1,339)
	\$ 594,710

Note 11 - Long-Term Debt

Municipal Financial Recovery Loan

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

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

PIB Loan

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 11 - Long-Term Debt (continued)

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

	Outstanding Balance 12/31/2015	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2016	Interest Paid This Year	Due Within One Year
Governmental						
2006 Recovery Loan	105,000	-	105,000	-	-	-
2007 Recovery Loan	60,000	-	30,000	30,000	-	20,000
2016 PIB Loan	-	3,000,000	-	3,000,000	-	346,985
	<u>\$ 165,000</u>	<u>\$ 3,000,000</u>	<u>\$ 135,000</u>	<u>3,030,000</u>	-	<u>366,985</u>

Debt service requirements at December 31, 2016, are as follows

Year	Principal	Interest
2017	\$ 366,985	\$ 62,602
2018	293,093	44,577
2019	288,079	39,590
2020	293,154	34,515
2021	298,318	29,351
2022 - 2026	1,490,371	66,058
	<u>\$ 3,030,000</u>	<u>\$ 276,693</u>

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

	Outstanding Balance 12/31/2015	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2016	Interest Paid This Year	Due Within One Year
Business Type						
2007 Recovery Loan	1,131,000	-	266,000	865,000	48,174	275,000
	<u>\$ 1,131,000</u>	<u>\$ -</u>	<u>\$ 266,000</u>	<u>865,000</u>	<u>48,174</u>	<u>275,000</u>

Debt service requirements at December 31, 2016, are as follows

Year	Principal	Interest
2017	\$ 275,000	\$ 36,330
2018	289,000	24,870
2019	301,000	12,642
	<u>\$ 865,000</u>	<u>\$ 73,842</u>

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 11 - Long-Term Debt (continued)

Capitalized Leases

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

	Outstanding Balance 12/31/2015	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2016	Interest Paid This Year	Due Within One Year
Governmental						
2014 Vehicle Lease	48,431	-	13,018	35,413	1,780	13,558
2015 Vehicle Lease	85,775	-	10,541	75,234	3,725	11,256
2016 Vehicle Lease	-	39,347	5,563	33,784	879	7,417
	<u>\$ 134,206</u>	<u>\$ 39,347</u>	<u>\$ 29,122</u>	<u>144,431</u>	<u>6,384</u>	<u>32,231</u>

Debt service requirements for capital lease obligations are as follows:

Year	Principal	Interest
2017	\$ 32,231	\$ 5,555
2018	33,595	4,159
2019	28,046	2,796
2020	21,183	1,806
2021	15,480	966
2022	13,896	370
	<u>\$ 144,431</u>	<u>\$ 15,652</u>

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

	Outstanding Balance 12/31/2015	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2016	Interest Paid This Year	Due Within One Year
Business Type						
2014 Vehicle Lease	52,270	-	14,308	37,962	1,847	14,901
2016 Vehicle Lease	-	48,306	6,160	42,146	1,917	6,296
	<u>\$ 52,270</u>	<u>\$ 48,306</u>	<u>\$ 20,468</u>	<u>\$ 80,108</u>	<u>\$ 3,764</u>	<u>\$ 21,197</u>

Debt service requirements for capital lease obligations are as follows:

Year	Principal	Interest
2017	\$ 21,197	\$ 3,034
2018	22,090	2,141
2019	14,401	1,261
2020	7,157	849
2021	7,469	536
2022	7,794	210
	<u>\$ 80,108</u>	<u>\$ 8,031</u>

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 11 - Long-Term Debt (continued)

Compensated Absences

Compensated absences represent the estimated liability for employees accrued vacation and sick leave for which employees are required to be paid upon termination. The retirement of this liability is paid from the general fund.

