

**CITY OF NANTICOKE**

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

***FOR THE YEAR ENDED DECEMBER 31, 2017***

**Prepared By;**

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

**CITY OF NANTICOKE**  
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December 31, 2017

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# JOSEPH R. ALICIENE & CO

*Accountants & Consultants*

*1216 Main Street*

*Pittston, Pa. 18640-1597*

TEL: (570) 654-4469 FAX: (570) 655-2417

*Joseph R. Aliciene Jr. C.P.A.*

*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, and each major fund of City of Nanticoke, as of and for the year ended December 31, 2017, 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**

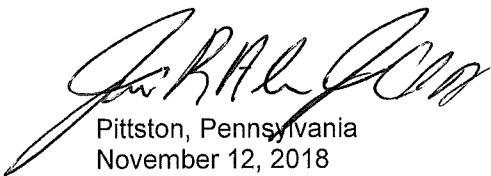
Management has not recorded general infrastructure and most capital assets in governmental activities and accordingly, has not recorded depreciation expense on those assets nor has depreciation expense been recorded in the sewer system in the business type activities. Accounting principles generally 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, 2017, 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, City contributions and investments, schedules of net pension liability and budget comparison information on pages 4 through 12 and 51 through 64 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, Pennsylvania  
November 12, 2018

# Management Discussion & Analysis

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## ***City of Nanticoke Pennsylvania***

15 East Ridge Street  
Nanticoke, PA 18634

Phone: 570 -735-2800  
Fax: 570 -735-7817

### **City of Nanticoke Management's Discussion and Analysis December 31, 2017**

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, 2017. 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 \$(571,524) from \$5.6 million (2016 - restated) in the previous year to \$5.0 million in the current year (2017).
- The assets of the City decreased \$648 thousand from \$15.929 million (2016 - restated) in the previous year to \$15.281 million in the current year.
- Total liabilities of the City decreased \$403 thousand from \$10.953 million (2016-restated) to \$10.550 million in the current year.
- The City implemented GASB 68 which resulted in the recognition of a net pension liability of \$3.399 million and net deferred inflow/outflows of \$.306 million.
- Total net position is comprised of the following:
  - 1) Invested in capital assets, net of related debt, of \$1.834 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 \$(1,318,399) 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 \$316 thousand as compared to \$849 thousand (2016-restated) in 2016 and to \$189 thousand in 2015.

At the end of the current fiscal year, the General Fund balance was \$4.223 million. This compares to the prior year ending fund balance of \$3.556 million and the 2015 ending fund balance of \$2.942 million.

# Management Discussion & Analysis

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## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Government-wide Financial Statements

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

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

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

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

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

### Fund Financial Statements

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

The City has three kinds of funds:

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

## Management Discussion & Analysis

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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
	2017	2016	2017	2016	2017	2016	
Current and Other Assets	\$ 9,655	\$ 9,933	\$ 473	\$ 771	\$ 10,128	\$ 10,704	\$ (576)
Capital Assets	243	287	4,910	4,938	5,153	5,225	(72)
<b>Total Assets</b>	<b>9,898</b>	<b>10,220</b>	<b>5,383</b>	<b>5,709</b>	<b>15,281</b>	<b>15,929</b>	<b>(648)</b>
Deferred Outflows	715	641	-	-	715	641	74

## Management Discussion & Analysis

(Dollars are in Thousands)	Governmental Activities		Business-type Activities		Totals		Amount Change
	2017	2016	2017	2016	2017	2016	
Long-term Liabilities	8,796	9,012	338	649	9,133	9,661	(528)
Other Liabilities	1,093	993	324	299	1,417	1,292	125
<b>Total Liabilities</b>	<b>9,888</b>	<b>10,005</b>	<b>662</b>	<b>948</b>	<b>10,550</b>	<b>10,952</b>	<b>(403)</b>
Deferred Inflows	409	8	-	-	409	8	401
<b>Net Position:</b>							
Invested in Capital Assets, net of related debt	131	142	4,261	3,993	4,392	4,135	257
Restricted	1,964	1,774	-	-	1,964	1,774	190
Unrestricted	(1,779)	(1,068)	461	768	(1,319)	(300)	(1,019)
<b>Total Net Position</b>	<b>\$ 316</b>	<b>\$ 848</b>	<b>\$ 4,721</b>	<b>\$ 4,761</b>	<b>\$ 5,037</b>	<b>\$ 5,609</b>	<b>\$ (572)</b>

The City's net assets at fiscal year-end are \$ 5.037 million. This compares to the prior year adjusted ending fund balance (net assets) of \$ 5.609 million showing a decrease of \$ .572 million during the current year. The assets of the City decreased by \$ .648 million, from \$ 15,929 million in the previous year to \$ 15,281 million in the current year. Total liabilities of the City decreased \$ .403 million from \$ 10.952 million in the previous year to \$ 10.550 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$ 4.392 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 \$ 1.964 million represent funds restricted for use by various grantors, laws, regulations or governing bodies. Unrestricted net assets of (\$ 1,318) million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.

The City reported a positive balance of \$ 4.721 million in net assets for business-type activities. This compares to the prior year ending net asset balance of \$ 4.761 million showing a net decrease of \$ 40,000 during the current year. Business-type activities include the sewer fund activities. The net activity of \$ 40,000 was due to interfund transfers.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a positive balance of \$ 316,000 in net assets for governmental activities. This compares to the adjusted prior year ending net asset balance of \$ 848,000 showing a decrease of \$532,000 during the current year. The net activity of \$ 316,000 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)

	Governmental Activities		Business-type Activities		Totals		Amount Change
	2017	2016	2017	2016	2017	2016	
<b>Revenues</b>							.
Charges for Services	\$ 937	\$ 932	\$ 864	\$ 885	\$ 1,801	\$ 1,817	\$ (16)
Grants & Contributions	1,759	1,024	-	500	1,759	1,524	235
Property Taxes	2,193	2,176	-	-	2,193	2,175	18
Other Local Taxes for General Purposes	3,083	2,925	-	-	3,083	2,925	158
Grants	7	4	-	-	7	4	3
Misc. Gen. Purpose Rev	434	561	-	-	434	561	(127)
Investment Earnings	10	2	1	-	11	2	9
<b>Total Revenue</b>	<b>8,423</b>	<b>\$ 7,623</b>	<b>\$ 865</b>	<b>\$ 1,385</b>	<b>\$ 9,288</b>	<b>\$ 9,008</b>	<b>\$ 280</b>
<b>Total Expense</b>	<b>9,182</b>	<b>\$ 6,963</b>	<b>\$ 678</b>	<b>\$ 1,026</b>	<b>\$ 9,860</b>	<b>\$ 7,989</b>	<b>\$ 1,871</b>
<b>Change in Net Position before transfers</b>	<b>(759)</b>	<b>-</b>	<b>187</b>	<b>359</b>	<b>(572)</b>	<b>1,019</b>	<b>(1,591)</b>
Transfers	226		(226)	-	-	-	-
<b>Change in Net Position</b>	<b>(533)</b>	<b>660</b>	<b>(39)</b>	<b>359</b>	<b>(572)</b>	<b>1,019</b>	<b>(1,591)</b>
Net Assets - Beginning	849	2,505	4,760	4,401	5,609	6,906	(1,297)
Prior Period Adj	-	(2,316)	-	-	\$ -	(2,316)	2,316
<b>Net Assets - Ending</b>	<b>\$ 316</b>	<b>\$ 849</b>	<b>\$ 4,721</b>	<b>\$ 4,760</b>	<b>\$ 5,037</b>	<b>\$ 5,609</b>	<b>\$ (572)</b>

## Management Discussion & Analysis

Total expenses of the City increased by \$1.871 million from \$ 7,989 million in 2016 to \$ 9,860 million in 2017. Specifically, General Government expense increased by \$ 27,494; Public Safety expense increased \$ 212,912; Refuse expense decreased \$ 57,272; Public Works increased \$ 1,744,454; Community Development increased \$ 235,197 and Parks and Recreation decreased \$ 6,389.

Comparison of Current vs. Prior Year Expenditures			
(Dollars are in Thousands)			
Expenses	2017	2016	Amount Change
General Government and Administration	\$ 810	\$ 782	28
Public Safety	4,378	4,165	213
Sanitation	887	945	(58)
Public Works	2,486	741	1,745
Community Development	538	303	235
Parks and Recreation	13	20	(7)
Other	7	7	-
Interest on Long Term Debt	63	-	63
Sewage	678	1,026	(348)
<b>Total Expenses</b>	<b>\$ 9,860</b>	<b>7,989</b>	<b>1,871</b>

General Revenue increased from \$9,008 million in 2016 to \$9,288 million in 2017.

Comparison of Current vs. Prior Year Revenues			
(Dollars are in Thousands)			
General Revenue:	2017	2016	Amount Change
Charges for Services	\$ 1,801	\$ 1,817	(16)
Grants & Contributions	1,759	1,524	235
Property Taxes	2,193	2,175	18
Other Local Taxes for General Purposes	3,083	2,925	158
Other Grants	7	4	3
Investment Earnings	11	2	9
Misc General Purpose Revenues	434	561	(127)
Other	-	-	-
<b>Total General Revenue</b>	<b>9,288</b>	<b>9,008</b>	<b>280</b>

## Management Discussion & Analysis

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### Business Type Activities

A decrease of \$ 16,000 was realized for business type activities for 2017 over 2016.

<b>Comparison of Current vs. Prior Year Revenues</b>			
<b>(Dollars are in Thousands)</b>			
	<b>2017</b>	<b>2016</b>	<b>Amount Change</b>
Charges for Services			
Sanitation	\$ 937	\$ 932	\$ 5
Sewage	864	885	(21)
<b>Total Charges for Services</b>	<b>\$ 1,801</b>	<b>\$ 1,817</b>	<b>\$ (16)</b>

Charges for Services decrease from \$ 1.971 million to \$ 1.565 million in 2017.

