

---

**THE CITY OF NANTICOKE**

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

*FOR THE YEAR ENDED DECEMBER 31, 2009*

**Prepared By;**

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

---

# CITY OF NANTICOKE TABLE OF CONTENTS

Independent Auditor's Report	2-3
Management Discussion and Analysis (unaudited)	4-13
Basic Financial Statements:	
<b>Governmental-Wide Financial Statements</b>	
Statement of Net Assets	14
Statement of Activities	15
<b>Fund Financial Statements:</b>	
Governmental Funds	
Balance Sheet	16
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balance	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance- Budget to Actual- General Fund	20
Proprietary Funds	
Statement of Net Assets	21
Statement of Revenue, Expenses and Changes in Fund Net Assets	22
Statement of Cash Flows	23
Fiduciary Funds	
Statement of Net Assets-Fiduciary Funds	24
Statement of Changes in Plan Net Assets-Fiduciary Funds	25
Notes to The Financial Statements	26-46
Required Supplementary Information	47
Schedule of Police Retirement Trust Funding Progress	48
Schedule of Fireman's Retirement Trust Funding Progress	49
Schedule of nonuniform Employee's Retirement Trust Funding Progress	50
Schedule of Retiree Health Plan Funding Progress	51
Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial statements	52-54
Schedule of Reportable Conditions	55-56

# JOSEPH R. ALICIENE & CO

*Accountants & Consultants*

*1216 Main Street*

*Pittston, Pa. 18640-1597*

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

*Joseph R. Aliciene P.A.  
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  
Luzerne County, Pennsylvania, PA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nanticoke, Pennsylvania, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our 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 assets 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 Assets of the Proprietary Funds are not reasonably determinable.

**CONTINUED**

## INDEPENDENT AUDITOR'S REPORT

In our opinion, except for the effects on the financial statements of the omission described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and aggregate remaining fund information, of the City of Nanticoke, Pennsylvania, as of December 31, 2009 and the respective changes in financial position, and cash flows, and the respective budgetary comparison for the General Fund, thereof, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18 to the financial statements, City of Nanticoke adopted Government Accounting Standards Board (GASB) Statement 45 " Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions" for the year ended December 31, 2009.

The accompanying financial statements have been prepared assuming that the city will continue as a going concern. As discussed in Note 21, conditions and events caused the city to request and receive a determination as a distressed municipality under the municipalities Financial Recovery Act, Act 47 of 1987, as amended. Those conditions raise substantial doubt about the city's ability to continue as a going concern. The financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the various pension schedules and Retiree health plan schedules on pages 46 through 50 be presented to supplement the basic financial statements. Such information, although not 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 that 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.



August 27, 2010



## **City of Nanticoke**

### **City of Nanticoke Management's Discussion and Analysis December 31, 2009**

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, 2009. This discussion and analysis should be reviewed in conjunction with the City's accompanying financial statements and notes.

#### **FINANCIAL HIGHLIGHTS**

- The City's assets exceeded its liabilities by \$1,520K (net assets) from \$1.973M in the previous year to \$3,493M in the current year. This compares to the previous year when assets exceed liabilities by \$869K (net assets) from \$1.973M in 2008 to \$1.104M in 2007. Assets exceed liabilities by \$170K from \$1.104M in 2007 to \$934K in 2006. This is a favorable trend.
- The assets of the City increased 23% or \$1,689K from \$7,380M in the previous year to \$8,969M in the current year.
- Total liabilities of the City increased 3% or \$168K from \$5,476M in the previous year to \$5,308M in the current year.
- Total net assets are comprised of the following:
  - 1) Invested in capital assets, net of related debt, of \$4,844M, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - 2) Unrestricted net assets of (\$1,479M) represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors. This deficit was reduced \$1,722M from (\$3,201M) in the prior year.
  - 3) Net assets restricted for Debt Service of \$127K are reserved by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and constraints designated by the City.

The City's governmental funds reported total ending fund balance of \$2.885M as compared to \$1.049M in 2008. This increase of \$1.836M is a function of an excess of revenues over expenditures of \$1.183M a \$300K Tax Anticipation Note and \$252K income related to sale of an asset.

At the end of the current fiscal year, the General Fund balance was \$702K. This compares to the prior year ending fund balance of (\$504K) showing a increase of \$458k during the current year and a prior period accounting adjustment of \$398k.

# Management's Discussion and Analysis

---

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Government-wide Financial Statements

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

The first of these government-wide statements is the *Statement of Net Assets*. 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 assets*. Over time, increases or decreases in net assets 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 assets 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 Kanjorski Center building which the Municipal Authority owns. The Authority is also leasing its Lower Broadway parking lot to Luzerne County Community College. The Authority has an obligation to repay a \$53k short-term borrowing from the City from prior years. Management does not consider the Authority a component unit.

# Management's Discussion and Analysis

---

## 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.

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.

## Management's Discussion and Analysis

### 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.

### Financial Analysis of the City as a Whole

#### Summary of Net Assets

(Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amt. Change	% Chge
	2009	2008	2009	2008	2009	2008		
Current and Other Assets	\$3,438	\$1,806	\$ 465	\$ 614	\$3,904	\$2,420	\$ 1,484	61%
Capital Assets	220	-	4,844	4,860	5,065	4,860	205	4%
<b>Total Assets</b>	<b>3,659</b>	<b>1,806</b>	<b>5,310</b>	<b>5,474</b>	<b>8,969</b>	<b>7,280</b>	<b>1,689</b>	<b>23%</b>
Long-term Liabilities	2,062	1,712	2,320	2,466	4,382	4,178	204	5%
Other Liabilities	848	898	245	232	1,093	1,130	(37)	-3%
<b>Total Liabilities</b>	<b>2,911</b>	<b>2,610</b>	<b>2,565</b>	<b>2,698</b>	<b>5,476</b>	<b>5,308</b>	<b>168</b>	<b>3%</b>
<b>Net Assets:</b>								
Invested in Capital Assets, net of related debt	-	-	4,844	4,860	4,844	4,860	(16)	0%
Restricted for Debt Service	127	314	-	-	127	314	(187)	-60%
Unrestricted	612	(1,118)	(2,100)	(2,084)	(1,479)	(3,201)	1,723	-54%
<b>Total Net Assets</b>	<b>748</b>	<b>(804)</b>	<b>2,744</b>	<b>2,776</b>	<b>3,493</b>	<b>1,973</b>	<b>1,520</b>	<b>77%</b>
<b>Total Liabilities and Net Assets</b>	<b>3,659</b>	<b>1,806</b>	<b>5,310</b>	<b>5,474</b>	<b>8,969</b>	<b>7,281</b>	<b>1,688</b>	<b>23%</b>



## Management's Discussion and Analysis

---

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 position of the City as a whole. The following table provides a summary comparison of the City's net assets at December 31:

The City's net assets at fiscal year-end are \$3,493M. This compares to the prior year ending fund balance (net assets) of \$1,973M showing an increase of \$1,520M during the current year. The assets of the City increased 23% or \$1,689K from \$7,380M in the previous year to \$8,969M in the current year. Total liabilities of the City increased 3% or \$168K from \$5,476M in the previous year to \$5,308M in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$4.844M, include the sewer system and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. Unrestricted net assets of (\$1,479M) represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors. Net assets restricted for Debt Service of \$127K are reserved by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and constraints designated by the City.

The City reported a positive balance of \$2.744M in net assets for business-type activities. This compares to the prior year ending net asset balance of \$2.776M showing a net decrease of \$32K during the current year. Business-type activities include the sewer fund activities. The net activity of \$32k was due to a decrease of approximately \$156k of liabilities resulting from a pay down of City debt, accounts payable and lease obligations on the liability side and offset by a decrease of \$146k in cash, a decrease of \$142k in due to/from other funds, and an increase of approximately \$115k in prepaid expense on the asset side.

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The City reported a negative balance of (\$748K) in net assets for governmental activities. This compares to the prior year ending net asset balance of (\$804k) showing an increase of \$1,550M during the current year. The net activity of \$1,550M is comprised of increase of cash of \$1,480M, an increase in due from other fund of \$117k, increase of equipment (net) of \$220k (fire truck) and an increase in other assets (prepaids/receivables) of \$36k on the asset side offset by an increase in post retirement benefits of \$477k per GASB 43, the City must record this liability beginning in 2009), an decrease of a loan payable to the Commonwealth of PA of \$200k (this loan was reclassified to long term debt service), a decrease of notes payable of \$57k, an increase of \$188k for leases payable (fire truck) and a decrease of other liabilities (due to/from/payables/deferred revenue) for \$108k.