	<i>Balance</i>	<i>Net</i>	<i>Balance</i>	<i>Due Within</i>
	<i>12/31/2015</i>	<i>Increases</i>	<i>12/31/2016</i>	<i>One Year</i>
		<i>(Decrease)</i>		
<i>Compensated Absences</i>	\$ 430,395	\$ 49,657	\$ 480,052	\$ 48,052

Post-Employment Benefits

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

Program Description:

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

Funding Policy:

Police Officers:

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

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

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

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

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 11 - Long-Term Debt (continued)

Fire Fighters:

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

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

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

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

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

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

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

Annual OPEB Cost and Net OPEB Obligation:

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

Annual required contribution (ARC)	\$ 687,637
Interest on Net OPEB obligation	120,445
Adjustment to annual required contribution (ARC)	(164,318)
Annual OPEB cost	<u>643,764</u>
Contributions Made	(281,383)
Estimated increase in Net OPEB Obligation	<u>362,381</u>
Net OPEB Obligation - Beginning of Year	2,676,558
Net Opeb Obligation - End of Year	<u><u>\$ 3,038,939</u></u>

The City of Nanticoke

Notes to Financial Statements

December 31, 2016

Note 11 - Long-Term Debt (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 602,382	47.09%	\$ 2,302,542
2015	\$ 649,894	42.45%	\$ 2,676,558
2016	\$ 643,764	43.71%	\$ 3,038,939

Funded Status and Funding Progress:

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

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

Actuarial Methods and Assumptions:

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

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

Note 12 - Risk Management

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

The City of Nanticoke
Notes to Financial Statements
December 31, 2016

Note 13 - Tax Collection

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

Note 14 - Correction of an Error

In the financial statements for the year ended December 31, 2014, an error was made in accounting for the receipt of a refund which was recorded in the General fund in error. This error has been corrected and has had the following effect on the beginning fund balance:

	General Fund	Special Revenue Fund
Beginning fund balance, as previously reported	\$ 3,038,889	\$ 1,221,531
Adjustment of receipt	<u>(96,002)</u>	<u>96,002</u>
Beginning fund balance, as corrected	<u>\$ 2,942,887</u>	<u>\$ 1,317,533</u>

Note 15 – Commitments and Contingencies

Contract Commitment:

The City, through the Debt Service Fund, entered into street paving and improvements contracts with a remaining commitment at December 31, 2016 of approximately \$1.2 million.

Property Tax:

Property tax assessment appeals are regularly encountered during each fiscal year. As of the date of this report the ultimate outcome of these property tax assessment appeals are not readily ascertainable. The City is unable to access and quantify the potential liability; therefore, it has elected not to record any expense or liability on the accompanying basic financial statements of the City at fiscal yearend December 31, 2016.

Litigation:

As of December 31, 2016, The City is involved in various legal issues, which are classified as being in various stages of the legal process. Currently, it is not possible for The City to speculate as to the possible outcome of this litigation or to the financial consequences of any adverse judgment by the Courts in the pending actions. Therefore, The City has not accrued any potential liability that may be incurred because of any adverse judgment relative to any outstanding litigation.

Grant Programs:

The City participates in numerous state and federal grant programs. Various rules and regulations of the grantor agencies govern these programs. Cost charged to the respective grant programs, are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that The City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016 may be impaired. In the opinion of The City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision for such contingencies has been recorded on the accompanying basic financial statements of the city at fiscal year-end December 31, 2016.

<<<< SUPPLEMENTARY INFORMATION >>>>

City of Nanticoke
Schedule of City Contributions and Investment Returns

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
POLICE PENSION PLAN										
Schedule of City Contributions										
Actuarially determined contribution under ACT 205	\$ 329,240	\$ 317,945	\$ 198,670	\$ 193,520	\$ 120,321	\$ 112,411	\$ 8,170	\$ 4,720	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	329,240	317,945	198,670	193,520	120,321	117,861	23,461	29,336	-	-
Contribution deficiency (excess)	-	-	-	-	-	(5,450)	(15,291)	(24,616)	-	-
Covered employee payroll	959,952	\$ 951,319	\$ 887,820							
Contributions as a percentage of covered employee payroll	34.30%	33.42%	22.38%							
Investment Returns										
Annual time-weighted rate of return	6.71%									
FIREMEN PENSION PLAN										
Schedule of City Contributions										
Actuarially determined contribution under ACT 205	\$ 196,325	\$ 198,440	\$ 129,371	\$ 127,021	\$ 153,646	\$ 150,522	\$ 82,395	\$ 80,505	\$ 68,336	\$ 64,693
Contributions in relation to the actuarially determined contribution	196,325	198,440	129,371	127,021	153,646	155,972	112,976	114,553	149,813	124,926
Contribution deficiency (excess)	-	-	-	-	-	(5,450)	(30,581)	(34,048)	(81,477)	(59,963)
Covered employee payroll	643,146	\$ 558,244	\$ 537,960							
Contributions as a percentage of covered employee payroll	30.53%	35.55%	24.05%							
Investment Returns										
Annual time-weighted rate of return	6.33%									