<b>Comparison of Current vs. Prior Year Expenses</b>			
<b>(Dollars are in Thousands)</b>			
	<b>2017</b>	<b>2016</b>	<b>Amount Change</b>
Sanitation	\$ 887	\$ 945	(58)
Sewage	678	1,026	(348)
<b>Total Expenses</b>	<b>\$ 1,565</b>	<b>\$ 1,971</b>	<b>\$ (406)</b>

### Financial Analysis of the City's Funds

#### *Major Governmental Funds*

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased by \$ 666,470, from \$ 3.556 million to \$ 4.223 million. Key factors contributing to this increase are an increase in tax revenues of approximately \$ 180,000. 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 \$ 2,394,520. Excess of expenditures over revenues was \$ 1,402,822 for 2017. 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. Proceeds from this loan were used to pay for street improvements during 2017.

#### *Proprietary Funds*

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

#### *Major Proprietary Fund*

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

# Management Discussion & Analysis

## General Fund Budgetary Highlights

Actual revenues were approximately \$ 107,000 more than budgeted at \$ 5.684 million as compared to a budgeted amount of \$ 5.577 million.

Actual expenditures were approximately \$ 449,000 less than budgeted at \$ 5.127 million as compared to a budgeted amount of \$ 5.577 million.

The General Fund adopted budget was not amended during the 2017 fiscal year. Revenues less expenses exceed budget by \$ 556,527. Excess of revenues over expenditures were positive in 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 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 \$3,283 million.

Debt Schedule (Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amount Change
	2017	2016	2017	2016	2017	2016	
General Obligation	\$ -	\$ -	\$ 590	\$ 865	\$ 590	\$ 865	\$ (275)
Muni-financial Recovery Loans	20	30	-	-	20	30	(10)
PIB Loan	2,653	3,000	-	-	2,653	3,000	(347)
<b>Total</b>	<b>\$ 2,673</b>	<b>\$ 3,030</b>	<b>\$ 590</b>	<b>\$ 865</b>	<b>\$ 3,263</b>	<b>\$ 3,895</b>	<b>(632)</b>

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

As a result of relatively stagnant revenues, rising expenditures and borrowing to meet operational expenses, the City faced an approximately \$ 1.200 million structural deficit in 2006. On May 25, 2006, the City was declared a financially distressed municipality by the Pennsylvania Department of Economic and Community Development (DCED) under the Provisions of the Act, DCED retained a Recovery Plan Coordinator to develop a fiscal recovery plan for the City. The City 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 3<sup>rd</sup> Class City to Home Rule Municipality, thus allowing the City to restructure the tax rate limits to better suit the City's requirements. In November of 2011, the voters accepted the Home Rule Charter which became effective on January 5, 2012.

## Management Discussion & Analysis

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

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

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

Richard Wiatrowski, Mayor

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**CITY OF NANTICOKE  
STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

<u>ASSETS</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Investments	\$ 8,372,237	\$ 623,429	\$ 8,995,666
Receivables:			
Ad Valorem Taxes	969,908	-	969,908
Accounts	65,544	-	65,544
Grants	78,768	-	78,768
Mortgage	16,457	-	16,457
Due from Internal Parties	150,139	(150,139)	-
Prepaid Expenses	2,244	-	2,244
Capital Assets:			
Equipment	412,043	231,791	643,834
Sewer System	-	4,844,474	4,844,474
Accumulated Depreciation	(168,920)	(166,702)	(335,622)
<b>TOTAL ASSETS</b>	<b><u>9,898,420</u></b>	<b><u>5,382,853</u></b>	<b><u>15,281,273</u></b>
 <b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows of resources for pensions	<u>715,440</u>	<u>-</u>	<u>715,440</u>
 <b><u>LIABILITIES</u></b>			
Accrued Payroll	144,455	-	144,455
Payables:			
Accounts	212,484	12,551	225,035
Revenue Received in Advance	75,355	-	75,355
Other	122	-	122
Non Current Liabilities			
Due within one year			
Note Payable	303,087	289,000	592,087
Lease Payable	33,595	22,090	55,685
Compensated Absences	46,766	-	46,766
Other Post Employment Benefits-Current	277,734	-	277,734
Due in More than one Year			
Note Payable	2,370,233	301,000	2,671,233
Lease Payable	78,605	36,821	115,426
Compensated Absences	420,898	-	420,898
Other Post Employment Benefits	3,121,295	-	3,121,295
Net Pension Liability	2,804,156	-	2,804,156
<b>TOTAL LIABILITIES</b>	<b><u>9,888,785</u></b>	<b><u>661,462.00</u></b>	<b><u>10,550,247.00</u></b>
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows of resources for pensions	<u>409,148</u>	<u>-</u>	<u>409,148</u>
 <b><u>NET POSITION</u></b>			
Invested in net assets, net of related debt	130,923	4,260,652	4,391,575
Restricted For:			
Debt Service	827,832	-	827,832
Public Safety	254,525	-	254,525
Sanitation	351,299	-	351,299
Public Works	231,793	-	231,793
Community Development	298,693	-	298,693
Unrestricted	(1,779,138)	460,739	(1,318,399)
<b>TOTAL NET POSITION</b>	<b><u>\$ 315,927</u></b>	<b><u>\$ 4,721,391</u></b>	<b><u>\$ 5,037,318</u></b>

**CITY OF NANTICOKE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	TOTAL
<b>FUNCTIONS/PROGRAMS</b>						
<b>GOVERNMENTAL ACTIVITIES:</b>						
General Government and Administration	\$ 809,249	\$ -	\$ -	\$ (809,249)	\$ -	\$ (809,249)
Public Safety	4,378,245	507,670	48,845	(3,821,730)	-	(3,821,730)
Sanitation	887,346	-	-	49,606	-	49,606
Public Works	2,485,991	295,188	577,461	(1,613,342)	-	(1,613,342)
Community Development	538,141	40,784	288,928	(208,429)	-	(208,429)
Parks and Recreation	13,212	-	-	(13,212)	-	(13,212)
Other	6,708	-	-	(6,708)	-	(6,708)
Interest on Long Term Debt	62,907	-	-	(62,907)	-	(62,907)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>9,181,799</b>	<b>843,642</b>	<b>915,234</b>	<b>(6,485,971)</b>	<b>-</b>	<b>(6,485,971)</b>
<b>BUSINESS TYPE ACTIVITIES:</b>						
Sewer	637,879	-	-	-	226,451	226,451
Interest	39,651	-	-	-	(39,651)	(39,651)
	<b>677,530</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>186,800</b>	<b>186,800</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 9,859,329</b>	<b>\$ 1,801,282</b>	<b>\$ 915,234</b>	<b>\$ (6,485,971)</b>	<b>\$ 186,800</b>	<b>\$ (6,299,171)</b>
<b>GENERAL REVENUE:</b>						
Taxes:						
Ad Valorem (Property Taxes)				2,192,886	-	2,192,886
Other Local Taxes Levied For General Purposes				3,083,417	-	3,083,417
Grants, Subsidies, and Contributions Not Restricted				6,700	-	6,700
Miscellaneous General Purpose Revenues				434,142	-	434,142
Investment Earnings				9,988	514	10,502
Transfers				226,242	(226,242)	-
Total General Revenues and Transfers				<u>5,953,375</u>	<u>(225,728)</u>	<u>5,727,647</u>
<b>CHANGE IN NET POSITION</b>				<b>(532,596)</b>	<b>(38,928)</b>	<b>(571,524)</b>
<b>NET POSITION:</b>						
BEGINNING OF YEAR				848,523	4,760,319	5,608,842
END OF YEAR				<u>\$ 315,927</u>	<u>\$ 4,721,391</u>	<u>\$ 5,037,318</u>

CITY OF NANTICOKE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2017

	General Fund	Special Revenue	CDBG Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	Totals Governmental Funds
<b>ASSETS</b>							
Cash and Investments	\$ 3,486,365	\$ 1,482,657	\$ 291,465	\$ 486,505	\$ 2,389,634	\$ 235,611	\$ 8,372,237
Accounts Receivable	65,544	-	-	-	-	-	65,544
Grant Funds Receivable	-	78,768	-	-	-	-	78,768
Taxes Receivable	1,053,939	-	-	-	4,886	-	1,058,825
Due from Other Funds	273,174	-	4,219	-	-	-	277,393
Prepaid Expenses	2,244	-	-	-	-	-	2,244
<b>TOTAL ASSETS</b>	<b>\$ 4,881,266</b>	<b>\$ 1,561,425</b>	<b>\$ 295,684</b>	<b>\$ 486,505</b>	<b>\$ 2,394,520</b>	<b>\$ 235,611</b>	<b>\$ 9,855,011</b>
<b>LIABILITIES &amp; FUND BALANCE</b>							
<b>LIABILITIES:</b>							
Accounts Payable	\$ 65,245	\$ 124,733	\$ 18,688	\$ -	\$ -	\$ 3,818	\$ 212,484
Accrues Expense	144,455	-	-	-	-	-	144,455
Due to Other Funds	4,219	19,874	43,310	59,851	-	-	127,254
Due to Library	122	-	-	-	-	-	122
Revenue Received in Advance	444,585	-	-	75,355	-	-	519,940
<b>TOTAL LIABILITIES</b>	<b>\$ 658,626</b>	<b>\$ 144,607</b>	<b>\$ 61,998</b>	<b>\$ 135,206</b>	<b>\$ -</b>	<b>\$ 3,818</b>	<b>\$ 1,004,255</b>
<b>FUND BALANCE:</b>							
Restricted	113,187	202,359	233,686	351,299	2,394,520	231,793	3,526,844
Assigned	-	1,175,440	-	-	-	-	1,175,440
Unassigned	4,109,453	39,019	-	-	-	-	4,148,472
<b>TOTAL FUND BALANCE</b>	<b>\$ 4,222,640</b>	<b>\$ 1,416,818</b>	<b>\$ 233,686</b>	<b>\$ 351,299</b>	<b>\$ 2,394,520</b>	<b>\$ 231,793</b>	<b>\$ 8,850,756</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 4,881,266</b>	<b>\$ 1,561,425</b>	<b>\$ 295,684</b>	<b>\$ 486,505</b>	<b>\$ 2,394,520</b>	<b>\$ 235,611</b>	<b>\$ 9,855,011</b>



**CITY OF NANTICOKE**

**Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position  
DECEMBER 31, 2017**

**Total Fund Balances - Governmental Funds** **\$ 8,850,756**

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

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

Mortgage Recievable 16,457

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 \$ 412,043 243,123 and the accumulated depreciation is \$ 168,920.