# Management's Discussion and Analysis

## Summary of Government Wide – Statements of Activities

(Dollars are in Thousands)

	2009	2008	2009	2008	2009	2008	Amt. Chg.	% Chg.
	Gov's Type	Gov't Type	Business Type	Business Type	Total	Total		
<b>Revenues</b>								
Chges for Serv	1,038	808	576	651	1,614	1,459	155	11%
Grants & Contributions	1,868	1,093	-	-	1,868	1,093	755	71%
Property Taxes	837	673	-	-	837	673	164	24%
Other Local Taxes for General Purposes	2,897	2,713	-	-	2,897	2,713	184	7%
Grants, Etc	251	35	-	-	251	35	216	614%
Misc Gen. Purpose Rev	416	329	-	-	416	329	87	26%
Investment Earnings	18	35	4	(15)	21	20	1	7%
Insurance	-	1	-	-	-	1	(1)	(100)%
Transfers	-	27	-	-	-	27	(27)	(100)%
Sale of Assets	253	1	-	-	253	1	252	25200%
<b>Subtotal</b>	<b>7,578</b>	<b>5,715</b>	<b>579</b>	<b>636</b>	<b>7,653</b>	<b>6,287</b>	<b>1,366</b>	<b>22%</b>
<b>Expenses</b>								
Expenses	\$6,028	\$5,174	\$611	\$310	\$6,640	\$5,484	\$1,156	21%
<b>Total Expenses</b>	<b>6,028</b>	<b>5,174</b>	<b>611</b>	<b>310</b>	<b>6,640</b>	<b>5,484</b>	<b>1,156</b>	<b>21%</b>
<b>Net Activity</b>	<b>1,550</b>	<b>542</b>	<b>(32)</b>	<b>326</b>	<b>1,014</b>	<b>803</b>	<b>211</b>	<b>0</b>
<b>Change in Net Assets</b>	<b>1,550</b>	<b>542</b>	<b>(32)</b>	<b>326</b>	<b>1,518</b>	<b>868</b>	<b>650</b>	<b>75%</b>
<b>Net Assets - Beginning</b>	<b>(804)</b>	<b>(1,346)</b>	<b>2,776</b>	<b>2,450</b>	<b>1,972</b>	<b>1,104</b>	<b>868</b>	<b>79%</b>
<b>Net Assets - Ending</b>	<b>746</b>	<b>(804)</b>	<b>2,744</b>	<b>2,776</b>	<b>3,490</b>	<b>1,972</b>	<b>1,518</b>	<b>77%</b>

## Management's Discussion and Analysis

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.

Comparison of Current vs. Prior Year Expenditures				
(Dollars are in Thousands)				
Expenses	2009	2008	Amt. Chg.	% Chg.
Gen. Gov't & Admin	\$713	\$646	\$67	10%
Public Safety	2,907	2,236	671	30%
Sanitation	995	763	232	30%
Public Works	940	425	515	121%
Community Development	379	1,006	(627)	-62%
Parks & Recreation	5	6	(1)	-9%
Unallocated EE Benefits	29	31	(2)	-7%
Other	6	6		0%
Interest of LT Debt	54	54		0%
Sewage	500	186	314	169%
Non-operating Exp	111	124	(13)	-10%
<b>Total Expenses</b>	<b>6,639</b>	<b>5,483</b>	<b>1,156</b>	<b>21%</b>

Total expenses of the City increased \$1,156M or 21% from \$5,483M to 6,639M in 2009. Prior year expense increase was 15% or \$731k. The net activity of \$1,156M can be attributed to increases in public safety expense of \$671K, increase of public works expense of \$515k, an increase of sanitation expense of \$232k and an increase of sewage expense of \$314k, these increases were offset by a decrease in community development expense of \$627K (multiple year CDBG projects took place in 2008).

Comparison of Current vs. Prior Year Revenues				
(Dollars are in Thousands)				
General Revenue	2009	2008	Amt. Chg.	% Chg.
Property Taxes	\$ 837	\$ 673	164	24%
Other Local Taxes for General Purposes	2,899	2,713	186	7%
Grants/Subsidies/Unrestricted Contributions	251	35	216	618%
Investment Earnings	18	47	(29)	-62%
Misc. General Purpose Revenues	416	329	87	26%
Other	253	2	251	12541%
<b>Total General Revenue</b>	<b>4,673</b>	<b>3,800</b>	<b>873</b>	<b>23%</b>

## Management's Discussion and Analysis

General Revenue increased 23% from \$3,800M to \$4,673M in 2009. Prior year income increase was 34%. The net activity of \$837k is a result of a \$1,031M increase in Intergovernmental revenue, a \$230k increase in charges for services, and an increase in other income of \$57k.

<b>Comparison of Current vs. Prior Year Revenues</b>				
<b>(Dollars are in Thousands)</b>				
<b>Program Revenues</b>	<b>2009</b>	<b>2008</b>	<b>Amount Change</b>	<b>% Change</b>
Gen Gov't & Admin	\$0	\$41	(41)	-100%
Public Safety	36	226	(190)	-84%
Sanitation	1,038	827	211	26%
Public Works	208	215	(7)	-3%
Community Development	223	582	(359)	-62%
Capital Grants	1,609	10	1,599	15994%
<b>Total Program Revenue</b>	<b>3,115</b>	<b>1,901</b>	<b>1,214</b>	<b>64%</b>

Program Revenues increased 64% from \$1.091M to \$3,115M. The primary factor affecting this increase was the increase in Capital Grants which were received by the City to finance the Luzerne County Community College Culinary Arts building.

<b>Comparison of Current vs. Prior Year Revenues</b>				
<b>(Dollars are in Thousands)</b>				
<b>Charges for Services</b>	<b>2009</b>	<b>2008</b>	<b>Amount Change</b>	<b>% Change</b>
Sanitation	\$1,038	\$808	\$230	28%
Sewage	576	651	(75)	-12%
<b>Total Charges for Services</b>	<b>1,614</b>	<b>1,459</b>	<b>155</b>	<b>11%</b>

Charges for Services increased 11% from \$1.458M to \$1,614M in 2009.

### 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 \$702K from (\$154K) to \$244K. Key factors contributing to this increase include \$398k of prior period accounting adjustments and excess of revenues over expenditures of \$129k and TAN revenue of \$300k. A balanced budget and cost control efforts are key in the City's financial recovery. General Fund net assets and cash flow analysis reflect the City's continuing need to finance operations, at the current levels, through short term borrowing. This is the first time the City has had a positive General fund balance in several years.

## Management's Discussion and Analysis

The Debt Service Fund has a fund balance of \$126K. This fiscal year included a net decrease of \$187K in the Debt Service Fund due to a prior period accounting adjustment.

### *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. This business-type activities enterprise fund reported a decrease in net assets of \$32k from \$2.776 in 2008 versus \$2.744 in 2009. The prior year saw an increase in net assets of \$326K from \$2.776M over \$2.450M from 2007. This decrease is partially due to a decrease in revenue of \$83k, an increase of \$196k in expenses for 2009 related to Orchard Street sewer improvements, and an increase in sewer maintenance expense of \$76k for catch basin cleaning.

### **General Fund Budgetary Highlights**

Actual revenues were approximately \$764K more than budgeted at \$4.2M as compared to a budgeted amount of \$3.46M. Tax revenue was \$405K over budget and intergovernmental state and local revenue was \$250K under budget.

Actual expenditures were approximately \$263K more than budgeted at \$4.01M as compared to a budgeted amount of \$3.832M.

The General Fund adopted budget was not amended during the 2009 fiscal year. Revenues less expenses exceed budget by \$43k. This is the first time in this decade that revenues exceeded expenses.

### *Long-Term Debt*

At the end of the fiscal year, the City had total debt outstanding of \$4.0M.

Debt Schedule	Gov't Activities		Business Type Activities		Total		Amt.	%
(Dollars are in Thousands)	2009	2008	2009	2008	2009	2008	Change	Change
General Obligation Bonds	\$900	\$1,067	\$2,528	\$2,664	\$3,428	\$3,731	(\$303)	-8%
Muni Financial Recovery Loans	670	760	0	0	670	760	-90	-12%
<b>Total</b>	<b>1,570</b>	<b>1,827</b>	<b>2,528</b>	<b>2,664</b>	<b>4,098</b>	<b>4,491</b>	<b>-393</b>	<b>-9%</b>

# Management's Discussion and Analysis

---

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

The City is limited in its revenue potential as revenue sources do 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.

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

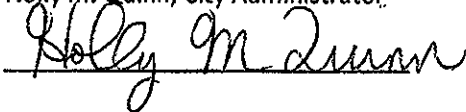
In December 2007, the City Council adopted a Recovery Plan designed to enable the City to restore fiscal health. Key components of the plan are an increase in the City's Earned Income Tax (EIT) to 1.5% for residents and a .33% EIT for non-residents. The non-resident EIT can only be used for capital purposes. The tax rate increases must be approved annually by the Luzerne County Court of Common Pleas. The increased tax revenue is a significant component in enabling the City to address the \$1.200 structural deficit. 2008 Revenue's were budgeted at \$3.954M in comparison to 2009 budgeted revenue of \$3.933M and budgeted revenue of \$4.225M in 2010.

Additionally, the City is paying down debt and implementing cost cutting measures where appropriate. 2008 Expenditures' were budgeted at \$4.415M (prior to other financing sources/uses) in comparison to 2009 budgeted expenditures of \$3.916M and 2010 budgeted expenses of \$4.095M.

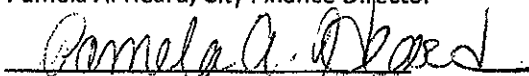
## **Contacting the City's Financial Management**

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 City's Director of Finance at 15 East Ridge Street, Nanticoke, PA, 18634.

Holly M. Quinn, City Administrator.