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

	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
PMRS PLAN										
Schedule of City Contributions**										
Actuarially determined contribution under ACT 205	\$ 38,320	\$ 43,533	\$ 35,871	\$ 35,891	\$ 39,637	\$ 39,568	\$ 36,383	\$ 33,685	\$ 34,994	\$ 39,821
Contributions in relation to the actuarially determined contribution	38,320	43,573	35,911	35,891	39,637	39,568	36,383	33,685	34,994	39,821
Contribution deficiency (excess)	-	(40)	(40)	-	-	-	-	-	-	-
Covered employee payroll***		\$ 497,827	\$ 463,127							
Contributions as a percentage of covered employee payroll		8.75%	7.75%							

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

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

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

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

	<u>2016*</u>	<u>2015*</u>
<u>Total Pension Liability:</u>		
Service cost	\$ 189,132	\$ 180,126
Interest	400,425	409,354
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments, including refunds	<u>(299,827)</u>	<u>(295,108)</u>
Net changes in Total Pension Liability	319,730	294,372
Total Pension Liability – Beginning	<u>6,109,716</u>	<u>5,815,344</u>
Total Pension Liability – Ending (a)	<u>\$ 6,429,446</u>	<u>6,109,716</u>
<u>Plan Fiduciary Net Position</u>		
Contributions – employer	\$ 329,240	\$ 317,945
Contributions – member	40,107	37,586
Net investment income (loss)	253,272	(194,289)
Benefit payments, including refunds	(299,827)	(295,108)
Administrative expense	<u>-</u>	<u>(4,600)</u>
Net Change in Plan Fiduciary Net Position	322,792	(138,466)
Plan Fiduciary Net Position – Beginning	<u>4,275,712</u>	<u>4,414,178</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 7,598,504</u>	<u>\$ 4,275,712</u>
Net Pension Liability – Ending (a – b)	<u>\$ 1,830,942</u>	<u>\$ 1,834,004</u>
Plan fiduciary Net Position as a Percentage of the Total Pension Liability	<u>71.52%</u>	<u>69.98%</u>
Covered Employee Payroll	<u>\$ 959,962</u>	<u>\$ 951,319</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	190.73%	192.79%

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

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

	2016*	2015*
<u>Total Pension Liability:</u>		
Service cost	\$ 81,551	\$ 77,668
Interest	291,359	276,702
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments, including refunds	(175,033)	(175,033)
Net changes in Total Pension Liability	197,877	179,337
Total Pension Liability – Beginning	3,647,959	3,468,622
Total Pension Liability – Ending (a)	\$ 3,845,836	3,647,959
<u>Plan Fiduciary Net Position</u>		
Contributions –employer	\$ 196,325	\$ 198,440
Contributions – member	18,848	16,864
Net investment income (loss)	157,028	(63,089)
Benefit payments, including refunds	(175,033)	(175,033)
Administrative expense	-	(4,600)
Net Change in Plan Fiduciary Net Position	197,168	(27,418)
Plan Fiduciary Net Position – Beginning	2,507,130	2,534,548
Plan Fiduciary Net Position – Ending (b)	\$ 2,704,298	\$ 2,507,130
Net Pension Liability – Ending (a – b)	\$ 1,141,538	\$ 1,140,829
Plan fiduciary Net Position as a Percentage of the Total Pension Liability	70.32%	68.73%
Covered Employee Payroll	\$ 643,146	\$ 558,244
Net Pension Liability as a Percentage of Covered Employee Payroll	177.49%	204.36%

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

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

	2016	2015	2014
<u>Total Pension Liability:</u>			
Service cost	\$	\$ 55,661	\$ 50,916
Interest		41,429	36,543
Differences between expected and actual experience			32,175
Changes of assumptions		(9,391)	
Benefit payments, including refunds		(35,106)	(35,954)
Net changes in Total Pension Liability		52,593	83,680
Total Pension Liability – Beginning		714,915	631,235
Total Pension Liability – Ending (a)	\$	676,508	714,915
<u>Plan Fiduciary Net Position</u>			
Contributions – employer	\$	\$ 43,573	\$ 35,911
Contributions – member		14,935	15,123
Net investment income (loss)		(11,029)	34,324
Benefit payments, including refunds		(35,106)	(35,954)
Administrative expense		(1,979)	(1,707)
Net Change in Plan Fiduciary Net Position		10,394	47,687
Plan Fiduciary Net Position – Beginning		682,523	634,836
Plan Fiduciary Net Position – Ending (b)	\$	\$ 692,917	\$ 682,523
Net Pension Liability – Ending (a – b)	\$	\$ 74,591	\$ 32,392
Plan fiduciary Net Position as a Percentage of the Total Pension Liability		90.28%	95.47%
Covered Employee Payroll	\$	\$ 497,827	\$ 463,127
Net Pension Liability as a Percentage of Covered Employee Payroll		14.98%	6.99%