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. (\$444,585 - \$88,917 provision for uncollectible.) 355,668

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	\$ (2,673,320)	
Capital Leases Payable	(112,200)	
Compensated Absences	(467,664)	
Other Post employment benefits	(3,399,029)	
Net Pension Liability net of related deferred inflows and outflows of resources	<u>(2,497,864)</u>	<u>(9,150,077)</u>

**TOTAL NET POSITIONS (DEFICIT)-Governmental Activity** **\$ 315,927**

**CITY OF NANTICOKE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Special Revenue	CDBG Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	Totals Governmental Funds
<b>REVENUES:</b>							
Taxes	\$ 4,644,361	\$ -	\$ -	\$ 936,952	\$ 429,469	\$ -	\$ 5,073,830
Charges for Services	-	-	-	-	-	-	936,952
Fines, Forfeitures and Costs	69,303	-	-	-	-	-	69,303
Interest	5,231	1,942	221	955	1,233	406	9,988
License and Permits	338,117	-	-	-	-	-	338,117
Intergovernmental-State and Local Sources	450,182	502,707	-	-	-	295,188	1,248,077
Intergovernmental-Federal	35,200	88,399	329,712	-	-	-	453,311
Other	141,369	108,408	12,791	-	-	-	262,568
<b>Total Revenue</b>	<b>\$ 5,683,763</b>	<b>\$ 701,456</b>	<b>\$ 342,724</b>	<b>\$ 937,907</b>	<b>\$ 430,702</b>	<b>\$ 295,594</b>	<b>\$ 8,392,146</b>
<b>EXPENDITURES:</b>							
General Government	\$ 786,044	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 786,044
Public Safety	3,946,235	13,310	-	-	-	-	3,959,545
Sanitation	-	-	-	887,346	-	-	887,346
Public Works	375,037	489,062	-	-	1,413,937	206,957	2,484,993
Community Development	-	230,449	307,692	-	-	-	538,141
Parks and Recreation	13,212	-	-	-	-	-	13,212
Debt Service and Bond Payments	-	-	-	-	419,587	-	419,587
Other	6,708	-	-	-	-	-	6,708
<b>Total Expenditures</b>	<b>\$ 5,127,236</b>	<b>\$ 732,821</b>	<b>\$ 307,692</b>	<b>\$ 887,346</b>	<b>\$ 1,833,524</b>	<b>\$ 206,957</b>	<b>\$ 9,095,576</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 556,527</b>	<b>\$ (31,365)</b>	<b>\$ 35,032</b>	<b>\$ 50,561</b>	<b>\$ (1,402,822)</b>	<b>\$ 88,637</b>	<b>\$ (703,430)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
PIB 2016 Loan	-	-	-	-	-	-	-
Insurance Proceeds	-	-	-	-	-	-	-
Sale of Assets	-	-	-	-	-	-	-
Interfund Transfers in	125,315	187,705	10,710	9,956	-	4,662	338,348
Interfund Transfers out	(15,372)	(9,956)	(86,778)	-	-	-	(112,106)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 109,943</b>	<b>\$ 177,749</b>	<b>\$ (76,068)</b>	<b>\$ 9,956</b>	<b>\$ -</b>	<b>\$ 4,662</b>	<b>\$ 226,242</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ 666,470</b>	<b>\$ 146,384</b>	<b>\$ (41,036)</b>	<b>\$ 60,517</b>	<b>\$ (1,402,822)</b>	<b>\$ 93,299</b>	<b>\$ (477,188)</b>
Fund Balance (Deficit) - Beginning	\$ 3,556,170	\$ 1,270,434	\$ 274,722	\$ 290,782	\$ 3,797,342	\$ 138,494	\$ 9,327,944
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b>\$ 4,222,640</b>	<b>\$ 1,416,818</b>	<b>\$ 233,686</b>	<b>\$ 351,299</b>	<b>\$ 2,394,520</b>	<b>\$ 231,793</b>	<b>\$ 8,850,756</b>

See Notes to Financial Statements  
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## CITY OF NANTICOKE

### *Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities DECEMBER 31, 2017*

Total net change in fund balances - Governmental Funds	\$ (477,188)						
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.	36,194						
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.	(43,609)						
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	388,911						
In the statement of activities, certain operating expenses compensated absences (sick leave & vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid.)							
<table> <thead> <tr> <th></th> <th style="text-align: right;"><u>(Earned) Paid</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">Compensated Absences</td> <td style="text-align: right;">12,388</td> </tr> <tr> <td style="text-align: right;">Other Post Employment Healthcare</td> <td style="text-align: right;"><u>(360,090)</u></td> </tr> </tbody> </table>		<u>(Earned) Paid</u>	Compensated Absences	12,388	Other Post Employment Healthcare	<u>(360,090)</u>	(347,702)
	<u>(Earned) Paid</u>						
Compensated Absences	12,388						
Other Post Employment Healthcare	<u>(360,090)</u>						
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.	(83,823)						
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.	<u>(5,379)</u>						
<b>CHANGE IN NET ASSETS - Governmental Activities</b>	<b><u>\$ (532,596)</u></b>						

**CITY OF NANTICOKE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2017**

	<b>Business Type Activities</b>
	<b>Enterprise Fund</b>
	<b>Sewer Fund</b>
	<u>                    </u>
<b>ASSETS:</b>	
Cash and Investments	\$ 623,429
Grant Receivable	-
Machinery & Equipment.	231,791
Sewer System	4,844,474
Accumulated Depreciation	(166,702)
<b>TOTAL ASSETS</b>	<u><u>\$ 5,532,992</u></u>
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$ 12,551
Due to other Funds	150,139
<b>NONCURRENT LIABILITIES</b>	
Portion Due or Payable within one year	
Capital Lease	22,090
Note Payable	289,000
Due in more than one year	
Capital Lease	36,821
Note Payable	301,000
<b>TOTAL LIABILITIES</b>	<u><u>\$ 811,601</u></u>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	\$ 4,260,652
Unrestricted (Deficit)	460,739
<b>TOTAL NET POSITION</b>	<u><u>\$ 4,721,391</u></u>

**CITY OF NANTICOKE  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2017**

	<b>Business Type Activities</b>
	<b>Enterprise Fund</b>
	<b>Sewer Fund</b>
	<u>                    </u>
<b>OPERATING REVENUES:</b>	
Sewer User Fees	\$ 864,247
Other Income	83
<b>TOTAL OPERATING REVENUES</b>	<u><b>864,330</b></u>
 <b>OPERATING EXPENSES:</b>	
Supplies and Materials	411,360
Personal Services	146,018
Depreciation	28,364
Other Operating Expenses	52,137
<b>TOTAL OPERATING EXPENSES</b>	<u><b>637,879</b></u>
 <b>OPERATING INCOME</b>	<u><b>226,451</b></u>
 <b>NONOPERATING REVENUES (EXPENSES):</b>	
Investment Income	514
Interest Expense	<u>(39,651)</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES):</b>	<u><b>(39,137)</b></u>
 <b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>187,314</b>
 Interfund Transfers in/(out)	<u>(226,242)</u>
 <b>CHANGES IN NET POSITION</b>	<b>(38,928)</b>
 <b>TOTAL NET POSITION - Beginning of Year</b>	<u><b>4,760,319</b></u>
 <b>TOTAL NETPOSITION - End of Year</b>	<u><u><b>\$ 4,721,391</b></u></u>

**CITY OF NANTICOKE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2017**

**Business Type Activities  
Enterprise Fund  
Sewer Fund**

**CASH FLOWS FROM OPERATION ACTIVITIES**

Received from User Charges	\$ 864,330
Received from Grant	500,000
Cash Payments to Employees for Services	(146,018)
Cash Payment to Suppliers for Goods and Services	(456,046)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u>762,266</u></b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Transfers to other funds	(226,242)
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b><u>(226,242)</u></b>

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

Principal Paid on Debt	(275,000)
Interest Paid on Debt	(36,617)
Principal Paid on Lease	(21,197)
Interest Paid on Leases	(3,034)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(335,848)</u></b>

**CASH FLOWS FROM INVESTMENT ACTIVITIES**

Interest on Investments	<u>514</u>
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**NET DECREASE IN CASH AND CASH EQUIVALENTS**

200,690

**CASH AND CASH EQUIVALENTS BEGINNING OF YEAR**

422,739

**CASH AND CASH EQUIVALENTS END OF YEAR**

**\$ 623,429**

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

Operating Income or Loss	\$ 226,451
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities	
Depreciation	28,364
Changes in Assets and Liabilities	
Grant Recievable	500,000
Payables	9,294
Due to other funds	(1,843)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u>\$ 762,266</u></b>

**NONCASH CAPITAL FINANCING ACTIVITIES**

-

**CITY OF NANTICOKE  
 FIDUCIARY FUND TYPE-PENSION FUNDS  
 STATEMENT OF NET POSITION  
 DECEMBER 31, 2017**

	<b>Retirement Trusts</b>
<b>ASSETS</b>	
Cash	\$ 57,682
Investments	8,291,990
Benefits Paid in Advance	40,530
Receivable Member Contribution	4,254
Total Assets	<u>\$ 8,394,456</u>
 <b>NET POSITION</b>	
Held in trust for pension benefits	\$ 8,394,456
<b>TOTAL NET POSITION</b>	<u>\$ 8,394,456</u>

**CITY OF NANTICOKE  
 FIDUCIARY FUNDS-PENSION FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 YEAR ENDED DECEMBER 31, 2017**

<b>ADDITIONS</b>	<b>Retirement Trusts</b>
Contributions	
Employer	\$ 313,160
Employee	57,996
State Aid	241,940
Appreciation (Depreciation) in Fair Value of Investments	951,942
Dividend	75,908
Total Additions	<u>\$ 1,640,946</u>
 <b>DEDUCTIONS</b>	
Investment Expense	\$ 33,159
Pension Benefits	497,421
Administrative Expense	18,712
Total Deductions	<u>\$ 549,292</u>
 <b>Change in Net Position</b>	 1,091,654
 Net Position At the Beginning of Year	 <u>\$ 7,302,802</u>
 Net Position End of Year End of Year	 <u><u>\$ 8,394,456</u></u>



# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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## Note 2 - Summary of Significant Accounting Policies

### A. Basis of Presentation

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

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

# The City of Nanticoke

Notes to Financial Statements  
December 31, 2017

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

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.