Pamela A. Heard, City Finance Director



**CITY OF NANTICOKE  
GOVERNMENTWIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

<u>ASSETS</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Investments	\$ 2,613,568	\$ 467,801	\$ 3,081,369
Receivables:	-	-	-
Ad Valorem Taxes	456,479	-	456,479
Other Taxes	-	-	-
Accounts	108,588	-	108,588
Accrued Interest	-	-	-
Other Taxes	-	-	-
Mortgage	100,504	-	100,504
Grant Funds Receivable	-	-	-
Due from Internal Parties	117,432	(117,432)	-
Prepaid Expenses	41,824	115,046	156,870
Amount to be Provided for Retirement of Long-Term Debt	-	-	-
Capital Assets:			
Equipment	225,991	117,477	343,468
Sewer System	-	4,844,474	4,844,474
Accumulated Depreciation	(5,650)	(117,477)	(123,127)
<b>TOTAL ASSETS</b>	<b><u>\$ 3,658,736</u></b>	<b><u>\$ 5,309,889</u></b>	<b><u>\$ 8,968,625</u></b>
 <u>LIABILITIES</u>			
<b>LIABILITIES:</b>			
Current Year Payroll Taxes	\$ -	\$ -	\$ -
Accrued Payroll	33,965	-	33,965
Payables:	-	-	-
Accounts	169,207	37,392	206,599
TAN	-	-	-
Accrued Interest	-	-	-
Current Portion of long term debt	-	-	-
Other	-	-	-
Due To External Parties	-	-	-
Due to Other Government	223	-	223
Accrued Admin Fee	-	-	-
Deferred Revenue	134,819	-	134,819
Non Current Liabilities	-	-	-
Due within one year	-	-	-
Note Payable	264,739	208,000	472,739
Lease Payable	32,388	-	32,388
Other Post Employment Benefits-Current	212,903	-	212,903
Due in More than one Year	-	-	-
Note Payable	1,305,648	2,320,000	3,625,648
Lease Payable	156,439	-	156,439
Compensated Absences	335,714	-	335,714
Other Post Employment Benefits	264,673	-	264,673
<b>TOTAL LIABILITIES</b>	<b><u>\$ 2,910,718</u></b>	<b><u>\$ 2,565,392</u></b>	<b><u>\$ 5,476,110</u></b>
 <u>NET ASSETS</u>			
Invested in net assets, net of related debt	\$ -	\$ -	\$ -
Restricted For:	-	-	-
Debt Service	126,911	-	126,911
Accounts Receivable	-	-	-
Invested in Capital Assets net of Related Debt	(1,538,873)	2,316,474	777,601
Unrestricted	2,159,980	428,023	2,588,003
<b>TOTAL NET ASSETS</b>	<b><u>\$ 748,018</u></b>	<b><u>\$ 2,744,497</u></b>	<b><u>\$ 3,492,515</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,658,736</u></b>	<b><u>\$ 5,309,889</u></b>	<b><u>\$ 8,968,625</u></b>

**CITY OF NANTICOKE  
GOVERNMENTWIDE-STATEMENT OF ACTIVITIES  
DECEMBER 31, 2009**

FUNCTIONS/PROGRAMS GOVERNMENTAL ACTIVITIES:	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			TOTAL
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities		
General Government and Administration	\$ 712,945	-	\$ -	\$ -	\$ (712,945)	\$ -	\$ (712,945)	
Public Safety	2,907,114	-	36,114	-	(2,871,000)	-	(2,871,000)	
Sanitation	995,164	1,038,250	-	-	43,086	-	43,086	
Public Works	939,610	-	207,706	-	(731,904)	-	(731,904)	
Community Development	378,626	-	-	1,832,468	1,453,842	-	1,453,842	
Parks and Recreation	5,445	-	-	-	(5,445)	-	(5,445)	
Depreciation	5,650	-	-	-	(5,650)	-	(5,650)	
Payroll Tax/related Expense	-	-	-	-	-	-	-	
Unallocated Employee Benefits	28,870	-	-	-	(28,870)	-	(28,870)	
Other	-	-	-	-	-	-	-	
Interest on Long Term Debt	54,960	-	-	-	(54,960)	-	(54,960)	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>6,028,384</b>	<b>1,038,250</b>	<b>243,820</b>	<b>1,832,468</b>	<b>(2,913,846)</b>	<b>-</b>	<b>(2,913,846)</b>	
<b>BUSINESS TYPE ACTIVITIES:</b>								
Sewage	499,897	575,820	-	-	-	75,923	75,923	
Nonoperating Expense	111,377	-	-	-	-	(111,377)	(111,377)	
	<b>611,274</b>	<b>575,820</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(35,454)</b>	<b>(35,454)</b>	
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 6,639,658</b>	<b>\$ 1,614,070</b>	<b>\$ 243,820</b>	<b>\$ 1,832,468</b>	<b>\$ (2,913,846)</b>	<b>\$ (35,454)</b>	<b>\$ (2,949,300)</b>	

**GENERAL REVENUE:**

**TAXES:**

Ad Valorem (Property Taxes)	836,631	-	-	-	836,631
Other Local Taxes Levied For General Purposes	2,898,893	-	-	-	2,898,893
Grants, Subsidies, and Contributions Not Restricted	43,648	-	-	-	43,648
Miscellaneous General Purpose Revenues	415,882	-	-	-	415,882
Investment Earnings	17,878	-	-	3,543	21,421
Special Items - Insurance Proceeds	-	-	-	-	-
- Sale of Assets	252,820	-	-	-	252,820
Transfers-Internal Activity	-	-	-	-	-
Total General Revenues and Transfers	<b>4,465,752</b>	<b>-</b>	<b>-</b>	<b>3,543</b>	<b>4,469,295</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,551,906</b>	<b>(31,911)</b>	<b>2,776,408</b>	<b>(31,911)</b>	<b>1,519,995</b>
<b>NET ASSETS JANUARY 1, 2009</b>	<b>(803,888)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,972,520</b>
<b>NET ASSETS DECEMBER 31, 2009</b>	<b>\$ 748,018</b>	<b>\$ 2,744,497</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,492,515</b>



**CITY OF NANTICOKE**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2009**

	<b>Governmental Fund Types</b>						<b>Totals</b>
	<b>General Fund</b>	<b>Special Revenue</b>	<b>DCED Fund</b>	<b>Refuse Fund</b>	<b>Debt Service Fund</b>	<b>Highway Aid Fund</b>	
Cash and Investments	\$ 419,176	\$ 1,336,389	\$ 317,718	\$ 345,717	\$ 120,624	\$ 73,944	\$ 2,613,568
Accounts Receivable	53,559	55,029	-	-	-	-	108,588
Grant Funds Receivable	-	-	-	-	-	-	-
Taxes Receivable	485,046	-	-	-	-	-	485,046
Due from Other Funds	151,752	171,543	-	-	6,287	-	329,582
Prepaid Expenses	41,824	-	-	-	-	-	41,824
Mortgage Receivable	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,151,357</b>	<b>\$ 1,562,961</b>	<b>\$ 317,718</b>	<b>\$ 345,717</b>	<b>\$ 126,911</b>	<b>\$ 73,944</b>	<b>\$ 3,578,608</b>
<b>LIABILITIES &amp; FUND BALANCE</b>							
<b>LIABILITIES:</b>							
Current Year Payroll Taxes	-	-	-	-	-	-	-
Accounts Payable	94,166	500	2,375	55,605	-	16,561	169,207
Accrued Expense	33,965	-	-	-	-	-	33,965
Leases Payable	-	-	-	-	-	-	-
Due to Other Funds	177,830	-	26,739	7,581	-	-	212,150
Due to Other Governments	223	-	-	-	-	-	223
Due to Library	-	-	-	-	-	-	-
Deferred Revenue	142,833	-	-	134,820	-	-	277,653
General Obligation Bonds Payable	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>\$ 449,017</b>	<b>\$ 500</b>	<b>\$ 29,114</b>	<b>\$ 198,006</b>	<b>\$ -</b>	<b>\$ 16,561</b>	<b>\$ 693,198</b>
<b>FUND BALANCE:</b>							
Reserve For:	-	-	-	-	-	-	-
Debt Service	-	-	-	-	\$ 126,911	-	\$ 126,911
Accounts Receivable	-	-	-	-	-	-	-
Pension Benefits	-	-	-	-	-	-	-
Unreserved Fund Balance (Deficit)	702,340	1,562,461	288,604	147,711	-	57,383	2,758,499
<b>TOTAL FUND BALANCE</b>	<b>\$ 702,340</b>	<b>\$ 1,562,461</b>	<b>\$ 288,604</b>	<b>\$ 147,711</b>	<b>\$ 126,911</b>	<b>\$ 57,383</b>	<b>\$ 2,885,410</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 1,151,357</b>	<b>\$ 1,562,961</b>	<b>\$ 317,718</b>	<b>\$ 345,717</b>	<b>\$ 126,911</b>	<b>\$ 73,944</b>	<b>\$ 3,578,608</b>

See Notes to Financial Statements  
Page 16

**CITY OF NANTICOKE**

**Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets  
DECEMBER 31, 2009**

Total Fund Balances - governmental Funds **\$ 2,885,410**

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 100,504

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 \$ 225,991  
and the accumulated depreciation is \$ 5,650. 220,341

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. (\$142,834-28,567. provision for uncollectible.) 114,267

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	\$ 1,570,387	
Capital Leases Payable	188,827	
Special Termination Benefits	-	
Compensated Absences	335,714	
Other Post employment Benefits	477,576	<u>(2,572,504)</u>