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

City of Nanticoke
 Note to Required Supplementary Information –
 Pension Information
 Year Ended December 31, 2016

Note 1 Actuarial Methods and Assumptions

The information presented is the required supplementary information was determines as part of the actuarial valuation at the dates indicated. Methods and assumptions used to determine contribution rates for the Police and Firemen Pension Plans under Act 205 for the year ended December 31, 2016 are as follows:

	Police	Firemen
Actuarial Valuation date	1/1/2013	1/1/2013
Actuarial Cost Method	Entry age normal	Entry Age Normal
Mortality	RP 2000 Table does not include mortality improvements	RP 2000 Table does not include mortality improvements
Amortization Method	Level Dollar Closed	Level Dollar Closed
Remaining amortization Period:	15 years	12 years
Asset Valuation Method	*	.
Actuarial assumptions:		
Investment rate of return	7.00%	8.00%
Salary increases	5.00%	5.00%
Inflation	3.00%	3.00%
Retirement Age	**	**

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

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

City of Nanticoke
 Note to Required Supplementary Information –
 Pension Information
 Year Ended December 31, 2016
 (Unaudited)

Note 1 Actuarial Methods and Assumptions (continued)

Methods and assumptions used to determine the contribution rate required under Act 205 for the PMRS Pension Plan for the year ended December 31, 2015 are as follows:

Valuation date	1/1/2013
Actuarial Cost Method	Entry age normal
Amortization Method	Level Dollar based upon the amortization periods in Act 205
Remaining amortization Period:	15 years
Asset Valuation Method	Based upon municipal reserves
Actuarial assumptions:	
Investment rate of return	5.50%
Salary increases	Age related scale with merit and inflation component
Inflation	3.00%
COLA increases	3.00% for those eligible for a COLA
Pre-retirement mortality	Males: RP 2000 with 1 year set back Females: RP 2000 with 5 year set back
Post-retirement mortality	Sex distinct RP-2000 Combined Healthy Mortality

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

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

City of Nanticoke
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2016
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 4,505,688	\$ 4,505,688	\$ 4,464,990	\$ (40,698)
Fines, Forfeitures and Costs	35,800	35,800	65,758	29,958
Interest	525	525	836	311
License and Permits	253,100	253,100	372,896	119,796
Intergovernmental-State and Local	432,500	432,500	473,578	41,078
Intergovernmental-Federal	-	-	-	-
Other	309,814	309,814	236,865	(72,949)
Total Revenue	<u>\$ 5,537,427</u>	<u>\$ 5,537,427</u>	<u>\$ 5,614,923</u>	<u>\$ 77,496</u>
EXPENDITURES:				
General Government	\$ 919,294	\$ 919,294	\$ 806,597	\$ 112,697
Public Safety	3,866,773	3,866,773	3,653,857	212,916
Public Works	691,260	691,260	514,368	176,892
Parks and Recreation	10,100	10,100	19,601	(9,501)
Other	-	-	7,217	(7,217)
Total Expenditures	<u>\$ 5,487,427</u>	<u>\$ 5,487,427</u>	<u>\$ 5,001,640</u>	<u>\$ 485,787</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 50,000	\$ 50,000	\$ 613,283	\$ 563,283
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	\$ (50,000)	\$ (50,000)	-	50,000
TAN	-	-	-	-
Budgetary Reserve	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ -</u>	<u>\$ 50,000</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 613,283	\$ 613,283
Fund Balance (Deficit) - Beginning - Restated			2,942,887	\$ 2,942,887
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,556,170</u>	<u>\$ 3,556,170</u>

City of Nanticoke
Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2016
Required Supplementary Information