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.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

### 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.

### ***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.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

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.

#### **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 \$361,000,000.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

### 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.

### 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.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

- **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 Councilmembers have the authority to revisit or alter this designation.

## Interfund Activity

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

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

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

## 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, 2017, the City had expenditures in excess of appropriation for the following funds:

CDBG Fund	\$	41,036
Debt Service Fund		1,402,822

### C. Budgetary Compliance

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

## Note 4 – Cash

### *Primary Government*

*Custodial Credit Risk- Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does have a policy for custodial credit risk. As of December 31, 2017, \$ 8,863,823 of the City's bank balance of \$ 8,995,666. was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$	71,579
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		8,792,244
Total		<u>8,863,823</u>

### Reconciliation to Financial Statements

Uncollateralized Amount Above	8,863,823
Plus: Insured Amount	471,765
Deposits in transit	-
Less: Outstanding Checks	<u>(340,022)</u>
Carrying Amount – Bank Balances	8,995,566
Plus: Petty Cash	100
Total Cash per Financial Statements	<u>8,995,666</u>



# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

## 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, 2017, 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	\$ 3,355,425	\$ 2,050,728	\$ 5,406,153
Corporate Bonds	790,735	217,544	1,008,279
Government Bond	485,232	447,996	933,228
Fixed Income Fund	403,262	386,812	790,074
Real Estate	154,256	-	154,256
<b>Total</b>	<b>\$ 5,188,910</b>	<b>\$ 3,103,080</b>	<b>\$ 8,291,990</b>

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

Investment Type	Police Pension Fair Value	Firemen's Pension Fair Value	Maturity	Rating
Corporate Bonds	790,735	217,544	Avg. of 6.5 Years	Avg. of AA
Government Bond	485,232	447,996	Avg of 3.7 Years	Avg. of A
Fixed Income Fund	403,262	386,812	Avg of 11.2 Years	Avg. of A-
<b>Total</b>	<b>\$ 1,679,229</b>	<b>1,052,352</b>		

*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.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

## Note 5 – Investments (continued)

*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. There is a 5% or more concentration of Corporate Bonds, Government Bonds, Corporate / Government Bonds and Fixed Income total 32% of the overall allocation for the Police Pension Plan and 33.9% of the overall allocation for the Firemen's Pension Plan

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

	Police Pension Fair Value	Firemen's Pension Fair Value	Total
NationWide	\$ 1,960,418	\$ 3,103,080	\$ 5,063,498
TD Ameritrade	3,286,174	-	3,286,174
<b>Total</b>	<b>\$ 5,246,292</b>	<b>\$ 3,103,080</b>	<b>\$ 8,349,672</b>

## Note 6 - Capital Assets

A summary of transactions in capital assets for 2017 follows:

	Cost	Accumulated Depreciation
<b>Governmental Activities</b>		
Capitalized leased equipment 12/31/2016	\$ 412,043	\$ 125,311
Additions/Disposals	-	43,609
Capitalized leased equipment 12/31/2017	\$ 412,043	\$ 168,920
<b>Business-Type Activities</b>		
Sewer System 12/31/2016	\$ 4,844,474	\$ -
Additions/Disposals	-	-
Sewer System 12/31/2017	\$ 4,844,474	\$ -
Capitalized leased equipment 12/31/2016	\$ 231,791	\$ 138,338
Additions/Disposals	-	28,364
Capitalized leased equipment 12/31/2017	\$ 231,791	\$ 166,702

There were no disposals in 2017. Amortization of business-type activities capitalized leases is reported as depreciation expense.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

## Note 7 - Due To / From Other Funds and Transfers

Individual due to/from other fund balances at December 31, 2017 were as follows:

	Due From	Due To
Governmental Activities		
General Fund:		
Sewer Fund	\$ 150,139	
Special Revenue fund	19,874	
Community Development fund	43,310	4,219
Refuse Fund	59,851	
Special Revenue Fund:		
General Fund		19,874
Community Development Fund:		
General Fund	4,219	43,310
Refuse Fund:		
General Fund		\$ 59,851
Total Governmental Activities	277,393	127,254
Business-Type Activities		
Proprietary Funds:		
Sewer Fund	-	150,139
Total	\$ 277,393	\$ 277,393

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. Interfund due from/due to of \$ 277,393 has been eliminated in the Statement of Net Assets to minimize the grossing up of internal balances, leaving a net amount due of \$ 150,139 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.

A reconciliation of the interfund transfers for the year ended December 31, 2017 is as follows:

	Transfers In	Transfers Out
Governmental Activities		
General Fund:		
Highway Aid	\$ -	\$ 4,662
Community Development fund	90,997	14,929
Sewer Fund	38,537	-
Special Revenue Fund:		
Refuse Fund	-	9,956
Sewer Fund	187,705	-
Highway Aid		
General Fund	4,662	-
Community Development Fund:		
General Fund	14,929	90,997
Refuse Fund:		
Special Revenue Fund	9,956	-
Total Governmental Activities	\$ 346,786	\$ 120,544

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

	Transfers In	Transfers Out
Business-Type Activities		
Proprietary Fund – Sewer Fund		
General Fund	-	38,537
Special Revenue Fund	-	187,705
Total Business-Type Activities	-	226,242
 Total	\$ 346,386	\$ 346,786

Transfers are used to reimburse funds for expense incurred on behalf of other funds and to fulfill budgetary transfer requirements. They are permanent and not expected to be reimbursed.

## Note 8 - Taxes Receivable

Taxes Receivable at December 31, 2017:

Earned Income	\$ 551,286
Real Estate Transfer	7,717
Mercantile/Business Privilege	5,974
Local Service Tax	19,289
Real Estate Taxes	474,559
Total Fund Financial Statements	1,058,825
Allowance for Uncollectible Taxes	(88,917)
Total Statement of Net Assets	\$ 969,908

## 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, 2017, the following amounts were owed to the City under the various programs:

Urban Development	\$ 1,381
Rehabilitation and Redevelopment	15,076
	\$ 16,457

## 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, 2017 to December 31, 2017 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 City of Nanticoke

Notes to Financial Statements

December 31, 2017

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## Note 10 - Pension Plans (continued)

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.

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.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

## Note 10 - Pension Plans (continued)

### 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.

### Plan Membership

At December 31, 2017, 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	17	8	3

### 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, 2017, the city contributed \$ 351,559 to the Police Pension Plan, of which \$ 143,911 were Act 205 funds; \$ 203,541 to the Firemen Pension Plan, of which \$ 98,029 were Act 205 funds; and \$ 42,532 to the PMRS Pension Plan, of which \$ 42,532 were Act 205 funds. During the year ended December 31, 2017, active members contributed \$ 37,681 to the Police Pension Plan, \$20,315 to the Firemen Pension Plan and \$16,025 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, 2017

## 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, 2017 were as follows:

#### Police Pension Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 6,429,446	\$ 4,598,504	\$ 1,830,942
Service Cost	218,149		218,149
Interest	460,806		460,806
Changes for experience	(39,121)	-	(39,121)
Changes of assumptions	135,657	-	135,657
Contributions - employer	-	351,559	(351,559)
Contributions - member	-	37,681	(37,681)
Net investment income	-	617,301	(617,301)
Benefit payments, including refunds	(322,389)	(322,389)	-
Benefit payments, including refunds	-	(7,400)	7,400
<b>Net Changes</b>	<b>453,102</b>	<b>676,752</b>	<b>(223,650)</b>
Balance at December 31, 2017	<u>\$ 6,882,548</u>	<u>\$ 5,275,256</u>	<u>\$ 1,607,292</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>76.65%</u>

#### Firemen Pension Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 3,845,836	\$ 2,704,298	\$ 1,141,538
Service Cost	87,164		87,164
Interest	315,783		315,783
Changes for experience	38,113	-	38,113
Changes of assumptions	63,685	-	63,685
Contributions - employer	-	203,541	(203,541)
Contributions - member	-	20,315	(20,315)
Net Investment income	-	372,579	(372,579)
Benefit payments, including refunds	(175,033)	(175,033)	-
Administrative Expense	-	(6,500)	6,500
<b>Net Changes</b>	<b>329,712</b>	<b>414,902</b>	<b>(85,190)</b>
Balance at December 31, 2017	<u>\$ 4,175,548</u>	<u>\$ 3,119,200</u>	<u>\$ 1,056,348</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>74.70%</u>

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

PMRS Pension Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 767,508	\$ 692,917	\$ 74,591
Service Cost	53,753	-	53,753
Interest	44,723	-	44,723
Changes in assumptions	26,245	-	26,245
Changes for experience	49,645	-	49,645
Contributions - employer	-	38,040	(38,040)
Contributions - member	-	14,981	(14,981)
PMRS assessment	-	280	(280)
PMRS investment income	-	41,384	(41,384)
Net investment income	-	-	-
Market value investment income	-	16,063	(16,063)
Benefit payments, including refunds	(16,469)	(16,469)	-
PMRS administrative expense	-	(280)	280
Additional administrative expense	-	(2,027)	2,027
	<u>157,897</u>	<u>91,972</u>	<u>65,925</u>
Net Changes			
Balance at December 31, 2016	<u>\$ 925,405</u>	<u>\$ 784,889</u>	<u>\$ 140,516</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>84.82%</u>

*Actuarial Assumptions*

The total pension liability for the Police and firemen pension plans was determined as part of the January 1, 2017 actuarial valuation, updated to December 31, 2017, using the following actuarial assumptions, applied to all periods:

	<u>Police</u>	<u>Firemen</u>
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, 2017

## 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, 2017

## Note 10 - Pension Plans (continued)

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2017:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	9.4%	6.4%
Domestic equity (small capitalized firms)	15.0%	10.0%	7.0%
International equity (developed markets)	15.0%	6.7%	3.7%
International equity (emerging markets)	10.0%	10.9%	7.9%
Real Estate	20.0%	10.0%	7.0%
Fixed Income	15.0%	5.4%	2.4%
	<u>100.0%</u>	<u>8.8%</u>	<u>5.8%</u>

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2017.