**TOTAL NET ASSETS (DEFICIT)-Governmental Activity **\$ 748,018****

CITY OF NANTICOKE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Governmental Fund Types						Totals Governmental Funds
	General Fund	Special Revenue	DCED Fund	Refuse Fund	Debit Service Fund	Highway Aid Fund	
<b>REVENUES:</b>							
Taxes	\$ 3,280,609	\$ 71,559	\$ -	\$ -	\$ 312,743	\$ -	\$ 3,664,911
Charges for Services	-	-	-	1,038,250	-	-	1,038,250
Fines, Forfeitures and Costs	51,406	-	-	-	-	-	51,406
Interest	3,546	395	9,172	3,525	581	658	17,877
License and Permits	180,536	-	-	-	-	-	180,536
Intergovernmental-State and Local Sources	513,538	-	-	15,337	-	207,706	736,581
Intergovernmental-Federal Sources	-	1,000,000	423,718	-	-	-	1,423,718
Other	195,163	175	-	-	-	-	195,338
<b>Total Revenue</b>	<b>\$ 4,224,798</b>	<b>\$ 1,072,129</b>	<b>\$ 432,890</b>	<b>\$ 1,057,112</b>	<b>\$ 313,324</b>	<b>\$ 208,364</b>	<b>\$ 7,308,617</b>
<b>EXPENDITURES:</b>							
General Government	\$ 712,945	-	-	-	-	-	\$ 712,945
Public Safety	2,452,253	-	-	-	-	-	2,452,253
Sanitation	-	-	-	995,164	-	-	995,164
Public Works	585,956	-	-	-	-	353,654	939,610
Community Development	-	17,191	361,435	-	-	-	378,626
Parks and Recreation	5,445	-	-	-	-	-	5,445
Debt Service and Bond Payments	309,857	-	-	-	302,196	-	612,053
Insurance	-	-	-	-	-	-	-
Payroll related expenses	-	-	-	-	-	-	-
Unallocated employee benefits	-	-	-	-	-	-	-
Other	28,870	-	-	-	-	-	28,870
<b>Total Expenditures</b>	<b>\$ 4,095,326</b>	<b>\$ 17,191</b>	<b>\$ 361,435</b>	<b>\$ 995,164</b>	<b>\$ 302,196</b>	<b>\$ 353,654</b>	<b>\$ 6,124,966</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 129,472</b>	<b>\$ 1,054,938</b>	<b>\$ 71,455</b>	<b>\$ 61,948</b>	<b>\$ 11,128</b>	<b>\$ (145,290)</b>	<b>\$ 1,183,651</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
General Obligation Notes	300,000	-	-	-	-	-	\$ 300,000
Insurance Proceeds	-	252,820	-	-	-	-	252,820
Sale of Assets	28,910	55,029	(28,910)	(55,029)	-	-	-
Transfer	\$ 328,910	\$ 307,849	\$ (28,910)	\$ (55,029)	\$ -	\$ -	\$ 552,820
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 458,382</b>	<b>\$ 1,362,787</b>	<b>\$ 42,545</b>	<b>\$ 6,919</b>	<b>\$ 11,128</b>	<b>\$ (145,290)</b>	<b>\$ 1,736,471</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ (154,149)</b>	<b>\$ 199,674</b>	<b>\$ 346,563</b>	<b>\$ 140,792</b>	<b>\$ 313,890</b>	<b>\$ 202,673</b>	<b>\$ 1,049,443</b>
Fund Balance (Deficit) - Beginning	398,107	199,674	(100,504)	140,792	(198,107)	202,673	\$ 99,496
<i>Prior Period Adjustments due to accounting errors</i>	243,958	-	246,059	140,792	115,783	-	1,146,939
<b>Fund Balance (Deficit) - Beginning (as Restated)</b>	<b>\$ 702,340</b>	<b>\$ 1,562,461</b>	<b>\$ 288,604</b>	<b>\$ 147,711</b>	<b>\$ 126,911</b>	<b>\$ 57,383</b>	<b>\$ 2,885,410</b>

**CITY OF NANTICOKE**

**Reconciliation of Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balance to Statement of Activities  
DECEMBER 31, 2009**

Total net change in fund balances - governmental Funds	<b>\$ 1,736,471</b>												
Amounts reported for governmental activities in the statement of net assets are different because:													
Because some property taxes will not be collected for several months after the districts year end, they are not considered as "available" revenues in the governmental funds. Deferred revenues were reduced by this amount during the year.	18,853												
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 (\$5,650) exceeds capital outlays \$ 0) in the period.	(5,650)												
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	594,243												
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 border="0" style="margin-left: auto;"> <tr> <td></td> <td style="text-align: right;">(earned) Paid</td> </tr> <tr> <td style="text-align: right;">Compensated Absences</td> <td style="text-align: right;">(14,435)</td> </tr> <tr> <td style="text-align: right;">Special Termination Benefits</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="text-align: right;">Other Post Employment Healthcare</td> <td style="text-align: right;">(477,576)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>(492,011)</u></td> </tr> </table>		(earned) Paid	Compensated Absences	(14,435)	Special Termination Benefits	-	Other Post Employment Healthcare	(477,576)		<u>(492,011)</u>	(492,011)		
	(earned) Paid												
Compensated Absences	(14,435)												
Special Termination Benefits	-												
Other Post Employment Healthcare	(477,576)												
	<u>(492,011)</u>												
The issuance of long term debt (e.g. Bonds provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term and related items.	\$ (300,000)												
Interest on long term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest and bond discount reported for the period in the statement of activities is as follows:													
<table border="0" style="margin-left: auto;"> <tr> <td style="text-align: right;">Accrued Interest</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="text-align: right;">Bond Discount</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">Amortized Bond Discount</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">-</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>-</u></td> </tr> </table>	Accrued Interest	\$	-	Bond Discount			Amortized Bond Discount	\$	-			<u>-</u>	
Accrued Interest	\$	-											
Bond Discount													
Amortized Bond Discount	\$	-											
		<u>-</u>											
<b>CHANGE IN NET ASSETS-Governmental Activities</b>	<b><u>\$ 1,551,906</u></b>												

CITY OF NANTICOKE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 2,875,488	\$ 2,875,488	\$3,280,609	\$ 405,121
Charges for Services	-	-	-	-
Fines, Forfeitures and Costs	46,400	46,400	51,406	5,006
Interest	16,500	16,500	3,546	(12,954)
License and Permits	244,629	244,629	180,536	(64,093)
Intergovernmental State and Local	263,440	263,440	513,538	250,098
Other	13,975	13,975	195,163	181,188
<b>Total Revenue</b>	<b><u>\$ 3,460,432</u></b>	<b><u>\$ 3,460,432</u></b>	<b><u>\$4,224,798</u></b>	<b><u>\$ 764,366</u></b>
<b>EXPENDITURES:</b>				
General Government	\$ 675,709	\$ 675,709	\$ 712,945	\$ (37,236)
Public Safety	2,261,812	2,261,812	2,452,253	(190,441)
Sanitation	111,082	111,082	-	111,082
Public Works	415,149	415,149	585,956	(170,807)
Community Development	-	-	-	-
Parks and Recreation	8,250	8,250	5,445	2,805
Debt Service and Bond Payments	310,000	310,000	309,857	143
Insurance	-	-	-	-
Payroll related expenses	-	-	-	-
Unallocated employee benefits	50,000	50,000	28,870	21,130
Other	500	500	-	500
<b>Total Expenditures</b>	<b><u>\$ 3,832,502</u></b>	<b><u>\$ 3,832,502</u></b>	<b><u>\$4,095,326</u></b>	<b><u>\$ (262,824)</u></b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (372,070)</b>	<b>\$ (372,070)</b>	<b>\$ 129,472</b>	<b>\$ 501,542</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
General Obligation Notes	\$ 300,000	\$ 300,000	300,000	-
Insurance Proceeds	-	-	-	-
Sale of Assets	-	-	-	-
Transfer to Special Revenue	72,070	72,070	28,910	(43,160)
<b>Total Other Financing Sources (Uses)</b>	<b><u>\$ 372,070</u></b>	<b><u>\$ 372,070</u></b>	<b><u>\$ 328,910</u></b>	<b><u>\$ (43,160)</u></b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 458,382</b>	<b>\$ 458,382</b>
Fund Balance (Deficit) - Beginning			(154,149)	\$ (154,149)
<i>Prior Period Adjustments due to accounting errors</i>				
Prior Period Adjustment			398,107	\$ 398,107
Fund Balance (Deficit) - Beginning (as Restated)			\$ 243,958	\$ 243,958
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 702,340</u></b>	<b><u>\$ 702,340</u></b>

**CITY OF NANTICOKE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009**

	<b>Business Type Activities</b>
	<b>Enterprise Fund</b>
	<b>Sewer Fund</b>
	<u>                    </u>
<b>ASSETS:</b>	
<b>CURRENT ASSETS:</b>	
Cash and Investments	\$ 467,801
Prepaid Bond Debt Recievable	-
Interactivity Recievables	-
Due from other funds	-
<b>TOTAL CURRENT ASSETS</b>	<u>467,801</u>
<b>NONCURRENT ASSETS:</b>	
Interactivity Recievables	-
Prepaid Bond Expense	115,046
Machinery & Equipment.	117,477
Sewer System	4,844,474
Accumulated Depreciation	(117,477)
<b>TOTAL NONCURRENT ASSETS</b>	<u>4,959,520</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,427,321</u></u>
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$ 37,392
Due to other Funds	117,432
Accrued Expenses	-
Lease Payable	-
Bond and Note Payable	208,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>362,824</u>
<b>NONCURRENT LIABILITIES</b>	
Lease Payable	\$ -
Bond and Note Payable	2,320,000
Other Noncurrent Liabilities	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,320,000</u>
<b>TOTAL LIABILITIES</b>	<u>2,682,824</u>
<b>TOTAL NET ASSETS (Deficit)</b>	<u>\$ 2,744,497</u>
<b>NET ASSETS (Deficit) CONSIST OF:</b>	
Invested in Capital Assets, Net of Related Debt	\$ 2,316,474
Unrestricted (Deficit)	428,023
<b>TOTAL NET ASSETS (Deficit)</b>	<u>\$ 2,744,497</u>
<b><u>TOTAL LIABILITIES &amp; FUND BALANCES</u></b>	<u><u>\$ 5,427,321</u></u>