	<u>Budgeted Amounts</u>		<u>Actual General Fund</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ 150	\$ 150	\$ 340	\$ 190
Intergovernmental-State	1,340,000	1,340,000	13,907	(1,326,093)
Intergovernmental-Federal	5,400,000	5,400,000	-	(5,400,000)
Other	205,000	205,000	206,636	1,636
Total Revenue	<u>\$ 6,945,150</u>	<u>\$ 6,945,150</u>	<u>\$ 220,883</u>	<u>\$ (6,724,267)</u>
EXPENDITURES:				
Public Safety	-	-	13,335	(13,335)
Community Development	6,461,000	6,461,000	254,647	6,206,353
Parks and Recreation	787,500	787,500	-	787,500
Total Expenditures	<u>\$ 7,248,500</u>	<u>\$ 7,248,500</u>	<u>\$ 267,982</u>	<u>\$ 6,980,518</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (303,350)	\$ (303,350)	\$ (47,099)	\$ 256,251
OTHER FINANCING SOURCES (USES)				
Other Sources	\$ 190,800	\$ 190,800	-	(190,800)
Interfund Transfers in (out)	112,550	112,550	-	(112,550)
Total Other Financing Sources (Uses)	<u>\$ 303,350</u>	<u>\$ 303,350</u>	<u>\$ -</u>	<u>\$ (303,350)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ (47,099)	\$ (47,099)
Fund Balance (Deficit) - Beginning - Restated		\$ -	\$ 1,317,533	\$ 1,317,533
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,270,434</u>	<u>\$ 1,270,434</u>

City of Nanticoke
CDBG Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2016
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ 30	\$ 30	\$ 40	\$ 10
Intergovernmental-State and Local	-	-	-	-
Intergovernmental-Federal	1,175,000	1,175,000	62,603	(1,112,397)
Other	-	-	24,245	24,245
Total Revenue	<u>\$ 1,175,030</u>	<u>\$ 1,175,030</u>	<u>\$ 86,888</u>	<u>\$(1,088,142)</u>
EXPENDITURES:				
Community Development	1,175,030	1,175,030	48,297	1,126,733
Total Expenditures	<u>\$ 1,175,030</u>	<u>\$ 1,175,030</u>	<u>\$ 48,297</u>	<u>\$ 1,126,733</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ 38,591	\$ 38,591
OTHER FINANCING SOURCES (USES)				
Other Sources	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 38,591	\$ 38,591
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 236,161	\$ 236,161
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 274,752</u>	<u>\$ 274,752</u>

City of Nanticoke
Refuse Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2016
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Interest	\$ 180	\$ 180	\$ 193	\$ 13
Charges for Services	920,000	920,000	932,680	12,680
Intergovernmental-State and Local Sources	30,000	30,000	17,339	(12,661)
Other	750	750	-	(750)
Total Revenue	<u>\$ 950,930</u>	<u>\$ 950,930</u>	<u>\$ 950,212</u>	<u>\$ (718)</u>
<u>EXPENDITURES:</u>				
Sanitation	950,930	950,930	944,618	6,312
Total Expenditures	<u>\$ 950,930</u>	<u>\$ 950,930</u>	<u>\$ 944,618</u>	<u>\$ 6,312</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ 5,594	\$ 5,594
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 5,594	\$ 5,594
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 285,188	\$ 285,188
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 290,782</u>	<u>\$ 290,782</u>

City of Nanticoke
Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2016
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ 125	\$ 125	\$ 194	\$ 69
Real Estate Tax	317,718	317,718	375,190	57,472
Real Estate Delinquent Tax	105,906	105,906	44,439	(61,467)
Other	-	-	-	-
Total Revenue	<u>\$ 423,749</u>	<u>\$ 423,749</u>	<u>\$ 419,823</u>	<u>\$ (3,926)</u>
EXPENDITURES:				
Debt Service-Principal	273,749	273,749	90,000	183,749
Debt Service-Interest	57,500	57,500	-	57,500
Public Works	-	-	46,692	(46,692)
Other	90,000	90,000	20	89,980
Total Expenditures	<u>\$ 421,249</u>	<u>\$ 421,249</u>	<u>\$ 136,712</u>	<u>\$ 284,537</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 2,500	\$ 2,500	\$ 283,111	\$ 280,611
OTHER FINANCING SOURCES (USES)				
PIB 2016 Loan	-	-	3,000,000	(3,000,000)
Interfund Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ (3,000,000)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 2,500	\$ 2,500	\$ 3,283,111	\$ 3,280,611
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 514,231	\$ 514,231
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 3,797,342</u>	<u>\$ 3,794,842</u>