Confidence Interval	Nominal Rate of Return	Long-Term Expected Rate of Return
95.0%	3.2%	0.3%
90.0%	4.4%	1.4%
85.0%	5.0%	2.0%
80.0%	5.6%	2.6%
75.0%	6.0%	3.0%
70.0%	6.5%	3.5%
50.0%	7.9%	4.9%

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, 2016, this rate is equal to 5.25%.

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.

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

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:

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, 2016 was 5.25%.

The Regular Interest Rate / Discount Rate will likely be less than the System Long-Term Expected Rate of Return. Should the System experience a prolonged period of investment returns in excess of the Regular Interest Rate, the Board is authorized to allocate any applicable portion of any such excess in accordance with Board policies in the form of Excess Interest as provided for in the law.

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.

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

## Note 10 - Pension Plans (continued)

### 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>\$ 2,510,998</u>	<u>\$ 1,607,292</u>	<u>\$ 856,842</u>
	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Firemen	<u>\$ 1,564,263</u>	<u>\$ 1,056,348</u>	<u>\$ 631,549</u>
	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
PMRS	<u>\$ 256,963</u>	<u>\$ 140,516</u>	<u>\$ 41,578</u>

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

For the year ended December 31, 2017, the City recognized pension expense of \$ 97,421 in the governmental funds. At December 31, 2017, 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	\$ 92,701	\$ 31,297
City contributions subsequent to measurement date	42,532	-
Net differences between projected and actual earnings on pension plan investments	396,114	371,144
Changes in assumptions	<u>184,093</u>	<u>6,707</u>
Total	<u>\$ 715,440</u>	<u>\$ 409,148</u>

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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:		
2018	\$	141,244
2019		141,245
2020		(13,629)
2021		(42,414)
2022		26,470
Thereafter		<u>10,844</u>
	\$	<u>263,760</u>

## Note 11 - Long-Term Debt

### Municipal Financial Recovery Loan

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.

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

	Outstanding Balance 12/31/16	Issued or Additions	Retirements	Outstanding Balance 12/31/17	Interest Paid This Year	Current Portion
Governmental						
2007 Recovery Loan	\$ 30,000	-	\$ 10,000	\$ 20,000	\$ -	\$ 20,000
2016 PIB Loan	3,000,000	-	346,680	2,653,320	62,907	283,087
	<u>\$ 3,030,000</u>	<u>-</u>	<u>356,680</u>	<u>2,673,320</u>	<u>\$ 62,907</u>	<u>303,087</u>

Debt service requirements at December 31, 2017, are as follows

Year	Principal	Interest
2018	\$ 303,087	\$ 44,581
2019	288,074	39,595
2020	293,148	34,521
2021	298,312	29,357
2022	303,567	24,101
2023 - 2026	1,187,132	41,986
	<u>\$ 2,673,320</u>	<u>\$ 214,142</u>

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

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

Business Type	Outstanding Balance 12/31/16	Issued or Additions	Retirements	Outstanding Balance 12/31/17	Interest Paid This Year	Current Portion
2007 Recovery Loan	865,000	-	275,000	590,000	36,617	289,000
	<u>\$ 865,000</u>	<u>-</u>	<u>\$ 275,000</u>	<u>\$ 590,000</u>	<u>\$ 36,617</u>	<u>289,000</u>

Debt service requirements at December 31, 2017, are as follows

Year	Principal	Interest
2018	\$ 289,000	\$ 24,780
2019	301,000	12,642
	<u>\$ 590,000</u>	<u>\$ 37,422</u>

### Capitalized Leases

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

	Outstanding Balance 12/31/16	Issued or Additions	Retirements	Outstanding Balance 12/31/17	Interest Paid This Year	Current Portion
2014 Vehicle Lease	\$ 35,413	-	\$ 13,558	\$ 21,855	\$ 1,240	\$ 14,120
2015 Vehicle Lease	75,234		11,256	63,978	3,009	11,741
2016 Vehicle Lease	33,784	-	7,417	26,367	1,306	7,734
	<u>\$ 144,431</u>	<u>-</u>	<u>32,231</u>	<u>112,200</u>	<u>\$ 5,555</u>	<u>33,595</u>

Debt service requirements for capital lease obligations are as follows:

Year	Principal	Interest
2018	\$ 33,595	\$ 4,191
2019	28,046	2,799
2020	21,183	1,806
2021	15,480	966
2022	13,896	369
	<u>\$ 112,200</u>	<u>\$ 10,131</u>

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

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

	Outstanding Balance 12/31/16	Issued or Additions	Retirements	Outstanding Balance 12/31/17	Interest Paid This Year	Current Portion
2014 Vehicle Lease	\$ 37,962	-	\$ 14,901	\$ 23,061	\$ 1,324	\$ 15,519
2016 Vehicle Lease	42,146	-	6,296	35,850	1,710	6,571
	<u>\$ 80,108</u>	<u>-</u>	<u>21,197</u>	<u>58,911</u>	<u>\$ 3,034</u>	<u>22,090</u>

Debt service requirements for capital lease obligations are as follows:

Year	Principal	Interest
2018	\$ 22,090	\$ 1,435
2019	14,400	1,148
2020	7,157	849
2021	7,469	536
2022	7,795	210
	<u>\$ 58,911</u>	<u>\$ 4,178</u>

## 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.

	Balance 12/31/16	Net Increases (Decreases)	Balance 12/31/17	Due Within One Year
Compensated Absences	480,052	(12,277)	467,664	46,766

## Post-Employment Benefits

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

### Program Description:

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

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

### Funding Policy:

#### Police Officers:

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

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

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

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

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

#### Fire Fighters:

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

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



# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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

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	136,752
Adjustment to annual required contribution (ARC)	<u>(186,565)</u>
Annual OPEB cost	637,824
Contributions made	<u>(277,734)</u>
Estimated increase in Net OPEB Obligation	360,090
Net OPEB Obligation – Beginning of Year	<u>3038,939</u>
Net OPEB Obligation – End of Year	<u>\$ 3,399,029</u>

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

## 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 2017 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 637,824	43.54%	\$ 3,399,029
2016	\$ 643,764	43.78%	\$ 3,038,939
2015	\$ 649,894	42.45%	\$ 2,676,558

### Funded Status and Funding Progress:

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

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

### Actuarial Methods and Assumptions:

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

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

# The City of Nanticoke

Notes to Financial Statements

December 31, 2017

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## **Note 12 - Risk Management**

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

## **Note 13 - Tax Collection**

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

## **Note 14 – Commitments and Contingencies**

### **Property Tax:**

Property tax assessment appeals are regularly encountered during each fiscal year. As of the date of this report the ultimate outcome of these property tax assessment appeals are not readily ascertainable. The City is unable to access and quantify the potential liability; therefore, it has elected not to record any expense or liability on the accompanying basic financial statements of the City at fiscal year-end December 31, 2017.

### **Litigation:**

As of December 31, 2017, 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, 2017 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, 2017.

<<<< SUPPLEMENTARY INFORMATION >>>>

**City of Nanticoke  
Schedule of City Contributions and Investment Returns**

	2017	2016	2015*	2014*	2013*	2012*	2011*	2010*	2009*	2008*
<b>POLICE PENSION PLAN</b>										
Schedule of City Contributions										
Actuarially determined contribution under ACT 205	\$ 351,559	\$ 329,240	\$ 317,945	\$ 198,670	\$ 193,520	\$ 120,321	\$ 112,411	\$ 8,170	\$ 4,720	\$ -
Contributions in relation to the actuarially determined contribution	351,559	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	881,226	959,962	\$ 951,319	\$ 887,820						
Contributions as a percentage of covered employee payroll	39.89%	34.30%	33.42%	22.38%						
Investment Returns										
Annual time-weighted rate of return	14.25%	6.71%								

	2017	2016	2015*	2014*	2013*	2012*	2011*	2010*	2009*	2008*
<b>FIREMEN PENSION PLAN</b>										
Schedule of City Contributions										
Actuarially determined contribution under ACT 205	\$ 203,541	\$ 196,325	\$ 198,440	\$ 129,371	\$ 127,021	\$ 153,646	\$ 150,522	\$ 82,395	\$ 80,505	\$ 68,336
Contributions in relation to the actuarially determined contribution	203,541	196,325	198,440	129,371	127,021	153,646	155,972	112,976	114,553	149,813
Contribution deficiency (excess)	-	-	-	-	-	-	(5,450)	(30,581)	(34,048)	(81,477)
Covered employee payroll	672,823	643,146	\$ 558,244	\$ 537,960						
Contributions as a percentage of covered employee payroll	30.25%	30.53%	35.55%	24.05%						
Investment Returns										
Annual time-weighted rate of return	13.83%	6.33%								

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

	2017*	2016	2015	2014	2013*	2012*	2011*	2010*	2009*	2008*
PMRS PLAN										
Schedule of City Contributions**										
Actuarially determined contribution under ACT 205	\$ 42,532	\$ 38,320	\$ 43,533	\$ 35,871	\$ 35,891	\$ 39,637	\$ 39,568	\$ 36,383	\$ 33,685	\$ 34,994
Contributions in relation to the actuarially determined contribution	42,532	38,320	43,573	35,911	35,891	39,637	39,568	36,383	33,685	34,994
Contribution deficiency (excess)	-	-	(40)	(40)	-	-	-	-	-	-
Covered employee payroll***		499,390	\$ 497,827	\$ 463,127						
Contributions as a percentage of covered employee payroll		7.67%	8.75%	7.75%						

\* This schedule is intended to illustrate information for 10 years. However, complete information is not available for each year. The City is presenting information that 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**