**CITY OF NANTICOKE**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2009**

	Business Type Activities
	Enterprise Fund
	Sewer Fund
	<u>                    </u>
<b>OPERATING REVENUES:</b>	
Sewer User Fees	\$ 575,820
	-
<b>TOTAL OPERATING REVENUES</b>	<u><u>575,820</u></u>
<b>OPERATING EXPENSES:</b>	
Supplies and Materials	100,073
Personal Services	384,206
Depreciation	15,618
Other Operating Expenses	-
<b>TOTAL OPERATING EXPENSES</b>	<u><u>499,897</u></u>
<b>OPERATING INCOME (LOSS)</b>	<u>75,923</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Investment Income	3,543
Refund of prior years expenses	-
Interest Expense	(111,378)
Amortization	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES):</b>	<u><u>(107,835)</u></u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>(31,912)</b>
Interfund Transfers in/(out)	<u>-</u>
<b>CHANGES IN NET ASSETS</b>	<b>(31,912)</b>
<b>TOTAL NET ASSETS-Beginning of Year</b>	<u><u>2,776,409</u></u>
<b>TOTAL NET ASSETS -End of Year</b>	<u><u>\$ 2,744,497</u></u>

**CITY OF NANTICOKE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2009**

Business Type Activities  
Enterprise Fund  
Sewer Fund

	Enterprise Fund	Sewer Fund
<b>CASH FLOWS FROM OPERATION ACTIVITIES</b>		
Received from User Charges	\$ 575,820	
Cash Payments to Employees for Services	(384,206)	
Cash Payment to Suppliers for Goods and Services	(80,881)	
Cash Payments for Other	-	
<b>NET CASH USED BY OPERATING ACTIVITIES</b>		<u>110,733</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating Revenue Received-Federal	-	
Nonoperating Revenue Received-State	-	
Refund of prior year expenses	-	
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>		<u>-</u>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>		
Principal Paid on Debt	(135,638)	
Interest Paid on Debt	(111,378)	
Principal Paid on Lease	(13,315)	
Interest Paid on Leases	-	
Acquisition of Capital Assets	-	
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		<u>(260,331)</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Interest on Investments		<u>3,543</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(146,055)
CASH AND CASH EQUIVALENTS January 1, 2009		<u>613,856</u>
<b>CASH AND CASH EQUIVALENTS December 31, 2009</b>		<u>\$ 467,801</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Income or Loss	\$ 75,923	
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities</i>		
Depreciation	15,618	
Donated Commodities		
<i>Changes in Assets and Liabilities</i>		
Prepaid Expenses	(115,046)	
Fixed Assets		
Receivables		
Inventories	-	
Payables	(7,327)	
Current Liabilities		
Due to other funds	141,565	
<b>NET CASH USED BY OPERATING ACTIVITIES</b>		<u>\$ 110,733</u>

**NONCASH NON CAPITAL FINANCING ACTIVITIES**



CITY OF NANTICOKE  
 FIDUCIARY FUND TYPE-PENSION FUNDS  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2009

<b>ASSETS</b>	<b>Retirement Trusts</b>
Cash	\$ 326,626
Investments	5,558,407
Due from Police Plan	-
Receivable Municipal Contribution	-
Receivable Member Contribution	5,140
Total Assets	<u>\$ 5,890,173</u>
<b>LIABILITIES</b>	
Due To Fire Plan	\$ -
Other Current Liabilities	601
Total Liabilities	<u>601</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	\$ 5,889,572
Other	-
Total Deductions	<u>\$ 5,889,572</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>5,890,173</u></u>

CITY OF NANTICOKE  
 FIDUCIARY FUNDS-PENSION FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 DECEMBER 31, 2009

<b>ADDITIONS</b>	<b>Retirement Trusts</b>
Contributions	
Employer	\$ 40
Employee	63,467
State	-
State Aid	184,553
Appreciation (Depreciation) in Fair Value of Invest.	752,504
Interest	19,460
Dividend	35,012
Other	-
Other-Transfer from Fireman Plan	-
Total Additions	<u>\$ 1,055,036</u>
<b>DEDUCTIONS</b>	
Investment Expense	\$ 33,765
Pension Benefits	360,888
Administrative Expense	4,904
Actuarial Fees	12,400
Refund of Member Contributions	-
Allocated Insurance Premiums	348
Other	2,216
Other-State Aid Deposited in Incorrect Fund	-
Total Deductions	<u>\$ 414,521</u>
<b>Change in Net Assets</b>	<b>640,515</b>
Net Assets At the Beginning of Year	<u>\$ 5,249,057</u>
Net Assets End of Year End of Year	<u><u>\$ 5,889,572</u></u>

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

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

The City of Nanticoke is located in Luzerne County, Pennsylvania. The City operates under the Commission form of government. Council is comprised of four members, elected at large. Council is the governing body, with the elected Mayor as the head of the executive and administrative branch. The City provides public safety, health and welfare, sanitation, public works, culture and recreation, community development, and general administrative services for its residents.

**Reporting Entity**

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

The City of Nanticoke is a municipal Corporation governed by an elected council and Mayor. As required by generally accepted accounting principles, these financial statements are to present the City of Nanticoke (the primary government) and organizations for which the primary government is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the City in that the City approved the budget, the issuance of debt, or the levying of taxes.

**Component Units**

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 Redevelopment Authority of the City of Nanticoke.
3. The General Municipal Authority of the City of Nanticoke.

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

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

**A. Basis of Presentation**

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

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the City as a whole. 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 City of Nanticoke**  
**Notes to Financial Statements**  
**Year Ended December 31, 2009**

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

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 particular 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 particular program and interest earned on grants that is required to be used to support a particular 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 in order 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. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board(FASB) pronouncements and Accounting Principles Board(APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**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.

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.

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

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

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 according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

*General Fund*

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

*Debt Service Fund*

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

*Special Revenue, CDBG, Refuse, Highway Aid*

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

**Proprietary Funds**

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

*Sewer Fund*

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

**The City of Nanticoke**  
**Notes to Financial Statements**  
**Year Ended December 31, 2009**

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

**Fiduciary Funds**

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

**E. Budgets and Budgetary Accounting**

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

1. In accordance with the City Code and City procedures, the City Finance Director submits to the Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal Year commencing the following January 1. The budget must be advertised and available for public inspection before adoption. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, sanitation, public works, parks and recreation, debt service, and employee benefits and miscellaneous.
2. Public hearings are conducted to obtain taxpayer comment.
3. By December 31, the budget is approved by motion of the Council. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
4. All modifications, transfers and amendments must be approved by the Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The legally adopted budgets of the City are for the General Fund.
7. The Council may authorize supplemental appropriations during the year. The City's Council must approve all over expenditures of appropriations or transfers of appropriated amounts.
8. The budgetary basis of accounting for the General Fund differs from generally accepted accounting principles in that it includes certain expenditures and expenses of the Liquid Fuels Fund, CDBG Fund, and Proprietary Fund and accounts for reimbursement from these funds as operating transfers in. Such expenditures and expenses are those of the respective funds and not of the City's General Fund. The adjustments necessary to reconcile the budgetary basis with generally accepted accounting principles are not ascertainable. As a result the budgeted amounts are compared to actual amounts, not actual on budgetary basis.

**F. Use of Estimates**

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

**The City of Naticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

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

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

**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.

**Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Any residual balances outstanding between the primary government and discretely presented component units are shown as a separate line item on the Government-wide Statement of Net Assets.

**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 elected City Treasurer, in his capacity as tax collector. The tax levy for 2009 was 2.4344 mills on every dollar of assessed value; 1.4573 mills for the General Fund, .9577 mills for the Debt Service Fund, and .0194 mills for the Mill Memorial Library. The total estimated assessed value of taxable property was approximately \$374,611,800.

**Compensated Absences**

The City's policy in regard to accumulated sick leave is as follows:

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

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

The City's estimated liability for compensated absences is \$335,714. at December 31, 2009.

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**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. Deficit Fund Balance or Retained Earnings of Individual Funds**

No Funds had a deficit Fund Balance at December 31, 2009.

**C. Excess of Expenditures over Appropriations in Individual Funds**

For the year ended December 31, 2009, the General Aid Fund had an excess of expenditures over appropriations in the amount of 262,824.

**D. 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, 2009, \$2,464,478 of the City's bank balance of \$3,348,736. was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank's trust department not in the City's name.	2,464,478
Total	<u>\$2,464,478</u>

Reconciliation to Financial Statements:

Uncollateralized Amount Above	\$2,464,478
Plus: Insured Amount	884,258
Less: Outstanding Checks	<u>(267,367)</u>
Carrying Amount-Bank Balances	3,081,369
Plus: Petty Cash	0
<b>Total Cash Per Financial Statements</b>	<u><u>\$3,081,369</u></u>



**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**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, 2009, the Nanticoke City's Firemen's Pension, Plan and Police Pension Plan, and Non-Uniform Pension Plan consisted of the following. The Non-uniform Plan's Assets with PMRS are pooled for investment purposes and do not represent specific identifiable investment securities.