City of Nanticoke
Highway Aid Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2016
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ 40	\$ 40	\$ 49	\$ 9
Intergovernmental-State and Local	274,801	274,801	281,469	6,668
Total Revenue	<u>\$ 274,841</u>	<u>\$ 274,841</u>	<u>\$ 281,518</u>	<u>\$ 6,677</u>
EXPENDITURES:				
Public Works	274,841	274,841	178,765	96,076
Total Expenditures	<u>\$ 274,841</u>	<u>\$ 274,841</u>	<u>\$ 178,765</u>	<u>\$ 96,076</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ 102,753	\$ 102,753
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 102,753	\$ 102,753
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 35,741	\$ 35,741
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,494</u>	<u>\$ 138,494</u>

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

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

Except as discussed in the last sentences of this paragraph, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Nanticoke, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Nanticoke's basic financial statements, and have issued our report thereon dated June 30, 2017. In our report, our opinion on the basic financial statements was qualified because Management has not recorded general infrastructure and most capital assets in governmental activities and accordingly, has not recorded depreciation expense on those assets nor has depreciation expense been recorded in the sewer system in the business type activities. Accounting principles generally accepted in the United States of America require that such assets be capitalized, which would increase the assets and Net Position of the governmental activities. Accounting principles generally accepted in the United States of America also require that such assets be depreciated which would increase expenses of the governmental and business type activities. Also the amount of assets listed in the Business Type Activities was not audited. The amount by which this departure would affect financial position of the governmental and business type and the government wide statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position of the Proprietary Funds are not reasonably determinable.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

City of Nanticoke's Response to Findings

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

Purpose of this Report

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

Pittston, Pa
June 30, 2017

**CITY OF NANTICOKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY

2016-001. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES TO ENSURE A PROPER SEGREGATION OF DUTIES IN VARIOUS ASPECTS OF THE BUSINESS OFFICE

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

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

- *The same person prepares cash receipts for deposit and posts the deposits to the general ledger.*

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

RESPONSE: *The City of Nanticoke concurs with this finding. City resources do not permit the hiring of additional staff to separate these functions. Therefore, the City has put controls in place to mitigate this weakness. The city implemented a system whereby check receipts are scanned immediately to the bank at the point of sale. The Director of Finance, an employee who does not handle cash receipts or billing functions reconciles the posted cash receipts to the bank statement on a monthly basis. Any discrepancies are investigated and resolved timely. Additionally, monthly financial statements are prepared and presented by the Director of Finance at public meetings. Any significant variances between actual receipts and budgeted receipts are explained properly. Budgeted receipts are determined by the Director of Finance based on collections information submitted by the County, a separate entity.*

The City will investigate the possibility of rearranging job responsibilities to allow separation of these functions, but the City is limited on actions that may taken by union contracts; staff resources; and an administrative code.

CONTINUED

**CITY OF NANTICOKE
SCHEDULE OF FINDINGS AND COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY

2016-002. NANTICOKE CITY SHOULD ESTABLISH PROCEDURES DESIGNED TO ADEQUATELY REFLECT AND RECORD ALL FIXED ASSETS PURCHASED OR SOLD BY THE CITY ON AN ANNUAL BASIS.

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

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

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

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

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

CONTINUED

**CITY OF NANTICOKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY

**2016-003. NANTICOKE CITY SHOULD IMPLEMENT STRONGER INTERNAL CONTROLS
OVER REVENUES COLLECTED BY THE POLICE DEPARTMENT**

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

RESPONSE: *The City concurs with this recommendation and will set up a system for reviewing monies collected by the Police department for various fines, fees, inspections, etc. Please note that currently, the monies collected by the Police department are \$57,000 out of a \$5.5 million budget. The majority of these funds, \$39,000 are checks that are submitted by the Magistrate's office and the State police to Nanticoke. These amounts are independently confirmed at year end. So realistically, cash and checks paid to the police office are approximately \$17,000 annually. The City has sufficient theft insurance to mitigate the risk of defalcation of these collections. However, the City will investigate the possibility of rearranging job responsibilities to set up a more centralized system, but the City is limited on actions that may be taken by union contracts; staff resources; and an administrative code.*