	2017*	2016*	2015*
<b>Total Pension Liability:</b>			
Service cost	\$ 218,149	\$ 189,132	\$ 180,126
Interest	460,806	400,425	409,354
Differences between expected and actual experience	(391,21)	-	-
Changes of assumptions	135,657	-	-
Benefit payments, including refunds	<u>(322,389)</u>	<u>(299,827)</u>	<u>(295,108)</u>
Net changes in Total Pension Liability	453,102	319,730	294,372
Total Pension Liability – Beginning	<u>6,429,446</u>	<u>6,109,716</u>	<u>5,815,344</u>
Total Pension Liability – Ending (a)	<u>\$ 6,882,548</u>	<u>\$ 6,429,446</u>	<u>\$ 6,109,716</u>
<b>Plan Fiduciary Net Position</b>			
Contributions –employer	\$ 351,559	\$ 329,240	\$ 317,945
Contributions – member	37,681	40,107	37,586
Net investment income (loss)	617,301	253,272	(194,289)
Benefit payments, including refunds	(322,389)	(299,827)	(295,108)
Administrative expense	<u>(7,400)</u>	<u>-</u>	<u>(4,600)</u>
Net Change in Plan Fiduciary Net Position	676,752	322,792	(138,466)
Plan Fiduciary Net Position – Beginning	<u>4,598,504</u>	<u>4,275,712</u>	<u>4,414,178</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,275,256</u>	<u>\$ 4,598,504</u>	<u>\$ 4,275,712</u>
Net Pension Liability – Ending (a – b)	<u>\$ 1,607,292</u>	<u>\$ 1,830,942</u>	<u>\$ 1,834,004</u>
Plan fiduciary Net Position as a Percentage of the Total Pension Liability	<u>76.65%</u>	<u>71.52%</u>	<u>69.98%</u>
Covered Employee Payroll	<u>\$ 881,226</u>	<u>\$ 959,962</u>	<u>\$ 951,319</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u>182.39%</u>	<u>190.73%</u>	<u>192.79%</u>

\* 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**

	2017*	2016*	2015*
<b>Total Pension Liability:</b>			
Service cost	\$ 87,164	\$ 81,551	\$ 77,668
Interest	315,783	291,359	276,702
Differences between expected and actual experience	38,113	-	-
Changes of assumptions	63,685	-	-
Benefit payments, including refunds	<u>(175,033)</u>	<u>(175,033)</u>	<u>(175,033)</u>
Net changes in Total Pension Liability	329,712	197,877	179,337
Total Pension Liability – Beginning	<u>3,845,836</u>	<u>3,647,959</u>	<u>3,468,622</u>
Total Pension Liability – Ending (a)	<u>\$ 4,175,548</u>	<u>\$ 3,845,836</u>	<u>3,647,959</u>
<b>Plan Fiduciary Net Position</b>			
Contributions – employer	\$ 203,541	\$ 196,325	\$ 198,440
Contributions – member	20,315	18,848	16,864
Net investment income (loss)	372,579	157,028	(63,089)
Benefit payments, including refunds	(175,033)	(175,033)	(175,033)
Administrative expense	<u>(6,500)</u>	<u>-</u>	<u>(4,600)</u>
Net Change in Plan Fiduciary Net Position	414,902	197,168	(27,418)
Plan Fiduciary Net Position – Beginning	<u>2,704,298</u>	<u>2,507,130</u>	<u>2,534,548</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,119,200</u>	<u>\$ 2,704,298</u>	<u>\$ 2,507,130</u>
Net Pension Liability – Ending (a – b)	<u>\$ 1,056,348</u>	<u>\$ 1,141,538</u>	<u>\$ 1,140,829</u>
Plan fiduciary Net Position as a Percentage of the Total Pension Liability	<u>74.70%</u>	<u>70.32%</u>	<u>68.73%</u>
Covered Employee Payroll	<u>\$ 672,823</u>	<u>\$ 643,146</u>	<u>\$ 558,244</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u>157.00%</u>	<u>177.49%</u>	<u>204.36%</u>

\* 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	\$ 53,753	\$ 55,661	\$ 50,916
Interest	44,723	41,429	36,543
Differences between expected and actual experience	49,645		32,175
Changes of assumptions	29,245	(9,391)	
Benefit payments, including refunds	<u>(16,469)</u>	<u>(35,106)</u>	<u>(35,954)</u>
Net changes in Total Pension Liability	157,897	52,593	83,680
Total Pension Liability – Beginning	<u>767,508</u>	<u>714,915</u>	<u>631,235</u>
Total Pension Liability – Ending (a)	<u>\$ 925,405</u>	<u>676,508</u>	<u>714,915</u>
<u>Plan Fiduciary Net Position</u>			
Contributions – employer	\$ 38,320	\$ 43,573	\$ 35,911
Contributions – member	14,981	14,935	15,123
Net investment income (loss)	57,447	(11,029)	34,324
Benefit payments, including refunds	(16,469)	(35,106)	(35,954)
Administrative expense	<u>(2,307)</u>	<u>(1,979)</u>	<u>(1,707)</u>
Net Change in Plan Fiduciary Net Position	91,972	10,394	47,687
Plan Fiduciary Net Position – Beginning	<u>692,917</u>	<u>682,523</u>	<u>634,836</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 784,889</u>	<u>\$ 692,917</u>	<u>\$ 682,523</u>
Net Pension Liability – Ending (a – b)	<u>\$ 140,516</u>	<u>\$ 74,591</u>	<u>\$ 32,392</u>
Plan fiduciary Net Position as a Percentage of the Total Pension Liability	<u>84.82%</u>	<u>90.28%</u>	<u>95.47%</u>
Covered Employee Payroll	<u>\$ 499,390</u>	<u>\$ 497,827</u>	<u>\$ 463,127</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u>28.14%</u>	<u>14.98%</u>	<u>6.99%</u>

\* 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, 2017

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, 2017 are as follows:

	Police	Firemen
Actuarial Valuation date	1/1/2015	1/1/2015
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:	13 years	10 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	5.25%
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 Accrued 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**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual - General Fund**  
**For The Year Ended December 31, 2017**  
**Required Supplementary Information**

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes	\$ 4,568,980	\$ 4,568,980	\$ 4,644,361	\$ 75,381
Fines, Forfeitures and Costs	43,700	43,700	69,303	25,603
Interest	650	650	5,231	4,581
License and Permits	249,100	249,100	338,117	89,017
Intergovernmental-State and Local	391,350	391,350	450,182	58,832
Intergovernmental-Federal	-	-	35,200	35,200
Other	62,000	62,000	141,369	79,369
Total Revenue	<u>\$ 5,315,780</u>	<u>\$ 5,315,780</u>	<u>\$ 5,683,763</u>	<u>\$ 367,983</u>
<b>EXPENDITURES:</b>				
General Government	\$ 830,865	\$ 830,865	\$ 786,044	\$ 44,821
Public Safety	4,129,810	4,129,810	3,946,235	183,575
Public Works	401,255	401,255	375,037	26,218
Parks and Recreation	5,850	5,850	13,212	(7,362)
Other	-	-	6,708	(6,708)
Total Expenditures	<u>\$ 5,367,780</u>	<u>\$ 5,367,780</u>	<u>\$ 5,127,236</u>	<u>\$ 240,544</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (52,000)	\$ (52,000)	\$ 556,527	\$ 608,527
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in	\$ 52,000	\$ 52,000	125,315	73,315
Interfund Transfers out	-	-	(15,372)	(15,372)
Budgetary Reserve	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ 52,000</u>	<u>\$ 52,000</u>	<u>\$ 109,943</u>	<u>\$ 57,943</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 666,470	\$ 666,470
Fund Balance (Deficit) - Beginning			3,556,170	\$ 3,556,170
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,222,640</u>	<u>\$ 4,222,640</u>

**City of Nanticoke**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual - Special Revenue Fund**  
**For The Year Ended December 31, 2017**  
**Required Supplementary Information**

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 320	\$ 320	\$ 1,942	\$ 1,622
Intergovernmental-State	1,045,000	1,045,000	502,707	(542,293)
Intergovernmental-Federal	5,400,000	5,400,000	88,399	(5,311,601)
Other	500,000	500,000	108,408	(391,592)
Total Revenue	<u>\$ 6,945,320</u>	<u>\$ 6,945,320</u>	<u>\$ 701,456</u>	<u>\$ (6,243,864)</u>
<b>EXPENDITURES:</b>				
Public Safety	-	-	13,310	(13,310)
Public Works			489,062	
Community Development	6,461,000	6,461,000	230,449	6,230,551
Parks and Recreation	787,500	787,500	-	787,500
Total Expenditures	<u>\$ 7,248,500</u>	<u>\$ 7,248,500</u>	<u>\$ 732,821</u>	<u>\$ 7,004,741</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (303,180)	\$ (303,180)	\$ (31,365)	\$ 760,877
<b>OTHER FINANCING SOURCES (USES)</b>				
Other Sources	\$ 190,800	\$ 190,800	-	(190,800)
Interfund Transfers in			187,705	
Interfund Transfers out	112,380	112,380	(9,956)	(122,336)
Total Other Financing Sources (Uses)	<u>\$ 303,180</u>	<u>\$ 303,180</u>	<u>\$ 177,749</u>	<u>\$ (313,136)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 146,384	\$ 146,384
Fund Balance (Deficit) - Beginning		\$ -	\$ 1,270,434	\$ 1,270,434
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,416,818</u>	<u>\$ 1,416,818</u>

**City of Nanticoke**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual - CDBG Fund**  
**For The Year Ended December 31, 2017**  
**Required Supplementary Information**

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 37	\$ 37	\$ 221	\$ 184
Intergovernmental-State and Local	-	-	-	-
Intergovernmental-Federal	1,447,958	1,447,958	329,712	(1,118,246)
Other	-	-	12,791	12,791
Total Revenue	\$ 1,447,995	\$ 1,447,995	\$ 342,724	\$ (1,105,271)
<b>EXPENDITURES:</b>				
Community Development	1,447,995	1,447,995	307,692	1,140,303
Total Expenditures	\$ 1,447,995	\$ 1,447,995	\$ 307,692	\$ 1,140,303
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	\$ -	\$ -	\$ 35,032	\$ 35,032
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in			10,710	10,710
Interfund Transfers out	-	-	(86,778)	(86,778)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (76,068)	\$ (76,068)
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	\$ -	\$ -	\$ (41,036)	\$ (41,036)
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 274,722	\$ 274,722
<b>FUND BALANCE (DEFICIT) - ENDING</b>	\$ -	\$ -	\$ 233,686	\$ 233,686

**City of Nanticoke**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual - Refuse Fund**  
**For The Year Ended December 31, 2017**  
**Required Supplementary Information**