<b>Investment Type</b>	<b>Police Pension Fair Value</b>	<b>Firemen's Pension Fair Value</b>	<b>NonUniform's Pension Fair Value</b>	<b>Total</b>
Managed Equity	\$2,758,262	\$984,417	\$0	\$3,742,679
Corporate Bonds	218,811	127,343	0	346,154
Government Securities	400,294	81,417	0	481,711
Pooled Fixed Income	293,746	312,234	0	605,980
Real Estate	35,221	0	0	35,221
Cash	132,505	194,121	0	326,626
Employees Contribution	2,988	2,151		5,139
Due to other Funds	0	0		0
Pa Muni Ret System	0	0	346,663	346,663
<b>Total</b>	<b>\$3,841,827</b>	<b>\$1,701,683</b>	<b>\$346,663</b>	<b>\$5,890,173</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:

<b>Investment Type</b>	<b>Police Pension Fair Value</b>	<b>Firemen's Pension Fair Value</b>	<b>Maturity</b>	<b>Rating</b>
Corporate Bonds	\$218,811	\$127,343	Avg. of 6.74 Years	Avg. of BBE
Government Bonds	400,294	81,417	Avg. of 7-10 Years	AAA
Corp. & Govt. Bonds	0	0		
Fixed Income Fund	293,746	312,234	Avg. of 3.69 Years	AAA-BB
<b>Total</b>	<b>\$912,851</b>	<b>\$520,994</b>		

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**Note 5 – Investments (continued)**

*Interest Rate Risk.*

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

*Concentrations of Credit Risk.*

As of December 31, 2009 the City Has several individual investments of 5% or more of net assets in its Pension Funds. The Pensions are invested in managed investment accounts and annuities with various managed sub accounts. The City's three pension plans issue a stand alone financial report, which explain the various investments in great detail. For information on how to obtain a specific pension financial report see note 10.

*Custodial Credit Risk*

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

	<b>Police</b>	<b>Firemen</b>	<b>NonUniformed</b>	<b>Total</b>
NationWide	\$1,050,899	\$1,699,532	\$0	\$2,750,431
Merrill Lynch Assetmark	1,820,070	0	0	1,820,070
Assetmark	967,869			
Pa Muni Retire System	0	0	346,663	346,663
<b>Total</b>	<b>\$3,838,838</b>	<b>\$1,699,532</b>	<b>\$346,663</b>	<b>\$4,917,164</b>

**Note 6 Capital Assets**

A summary of transactions in capital assets for 2008 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
<b>Governmental Activities</b>		
Capitalized Leased Equipment 12-31-2008	\$ -	\$ -
Additions/Disposals	225,991	5,650
Capitalized Leased Equipment 12-31-2009	<u>\$ 225,991</u>	<u>\$ 5,650</u>
<b>Business-Type Activities</b>		
Sewer System 12-31-2008	\$ 4,844,474	\$ -
Additions		
Sewer System 12-31-09	<u>\$ 4,844,474</u>	<u>\$ -</u>
Capitalized leased equipment 12-31-2008	\$ 117,477	\$ 101,859
Additions		15,618
Capitalized leased equipment 12-31-2009	<u>\$ 117,477</u>	<u>\$ 117,477</u>

There were no disposals in 2009. Amortization of business-type activities capitalized leases is reported as depreciation expense.

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**NOTE 7. DUE TO / FROM OTHER FUNDS**

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. The following reports individual fund due from/due to amounts.

City of Nanticoke								
Fund Transfer Schedule								
For Year Ended 12/31/2009								
				Due From				Due To
<b>General:</b>								
	Proprietary Fund			117,432				
	Due From Refuse			7,581				
	Special Revenue						130,000	
	Special Revenue						41,543	
	Community Development			25,445				
	Community Development			1,294				
	Debt Service						6,287	
				151,752			177,830	
<b>Special Revenue:</b>								
	General Fund			130,000				
	General Fund			41,543				
				171,543			0	
<b>DCED Fund:</b>								
	Community Development-General						25,445	
	Community Development-General						1,294	
				0			26,739	
<b>Refuse Fund:</b>								
	Due to General Fund						7,581	
				0			7,581	
<b>Site Fund:</b>								
	Site Development-Community Development							
	Site Development-General							
				0			0	
<b>Highway Aid:</b>								
	Liquid Fuels-General			0				
				0			0	
<b>Debt Service:</b>								
	General Fund			6,287				
				6,287			0	
	Governmental Activities			329,582			212,150	
<b>Proprietary-Community Development</b>								
<b>Proprietary-General</b>							117,432	
	Business Tye Activities			0			117,432	
	<b>Total</b>			<b>329,582</b>			<b>329,582</b>	

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**NOTE 7. DUE TO / FROM OTHER FUNDS (Continued)**

General Fund interfund payables are not expected to be satisfied within one year. Interfund due from/due to of \$405,853. has been eliminated in the Statement of Net Assets to minimize the grossing up of internal balances, leaving a net amount due of \$117,432. between the governmental and business-type activities, which is reported as Due from Internal Parties.

**Note 8. Taxes Receivable and Special Item**

Taxes Receivable at December 31, 2009:

Earned Income	\$310,075
Real Estate Transfer	11,610
Mercantile/Business Privilege	2,108
Local Service Tax	18,419
Real Estate Taxes	<u>142,834</u>
Total Fund Financial Statements	<u>\$485,046</u>
Allowance for Uncollectible Taxes	<u>(28,567)</u>
Total Statement of Net Assets	<u><u>\$456,479</u></u>

In an agreement dated June 29, 2007, the City agreed to sell and the Redevelopment Authority of Luzerne County (the Authority) agreed to buy, the City's Tax Claims for the fiscal year ending December 31, 2006 and all prior years uncollected tax levies. The Tax Claims included the liens for delinquent taxes levied by the City that has been turned over to the Luzerne County Tax Claims Bureau for enforcement.

The closing of this transaction occurred on June 29, 2007 as follows:

Total Tax Claims	\$147,038
Less: Claims stricken off etc.	<u>0</u>
Qualified Tax Claims	147,038
Costs of the Authority Related to the Advance	<u>(4,140)</u>
Maximum Advance Amount(90%)	136,474
Current Balance on Note	95,481
Less Dec. 06 Payment Collected in Jan. 07	<u>(4,528)</u>
Adjusted Balance on Note	90,953
Current Drawdown	45,521
Less Costs of the Authority Related to Advan.	<u>(4,140)</u>
Net Disbursement to City	41,381
Refund to City from Loan Reserve	<u>4</u>
Total Disbursement to City	<u><u>\$41,385</u></u>

Allocation of Proceeds:

General Fund	\$20,693
Debt Service Fund	20,692
Mill Memorial Library	<u>0</u>
	<u><u>\$41,385</u></u>

**Note 9. Mortgages Receivable**

Under Urban Development, Redevelopment, Rehabilitation, and Site Development Programs, the City has loaned City residents funds to rehabilitate or improve real estate within the City. At December 31, 2009, the following amounts were owed to the City under the various programs:

Urban Development	\$9,721
Rehabilitation And Redevelopment	<u>90,783</u>
	<u><u>\$100,504</u></u>

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**Note 10. Pension Plans**

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

**Firemen's Pension Plan**

The Firemen's Pension Plan provides retirement income and other benefits for the exclusive benefit of the members of the Fire Department. Each full-time fireman contribute 3% of total compensation plus \$2.00 per month. No interest is credited. Municipal contributions are such amounts as actuarially required. At the discretion of Council, a portion of the State Pension Allocation may be applied to reduce any of its required contributions. The City has contributed \$114,553. of its State Pension Allocation to this fund in 2009. For detailed financial information, refer to financial management report covering the period January 1, 2009 to December 31, 2009 as prepared by AFG Pension Administration. A report could be obtained by writing to 575 Peirce Street Suite 301, Kingston, Pa 18704 or calling 570-714-0720.

At December 31, 2009 net assets available for benefits was \$1,701,683 with Nationwide Life Insurance annuity contract investments of \$1,699,532. exceeding 5% of the Firemen's Pension Plan available for pension benefits. The annuity contract contains individually managed sub accounts. The investments are not required to be categorized because either:

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

Normal retirement requirement is 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on the highest 5 years of employment or pay at retirement, if higher), plus an incremental pension equal to 1/40 of the base pension benefit for each year in excess of 20 and before age 65. The maximum incremental pension is \$100 per month. The Plan also includes late retirement, death benefit, and disability retirement provisions. A member's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to the benefit accrued to the date of termination. Membership consist of the following at December 31, 2009:

Active Employees	9
Retirees and beneficiaries	
currently receiving benefits	9
Terminated Employees entitled to	
benefits but not yet receiving them	0
<b>Total</b>	<b>18</b>

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

*Basis of Accounting*

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

*Valuation of Investments*

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

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

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

**Police Pension Plan**

The Police Pension Plan provides retirement income and other benefits for the exclusive benefit of members of the Police Department. Each full-time policeman contributes 4% month of his compensation plus \$2.00 per month. No interest is credited. At the discretion of Council, a portion of the State Pension Allocation may be applied to reduce any actuarial liability, the obligation of the City, or employee contributions. The City has contributed \$29,336 of its State Pension Allocation to this fund in 2009. For detailed financial information, refer to financial management report covering the period January 1, 2008 to December 31, 2009 as prepared by AFG Pension Administration. A report could be obtained by writing to 575 Peirce Street Suite 301, Kingston, Pa 18704 or calling 570-714-0720.