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 205	\$ 205	\$ 955	\$ 750
Charges for Services	956,000	956,000	936,952	(19,048)
Intergovernmental-State and Local Sources	10,000	10,000	-	(10,000)
Other	-	-	-	-
Total Revenue	<u>\$ 966,205</u>	<u>\$ 966,205</u>	<u>\$ 937,907</u>	<u>\$ (28,298)</u>
<b>EXPENDITURES:</b>				
Sanitation	966,205	966,205	887,346	78,859
Total Expenditures	<u>\$ 966,205</u>	<u>\$ 966,205</u>	<u>\$ 887,346</u>	<u>\$ 78,859</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ 50,561	\$ 50,561
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in	-	-	9,956	9,956
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,956</u>	<u>\$ 9,956</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 60,517	\$ 60,517
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 290,782	\$ 290,782
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 351,299</u>	<u>\$ 351,299</u>



**City of Nanticoke**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual - Debt Service Fund**  
**For The Year Ended December 31, 2017**  
**Required Supplementary Information**

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 175	\$ 175	\$ 1,233	\$ 1,058
Real Estate Tax	315,697	315,697	363,889	48,192
Real Estate Delinquent Tax	105,232	105,232	65,580	(39,652)
Other	-	-	-	-
Total Revenue	\$ 421,104	\$ 421,104	\$ 430,702	\$ 9,598
<b>EXPENDITURES:</b>				
Debt Service-Principal	278,567	278,567	419,587	(141,020)
Debt Service-Interest	48,667	48,667	-	48,667
Public Works	-	-	1,413,937	(1,413,937)
Other	20,000	20,000	-	20,000
Total Expenditures	\$ 347,234	\$ 347,234	\$ 1,833,524	\$ (1,486,290)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 73,870	\$ 73,870	\$ (1,402,822)	\$ (1,476,692)
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in	-	-	-	-
Interfund Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 73,870	\$ 73,870	\$ (1,402,822)	\$ (1,476,692)
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 3,797,342	\$ 3,797,342
FUND BALANCE (DEFICIT) - ENDING	\$ 73,870	\$ 73,870	\$ 2,394,520	\$ 2,320,650

**City of Nanticoke**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual - Highway Aid Fund**  
**For The Year Ended December 31, 2017**  
**Required Supplementary Information**

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ 40	\$ 40	\$ 406	\$ 366
Intergovernmental-State and Local	288,990	288,990	295,188	6,198
Total Revenue	<u>\$ 289,030</u>	<u>\$ 289,030</u>	<u>\$ 295,594</u>	<u>\$ 6,564</u>
<b>EXPENDITURES:</b>				
Public Works	289,030	289,030	206,957	82,073
Total Expenditures	<u>\$ 289,030</u>	<u>\$ 289,030</u>	<u>\$ 206,957</u>	<u>\$ 82,073</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ 88,637	\$ 88,637
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers in	-	-	4,662	4,662
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,662</u>	<u>\$ 4,662</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 93,299	\$ 93,299
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 138,494	\$ 138,494
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,793</u>	<u>\$ 231,793</u>

# **.JOSEPH R. ALICIENE & CO**

*Accountants & Consultants*

1216 Main Street

Pittston, Pa. 18640-1597

TEL: (570) 654-4469 FAX: (570) 655-2417

Joseph R. Aliciene Jr C.P.A.

Patrick T. Hopkins C.P.A.

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

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

Except as discussed in the last sentences of this paragraph, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nanticoke, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Nanticoke's basic financial statements and have issued our report thereon dated November 12, 2018. 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 the 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 the City of Nanticoke's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Nanticoke's internal control.

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

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-001, 2017-002, 2017-003 and 2017-004 to be material weaknesses.

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

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. We consider the deficiencies described in the accompany schedule of findings and responses as items 2017-005, 2017-006, 2017-007, 2017-008, 2017-009, 2017-010 to be significant deficiencies.

### **Compliance and Other Matters**

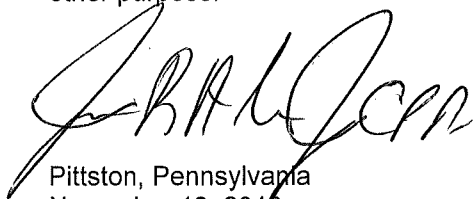
As part of obtaining reasonable assurance about whether the City of Nanticoke's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 responses. 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, Pennsylvania  
November 12, 2018

**The City of Nanticoke**  
Schedule of Finding and Responses  
Year Ended December 31, 2017

**Control Deficiency - Material Weaknesses:**

**Finding 2017-001: Reporting Liabilities and Expenditures/Expenses in the Correct Period**

**Criteria:** The City should accrue a liability and expenditure/expense in the period in which the government incurs the liability. At year-end, expenditures/expense and liabilities should be recognized to the extent the liabilities are expected to be liquidated with expendable available financial resources in the next fiscal year.

**Condition/context:** As a result of our accounts payable cut off testing, we recorded the following amounts for expenditures incurred in 2017 that were recorded in 2018: Special Revenue Fund: \$124,733; Highway Aid Fund: \$ 2,319, CDBG Fund: \$ 18,688; Sewer Fund: \$11,883; and General Fund: \$ 17,006.

**Effect:** Liabilities and expenditures are not recorded in the correct period.

**Cause:** An incorrect date was used when inputting vendor invoices.

**Recommendation:** Accounts payable input entries should be reviewed for accuracy by someone other than the person inputting the data.

**View of Responsible Officials and Planning Corrective Action:**

The City agrees with this finding. City management has communicated to staff responsible for this task the importance of using the correct dates when inputting vendor invoices. The finance director will periodically test a sample of invoices to ensure staff are entering invoices correctly.

**2017-002 – Recording of Interfund Activity**

**Criteria:** Reciprocal interfund activity generally should be reported as revenues and expenses/expenditures in the fund operating statements and as receivables and payables in the fund balance sheets. Interfund loans are considered a reciprocal transition and include amounts provided between funds with a requirement for repayment.

Nonreciprocal interfund reimbursements are repayments to funds who initially paid an expenditure or expense from the funds ultimately responsible for them. Reimbursements should not be displayed in the financial statements, meaning the fund receiving the payment should not record a "revenue". Rather, to avoid recording expenditures/expenses twice, the reimbursement should be recorded as an expense in the fund making the reimbursement and as a reduction in an expenditure/expense in the fund that is reimbursed.

**Condition/context:**

- In anticipation of receiving grant funding, the City may, from time to time, pay invoices from on fund on behalf of another fund which does not have sufficient cash on hand to pay the invoice. The City transferred \$38,537 to the General Fund and \$187,705 to the Special Revenue funds for a total of \$203,346 from the Sewer Fund for expenses related to the LSA grant project incurred in prior years.
- Administrative wages and benefits related to the CDBG grant program are incurred and paid in the General. CDBG grant revenue is received and recorded in the CDBG Fund. Administrative wage and benefit costs are not allocated to the CDBG fund. The CDBG fund transferred \$48,029 to the General fund for reimbursement of CDBG administrative salaries and benefits received in 2016. A cash transfers of \$42,968 was not completed to reimburse the general fund for administrative salaries and benefits received in 2017.

**The City of Nanticoke**  
Schedule of Finding and Responses  
Year Ended December 31, 2017

**Control Deficiency - Material Weaknesses: (continued)**

**2017-002 – Recording of Interfund Activity (continued)**

**Effect:** Expenses/expenditures were not properly recorded in the correct fund when it was initially recorded.

**Cause:** Repayments for interfund activity occur after the end of the current fiscal year.

**Recommendation:** The City should review procedures for authorizing and completing interfund transactions. If the City incurs expenditures/expense in a fund which does not have sufficient cash on hand to make the payment but expects to receive the funding at a future date, an interfund loan maybe a more efficient mechanism for recording the activity rather than paying invoices from one fund on behalf of another fund. This way the appropriate interfund Due to/Due from accounts can be recorded at the time the cash is transferred to the other fund's bank account. Once the funding is received from the outside source and deposited in the bank, a cash transfer can be made to pay back the interfund loan. The vendor invoice will be paid from the appropriate fund therefore, associated expenditure/expenses will also be recorded in the correct fund.

CDBG administrative wages are benefits costs should be allocated and recorded in the CDBG fund annually and the amount recorded as a Due to the General Fund. The General fund should reduce wage and benefit expenses for the amount allocated to the CDBG fund to avoid duplicate recording of the expenditures

All interfund activity general ledger accounts should be reconciled on a regular basis.

**View of Responsible Officials and Planning Corrective Action:**

The City agrees with this finding. The finance manager has revised the process to include a checklist to document how to prepare journal entries to ensure transfers are completed correctly. The process for tracking and recording CDBG related activity will be revised to accurately track all activity during the year. Journal entries will be prepared at year end to record CDBG expenses and revenues in the proper period and proper fund.

**2017-003 – Grant revenue recognition**

**Criteria:** Grant revenues and related grant receivables should be recorded when all applicable eligibility requirements are met and resources are available. Resources are considered to be available if collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Recognition should not be delayed pending completion of purely routine requirements such as the filing of claims for allowable costs under a reimbursement program or the filing of progress reports with the provider.

**Condition/context:** Grant revenue of \$77,628 was not recorded in the Special Revenue fund for eligible expense related to the Streetscape project. Grant revenue was not quantified or recorded for eligible administrative expenses related to the CDBG program from 2013 through 2017.

**Effect:** Grant revenue and related grant receivable transactions are not recorded in the correct period. Consequently, grant expenses are not matched with grant funding in the same period.

**Cause:** The City does not have a process in place to evaluate when grant eligibility requirements have been met and record grant revenues and related grant receivables.

**Recommendation:** Implement a review process of all grant agreements that identifies when grant eligibility requirements have been met. Record grant revenue and related grant receivables in the general ledger in the correct period.

**The City of Nanticoke**  
Schedule of Finding and Responses  
Year Ended December 31, 2017

**Control Deficiency - Material Weaknesses: (continued)**

**2017-003 – Grant revenue recognition (continued)**

**View of Responsible Officials and Planning Corrective Action:**

The City agrees with this finding. The City will revise the procedures for tracking and recording all grant activity. Due to the increase in grants received in recent years, the City has decided to hire a new full-time financial staff to assist with maintaining records to track grant activity under the supervision of the city manager and the finance director. Procedures will be put in place that will allow all grant revenues and expenses to be tracked using excel spreadsheets. These tools will allow the finance manager to properly record activity in the general ledger.