At December 31, 2009 net assets *available* for benefits was \$3,841,226 with the following concentrations exceeding 5% of the Police Pension Plan available for pension benefits:

Nationwide	\$1,050,899
Merrill Lynch	\$1,820,070
Assetmark	\$967,869

The investments are not required to be categorized because either:

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

Normal retirement requirement is 50 years of age and completion of 20 years of service. Normal retirement pension is payable monthly for life with payments continuing to the not remarried surviving spouse or, if no eligible surviving spouse, payments of 50% of the amount payable to the member at the time of death, continuing to dependent children under 18 years of age. Monthly pension payments are equal to 50% of average monthly pay (based on highest 6 consecutive years of employment or pay at retirement, if higher), plus a service increment (1.25% of average monthly pay per years of service in excess of 20 and before age 65), plus a one-time cost of living adjustment of \$50 per month after one year of retirement. The Plan also includes death benefit and disability retirement provisions. A member's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to 2.5% of average monthly pay per year of service completed by the member. Membership consist of the following at December 31, 2009:

Active Employees	13
Retirees and beneficiaries	
currently receiving benefits	16
Terminated Employees entitled to	1
benefits but not yet receiving them	0
Total	<u>30</u>

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

*Basis of Accounting*

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

*Valuation of Investments*

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

**The City of Nanticoke**  
**Notes to Financial Statements**  
**Year Ended December 31, 2009**

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

**Non-Uniform Pension Plan**

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

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

In accordance with the plan's governing Ordinance, members are required to contribute 3% of compensation to the plan. Membership consist of the following at December 31, 2009:

Active Employees	15
Retirees and beneficiaries	
currently receiving benefits	0
Terminated Employees entitled to	
benefits but not yet receiving them	0
Total	<u>15</u>

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

*Basis of Accounting*

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

*Valuation of Investments*

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

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

**Note 11. Long-Term Debt**

**2004 General Obligation Note**

In March 2004, the City issued a general obligation note in the amount of \$1,000,000. Proceeds were used to retire the then outstanding Tax and Revenue Anticipation notes and for various unpaid General Fund liabilities. Principal and interest (4.777% per annum) payments of \$10,529 are payable monthly through March 15, 2014.

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

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

**2005 General Obligation Notes**

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

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

**Municipal Financial Recovery Loan**

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

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

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

	<i>Outstanding Balance 12/31/2008</i>	<i>Issued or Additions</i>	<i>Payments Retirements</i>	<i>Outstanding Balance 12/31/2009</i>	<i>Interest Paid This Year</i>	<i>Due Within One Year</i>
<b>Governmental</b>						
2004 Note	584,773	-	100,456	484,317	25,893	105,234
2005 Note	482,707	-	66,637	416,070	19,210	69,505
2006 Recovery Loan	560,000		70,000	490,000		70,000
2007 Recovery Loan	200,000	-	20,000	180,000	-	20,000
	<u>\$ 1,827,480</u>	<u>\$ -</u>	<u>\$ 257,093</u>	<u>1,570,387</u>	<u>45,103</u>	<u>264,739</u>
<b>Business Type</b>						
2007 Recovery Loan	2,663,638	-	135,638	2,528,000	113,427	208,000
	<u>\$ 2,663,638</u>	<u>\$ -</u>	<u>\$ 135,638</u>	<u>2,528,000</u>	<u>113,427</u>	<u>208,000</u>



**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

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

**Long-term Debt Service Requirements: (Governmental Activities)**

Year	Series of 2004	Series of 2005	Recovery Loan 2006	Recovery Loan 2007	Total
2010	\$105,234	\$69,505	\$70,000	\$20,000	\$264,739
2011	110,438	72,451	70,000	20,000	272,889
2012	115,864	75,570	70,000	20,000	281,434
2013	121,628	78,709	70,000	20,000	290,337
2014	30,467	82,194	70,000	20,000	202,661
2015-2018	0	38,327	140,000	80,000	258,327
	<u>\$483,631</u>	<u>\$416,756</u>	<u>\$490,000</u>	<u>\$180,000</u>	<u>\$1,570,387</u>

Year	Principal	Interest	Total
2010	\$264,739	\$37,459	\$302,198
2011	272,889	29,308	302,197
2012	281,434	20,762	302,196
2013	290,337	11,760	302,097
2014	202,661	3,907	206,568
2015-2018	258,327	521	258,848
	<u>\$1,570,387</u>	<u>\$103,717</u>	<u>\$1,674,104</u>

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

Year	Series of 2005	Total
2010	\$208,000	\$208,000
2011	218,000	218,000
2012	228,000	228,000
2013	238,000	238,000
2014	248,000	248,000
2015-2019	1,388,000	1,388,000
	<u>\$2,528,000</u>	<u>\$2,528,000</u>

Year	Principal	Interest	Total
2010	\$208,000	\$106,176	\$314,176
2011	218,000	97,440	315,440
2012	228,000	88,284	316,284
2013	238,000	78,708	316,708
2014	248,000	68,712	316,712
2015-2019	1,388,000	179,550	1,567,550
	<u>\$2,528,000</u>	<u>\$618,870</u>	<u>\$3,146,870</u>

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**Note 12. Operating Leases**

In July 2001, the City leased a 2001 Pierce Saber Pumper under a \$241,223 cancelable lease purchase agreement with future payments, through July 23, 2011. This lease was paid off in 2008, and the City decided to keep the truck. Originally, the city was going to return after the lease terms were completed. The truck was not capitalized.

**Note 13. Capitalized Leases**

In November, 2004, the City entered a financial lease agreement to acquire a backhoe loader for use by the Sewer Department. The agreement requires sixty \$1,421.60 monthly payments of principal and interest with final payment in October 2009. For 2009 \$13,315 and \$1,038 of principal and interest respectively were paid by the city.

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

Year	Principal	Interest	Total
2010	\$32,388	\$4,762	\$37,150
2011	27,745	9,406	37,151
2012	29,413	7,737	37,150
2013	31,181	5,969	37,150
2014	33,056	4,094	37,150
2015	35,044	2,107	37,151
	<u>\$188,827</u>	<u>\$34,075</u>	<u>\$222,902</u>

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

	<i>Outstanding Balance 12/31/2008</i>	<i>Issued or Additions</i>	<i>Payments Retirements</i>	<i>Outstanding Balance 12/31/2009</i>	<i>Interest Paid This Year</i>	<i>Due Within One Year</i>
<b>Governmental</b>						
<i>2009 Firetruck Lease</i>	-	225,977	37,150	188,827	226	32,388
	<u>\$ -</u>	<u>\$ 225,977</u>	<u>\$ 37,150</u>	<u>188,827</u>	<u>226</u>	<u>32,388</u>
<b>Business Type</b>						
<i>2004 Backhoe Lease</i>	13,315	-	13,315	0	1,038	-
	<u>\$ 13,315</u>	<u>\$ -</u>	<u>\$ 13,315</u>	<u>0</u>	<u>1,038</u>	<u>-</u>

**Note 14. Compensated Absences**

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

	<i>Balance 12/31/2008</i>	<i>Net Increases (Decrease)</i>	<i>Balance 12/31/2009</i>	<i>Due Within One Year</i>
<i>Compensated Absences</i>	\$ 321,279	\$ 14,435	\$ 335,714	\$ -

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**Note 15. 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:**

Effective January 1, 2009, as defined by City Policy, the City makes available health care benefits to all eligible full time police and firefighters. An eligible employee is defined as retiring with 20 years of service and be at least age 50. The plan covers the employee and their spouses for their lifetime. Upon obtaining Medicare eligibility, the retired employee or spouse will be enrolled in Medicare supplement plan. Benefit provisions are established by management.

**Subsequent Event**

In a Subsequent event, effective September 1, 2010, as defined by City Policy, the City makes available health care benefits to all eligible full time police and firefighters. An eligible employee is defined as retiring with 20 years of service and be at least age 50. The plan covers the employee and their spouses until they reach the age of 65. Upon obtaining Medicare eligibility, the retired employee or spouse is entitled to the deductible not covered by Medicare. Benefit provisions are established by management. Current retirees over age 65 incorrectly receiving the Medicare supplement plan will be switched to a Medicare replacement plan.

Employees who retire prior to January 1, 2009, do not contribute toward coverage. Employees who retire after January 1, 2009 will contribute a percentage of premiums based on their respective contracts. In the event that a Policeman or Fireman is disabled or killed in the line of duty, their surviving spouses and dependents shall continue to receive coverage bases on the respective contracts.

Any Policeman or Fireman hired after January 1, 2009 will not be entitled to post-employment 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.

**Funding Policy:**

Current employees retired prior to January 1, 2009 do not contribute to the Retiree Health Program. Employees retired after January 1, 2009 will contribute bases on their respective contracts. The City contribution to the Retiree Health Program consists of pay-as-you-go premiums in excess of the retiree contributions. In Calendar year 2009, total member contributions were \$-0-. The City contributions to the plan for fiscal year 2009 were \$150,046.

**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 actually contributed to the plan, and changes in the City's net OPEB obligation. As fiscal year 2009 is the first year of the implementation of GASB Statement 45, the OPEB obligation at the beginning of the year is zero and the OPEB cost is equal to the ARC.

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**Note 15. Post Employment Benefits (Continued)**

	<b>General Fund</b>
Annual required contribution (ARC)	\$ 627,622
Interest on Net OPEB obligation	0
Adjustment to annual required contribution (ARC)	0
Annual OPEB cost	627,622
Contributions Made	(150,046)
Estimated increase in Net OPEB Obligation	477,576
Net OPEB Obligation-Beginning of year	0
Net Opeb Obligation-End of Year	\$ 477,576

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$627,622	23.91%	\$ 477,576

**Funded Status and Funding Progress:**

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,804,124, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,193,701, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 486.23 % .