**2017-004 - Outstanding items on bank reconciliations**

**Criteria:** The City should have a process for investigating and resolving reconciling items reported on bank reconciliation reports to ensure financial statements are accurately stated and properly supported. In additions, tracking of outstanding checks is an important control procedure that ensures all outgoing checks are accounted for.

**Condition/context:** The City has a number of long outstanding reconciling items on the bank reconciliation report. One item was for \$42,532 remained on the report for over six months. The material item was the payment for annual required non-uniform pension contribution which did not clear the bank. Upon investigation, the City concluded the check was lost and a replacement check was issued.

**Effect:** All financial transactions may not be accurately and timely reported in the City's general ledger.

**Cause:** The city finance staff did not properly review and investigate outstanding items on the bank reconciliation reports.

**Recommendation:** All outstanding items on all bank reconciliations be reviewed and the necessary adjustments be posted to the general ledger. In addition, all monthly bank reconciliation reports be reviewed by the Interim City Manager.

**View of Responsible Officials and Planning Corrective Action:**

Due to an oversight by the finance director and interim city manager the item remained on the bank reconciliation report. The finance manager generally allows outstanding items to on the report for six to nine months and then takes action. Going forward, the finance manager and inter city manager will more closely monitor outstanding items on the bank reconciliation report. The interim finance manager will review the bank reconciliation reports on a monthly basis.

**Control Deficiency - Significant Deficiencies:**

**2017-005 – Lack of segregation of duties**

**Criteria:** Segregation of duties is an internal control designed to prevent error and fraud. 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.

**Condition/context:** The same person prepares cash receipts for deposit and posts the deposits to the general ledger.

**Effect:** Errors or irregularities would not be prevented or detected in a timely manner.

**The City of Nanticoke**  
Schedule of Finding and Responses  
Year Ended December 31, 2017

**Control Deficiency - Significant Deficiencies: (continued)**

**2017-005 – Lack of segregation of duties (continued)**

**Cause:** The size of the office staff limits the extend of separation of duties.

**Recommendation:** Increase staffing to allow for proper segregation of duties.

**View of Responsible Officials and Planning Corrective Action:**

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 Accounting and Finance, an employee who does not handle cash receipts or billing functions reconciles the posted cash receipts to the bank statements on a monthly basis. Any discrepancies are investigated and resolved timely. Additionally, monthly financial statements are prepared and presented by the Director of accounting an Finance at public meetings. Any significant variances between actual receipts and budgeted receipts are explained properly. Budgeted receipts are determined by the Director of Accounting and Finance based on collection information submitted by the County, a separate entity.

**2017-006 – Reporting of Fixed Assets**

**Criteria:** Under the GASB 34 reporting model, Capital assets, which include property, plant, equipment and infrastructure assets, are to be reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statement or proprietary funds. All capital assets should be valued at fair market value on the date acquired. Repairs and maintenance should be recorded as expenses. Renewals and betterments should be capitalized. Depreciation should be calculated and expensed in accordance with generally accepted accounting principles.

**Condition/context:** Throughout the years, the City expensed all capital assets.

**Effect:** The City's does not conform to the GASB 34 reporting requirements. The City does not have sufficient accounting controls over fixed assets titled in the name of City of Nanticoke, which impacts the City's operating efficiencies.

**Cause:** The City did not implement a process to obtain the necessary financial information required to meet this reporting requirement.

**Recommendation:** The City should hire a certified appraiser to value all of the City's assets.

**View of Responsible Officials and Planning Corrective Action:**

Small local governments have been challenged with the implementation of GASB 34 and the associated 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 City of Nanticoke**  
Schedule of Finding and Responses  
Year Ended December 31, 2017

**Control Deficiency - Significant Deficiencies: (continued)**

**2017-006 – Reporting of Fixed Assets (continued)**

**View of Responsible Officials and Planning Corrective Action: (continued)**

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.

**2017-007 – Internal Controls Over Revenue Collected by the Police Department**

**Criteria:** The City's Police Department is responsible for collecting various monies for fines, fees, inspections and other items.

**Condition/context:** The current controls do not allow the City Administrative staff to reconcile the monies collected to an independent report or prenumbered system.

**Effect:** Error or irregularities may not be prevented or detected.

**Cause:** An appropriate cash receipting system was not developed or implemented with proper controls.

**Recommendation:** Implement a system that allows for proper review and reconciliation of monies collected by the Police Department.

**View of Responsible Officials and Planning Corrective Action:**

The City concurs with the finding and will set up a system for reviewing monies collected by the Police department. During the year, the police department collected approximately \$70,000. Of this amount approximately \$40,000 consisted of checks submitted by the Magistrate's office and the State police which are independently confirmed. The remaining cash and checks collected by the police office is approximately \$30,000. 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. However, the City is limited on actions that may be taken by union contracts, staff resources and administrative code.

**2017-008 – Budget Variance Analysis**

**Criteria:** Budget to Actual variance analysis is completed during the summer months in preparation of the annual budget. Unusual budget variances are reviewed and investigated.

**Condition/context:** The City did not receive two semi-annual payments from the Commonwealth of Pa for state liquor control fees. The Commonwealth revised the payment method from check to ACH payment. The Commonwealth's request for the City's banking information was misplaced, therefore ACH payments could not be completed.

**The City of Nanticoke**  
Schedule of Finding and Responses  
Year Ended December 31, 2017

**Control Deficiency - Significant Deficiencies: (continued)**

**2017-008 – Budget Variance Analysis (continued)**

**Effect:** Revenue of \$6,670 due to the City was delayed.

**Cause:** Notification of the Commonwealth's remittance procedures was not delivered to the appropriate staff. Budget variance analysis did not identify the missing funds, no investigation was initiated.

**Recommendation:** Review mailing routing procedures to ensure items are delivered to the appropriate staff. Budget variances regarding annual recurring revenue sources should be investigated in a timely manner.

**View of Responsible Officials and Planning Corrective Action:**

The City agrees with this finding. Due to changes in personnel it is believed that the notification in the change in the Commonwealth's remittance procedures was not forwarded to the appropriate person. The finance director will review budget to actual activity at year end to ensure that all revenue expected to be received by the City have been received.

**2017-009 –Timely drawdown of grant funds**

**Criteria:** Units of general local government shall use procedures to minimize the time elapsing between the transfer of grant funds by the state and disbursement by the local government. Cash requests must generally be limited to reimbursement of incurred expenses.

**Condition/context:** The City does not complete draws of federal funds as frequently as permitted by federal regulations. CDBG administrative expenses include wages paid to certain city staff based on tasks performed and reported on time sheets, a percentage of benefit costs and costs paid to vendors for advertising, training and other eligible administrative activities. The City delays submission for reimbursement of CDBG administrative expenses until a later date. We noted that administrative costs incurred in 2012 were submitted in 2017. Eligible administrative costs from 2013 through 2017 have not yet been quantified and submitted for reimbursement.

**Effect:** The delay in requesting federal funds has a significant impact on the City's overall cash management. In addition, the cash management of the CDBG program at the state level is also adversely affected.

**Cause:** City staff do not complete draw requests as frequently as permitted by federal regulations.

**Recommendation:** The City should quantify, at least annually, the eligible CDBG administrative wage and benefit costs and submit for reimbursement. The responsibility for the drawing of federal funds should be assigned to the Accounting and Finance manager where cash management for federal programs could be integrated with other cash management objectives. The function of drawing federal cash should be integrated in the accounting system, as allowable expenditures recorded for federal programs, cash would be drawn by electronic funds transfer into the City's bank accounts. In addition, journal entries should be prepared to record the interfund activity in the general ledger as wage and benefits are normally recorded in the general fund when they are incurred, but are actually expenses of the CDBG fund.

**View of Responsible Officials and Planning Corrective Action:**

The City agrees with this finding. The City noted that multiple grants remained open during 2017 due to delays in completing grant projects. Normally only one grant is open at a time. Managing multiple grants at the same time contributed to the delays in the cash draws.

**The City of Nanticoke**  
Schedule of Finding and Responses  
Year Ended December 31, 2017

**Control Deficiency - Significant Deficiencies: (continued)**

**2017-009 –Timely drawdown of grant funds (continued)**

**View of Responsible Officials and Planning Corrective Action:**

The City will review the process for tracking and drawing funds related to the CDBG program. The process will include calculating and tracking of eligible expenses by the finance director and drawing funds monthly. The City CDBG coordinator is responsible for making all drawdowns in the Federal IDIS system. The finance director will approve the draws.

**2017-010 - Tracking Federal Expenditures**

**Criteria:** Title 2 U.S. Code of Federal Regulations (CFR) Part 200.502 *Determining Federal Awards Expended*, provides the basis for determining when federal awards are expended. The determination of when a Federal award is expended should be based on when the activity related to the Federal award occurs such as expenditure/expense transactions associated with awards.

**Condition/context:** The City receives federal funding from a number of different sources. We requested a list of federal expenditures at the beginning of the audit process to determine whether the City had reached the threshold for requiring a Single Audit under the Uniform Guidance. We suggested the City provide a Schedule of Expenditures of Federal Awards (SEFA). The schedule provided to us was not accurate.

**Effect:** Inability to prepare an accurate SEFA would impact the City's ability to determine if the City met the federal funding spending threshold that would require the City to obtain an audit under the Uniform Guidance.

**Cause:** The City does not have a standard procedure in place for tracking and quantifying federal funds expended in a fiscal year.

**Recommendation:** In order to determine whether or not the City is subject to an audit under the Uniform Guidance, management should have awareness of all federal related grants applied for and received. We recommend the City designate an individual to be responsible for assembling SEFA on an annual basis.

**View of Responsible Officials and Planning Corrective Action:**

The City agrees with this finding. The City plans to hire a full time clerical finance staff. One of the responsibilities of this position will be to maintain an accurate summary of all grant activity and supporting documentation. This will allow the City to determine whether or not additional audits are needed. to meet federal reporting requirements.