Actuarial values of the program involve estimates of the value of reported amounts and assumption's 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 (only one year presented in this year of implementation) 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, 2009 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, 2009, 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 8.0% initially, reduced by decrements of .5 per year to an ultimate rate of 5.5% in 2014. Rates gradually decrease from 5.3% in 2015 to 4.2% in 2099 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 June 30, 2009 was 16.2889 years.

**The City of Nanticoke  
Notes to Financial Statements  
Year Ended December 31, 2009**

**Note 16. 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 17. Tax Collection**

Under the Third Class City Code, the City's elected Treasurer also serves as tax collector for municipal and school district property and per capita taxes.

**Note 18. Accounting Change Policies**

*There was one Governmental Accounting Standards Board (GASB) Statement effective for the City in the year ending December 31, 2009.*

*GASB Statement 45 "Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions" requires an actuarial valuation of a government's post employment benefits so that the expense of these benefits is recorded over an employee's working career rather than when the benefits are paid long after an employee retires. For most entities, the actuarial required contribution in compliance with GASB Statement 45 represents a substantial increase over the pay as you go amount previously recorded in the financial statements. See note 15 for information on the City's implementation of this standard.*

**Note 19. Restatement of Prior Year Fund Balance**

**Correction of an Error:**

In financial statements for the year ended June 30, 2008, an error was made in accounting for Due to Other Governments. The City initially was going to pay the loan within one year, but decided to extend the term. Mortgage Receivable was removed from the financial statements because they were not expected to be received within one year. Management decided to remove a due to/from between the General Fund and Sewer Fund. All adjustments would reduce the change in net assets in the prior year. This error has been corrected and has the following effect on the beginning fund balance:

Beginning Fund Balance as Originally Reported	1,049,443
Adjustment of Due to Other Governments	(199,115)
Adjustment of Mortgage Recievable	100,504
Adjustment of Due to Other Funds	198,107
Beginning Fund Balance as Corrected	<u>1,148,939</u>

**Note 20. Contingencies**

**Property Tax:**

Property tax assessment appeals are regularly encountered during the course of 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, 2009.

**The City of Nanticoke**  
**Notes to Financial Statements**  
**Year Ended December 31, 2009**

**Note 20. Contingencies (continued)**

**Litigation:**

As of December 31, 2009, 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 as a result 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 collectibility of any related receivable at December 31, 2009 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, 2009.

**Note 21. Going Concern**

In recent years the City has experienced operating deficits, defaults on loans, and has issued long-term debt to fund prior deficits and current operations.

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

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

The City's assessed valuation has remained stagnant while current tax rates are at statutory limits.

The City did not have an operating deficit in 2009.

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

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

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

**The City of Nanticoke**  
**Notes to Financial Statements**  
**Year Ended December 31, 2009**

**Note 21. Going Concern (Continued)**

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

Key plan provisions:

- Increase the City's earned income tax rate from .5 percent to 1.5 percent, a portion of which is to be dedicated to capital improvements.
- Enact, for 2007, 2008, and 2009, a .33 percent non resident earned income tax on nonresidents employed in the City, to be used for capital projects, equipment, and public improvements.
- Expedite debt reduction with a resultant reduction in the debt service millage rate.
- Solicit payments in lieu of taxes from all not-for-profit entities in the City.
- Review cost of providing certain services and adjust fees accordingly.
- Maximize revenue collection efforts.
- Improve accounting and financial management procedures.
- Implement cost containment provisions relative to personnel, goods, and services.
- Explore the possibility of adoption of a Home Rule Charter and/or an Optional Plan of government.

It is anticipated that successful implementation of all key plan actions will return the City to financial stability by 2010.

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



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

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
1/1/1995	\$2,743,294	\$2,667,360	(\$75,934)	103%	\$359,070	-21%
1/1/1997	3,210,502	2,859,687	(350,815)	112%	413,813	-85%
1/1/1999	3,745,233	3,283,955	(461,278)	114%	529,868	-87%
1/1/2001	4,228,932	3,493,132	(735,800)	121%	515,436	-143%
1/1/2003	4,219,965	3,670,681	(549,284)	115%	548,425	-100%
1/1/2005	4,677,441	3,716,903	(960,538)	126%	512,324	-187%
1/1/2007	4,914,793	3,990,462	(924,331)	123%	603,267	-153%
1/1/2009	4,396,755	4,302,331	(94,424)	102%	684,699	-14%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended	Annual Required Contribution	(1) Contributions
1999	89,740	88,836
2000	52,219	55,497
2001	53,907	45,907
2002	55,729	55,729
2003	48,413	53,581
2004	44,132	46,750
2005	7,220	20,650
2006	0	32,101
2007	0	0
2008	0	0
2009	4,720	29,336

(1) Includes general municipal pension system State Aid

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:**

Latest Actuarial Valuation Date	January 1, 2009
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	NA
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increases	5.00%

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

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
1/1/1995	\$1,074,290	\$1,170,802	\$96,512	92%	\$274,032	35%
1/1/1997	1,647,279	1,370,021	(277,258)	120%	268,468	-103%
1/1/1999	1,728,375	1,582,403	(145,972)	109%	302,070	-48%
1/1/2001	1,762,423	1,692,774	(69,649)	104%	350,625	-20%
1/1/2003	1,465,191	1,931,206	466,015	76%	380,784	122%
1/1/2005	1,831,892	2,111,246	279,354	87%	396,523	70%
1/1/2007	2,117,169	2,524,038	406,869	84%	461,184	88%
1/1/2009	2,071,624	2,930,222	858,598	71%	509,002	169%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended	Annual Required Contribution	(1) Contributions
1999	23,334	27,029
2000	42,369	63,057
2001	61,395	65,609
2002	51,945	71,076
2003	78,708	78,703
2004	81,084	88,561
2005	92,013	108,128
2006	60,921	86,393
2007	64,963	124,926
2008	68,336	149,813
2009	80,505	114,553

(1) Includes general municipal pension system State Aid

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:**

Latest Actuarial Valuation Date	January 1, 2009
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	15
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	5.00%

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

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
1/1/2005	67,688	80,141	12,453	84%	502,766	2.48%
1/1/2007	163,020	170,057	7,036	96%	395,094	1.78%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended December 31,	Annual Required Contribution	Actuarial Valuation Date Basis for Contributions	Percentage Contributed
2000	\$0	1997	100%
2001	0	1999	100%
2002	0	1999	100%
2003	0	2001	100%
2004	33,643	2001	100%
2005	30,853	2003	100%
2006	33,364	2003	100%
2007	39,821	2005	100%
2008	34,994	2005	100%
2009	33,685	2007	100%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:**

Latest Actuarial Valuation Date	January 1, 2007
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar Closed
Remaining Amortization Period	30.0 Years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	5.20%

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

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
Gov. Activities	1/1/2009	\$0	\$5,804,124	\$5,804,124	0%	\$1,193,701	486.23%

# JOSEPH R. ALICIENE & CO

*Accountants & Consultants*

*1216 Main Street*

*Pittston, Pa. 18640-1597*

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

*Joseph R. Aliciene P.A.  
Joseph R. Aliciene Jr C.P.A.  
Patrick T. Hopkins C.P.A.*

## 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  
Pittston, PA

We have audited the accompanying 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, 2009, which collectively comprise the City of Nanticoke’s basic financial statements and have issued our report thereon dated August 27, 2010. 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 assets 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 Assets of the Proprietary Funds are not reasonably determinable. Except as discussed in the preceding sentences, 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.

Our report on the financial statements includes an explanatory paragraph stating that the accompanying financial statements have been prepared assuming that the city will continue as a going concern. As discussed in Note 21, conditions and events caused the city to request and receive a determination as a distressed municipality under the municipalities Financial Recovery Act, Act 47 of 1987, as amended. Those conditions raise substantial doubt about the city’s ability to continue as a going concern. The financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

Our report on the financial statements includes an explanatory paragraph stating as described in Note 18 to the financial statements, City of Nanticoke adopted Government Accounting Standards Board (GASB) Statement 45 “ Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions” for the year ended December 31, 2009.

**CONTINUED**

**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**

**CONTINUED**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered City of Nanticoke's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Nanticoke's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Nanticoke's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. The deficiencies are listed as finding 1 through 4 in the accompanying Schedule of Findings and Responses. 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.

City of Nanticoke's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Nanticoke's response and, accordingly, we express no opinion on it.

**CONTINUED**


**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**

**CONTINUED**

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City of Nanticoke's financial statements are free of 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**.

This report is intended solely for the information and use of the Honorable Mayor and Members of Council, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Pittston, Pa  
August 27, 2010

**CONCLUDED**

**The City of Nanticoke**  
Schedule of Findings and Responses  
December 31, 2009

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

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

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

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

- Nanticoke City, should segregate, when possible, the billing function from the collection function. The segregation of these duties require that personnel responsible for the monitoring of the billing function should not have responsibility in the corresponding collection of such invoicing or billing within the City.
- The City in some instances uses the same person to prepare a cash receipt for deposit, deliver the deposit to the selected financial institution, and post the deposit to the general ledger.
- The City has at least two business staff employees who have complete access to both blank check stocks and signature plates along with the ability to post selected invoices to the general ledger system.

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

**RESPONSE:** We concur with the recommendations. Such procedures will be implemented immediately as allowed by the size of our office staff.

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

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

**RESPONSE:** We concur with the recommendations; however, it is not economically feasible for the city to implement these recommendations at this time.



**The City of Nanticoke**  
Schedule of Findings and Responses  
December 31, 2009

**SIGNIFICANT DEFICIENCIES NOT DEEMED TO BE MATERIAL WEAKNESSES FOR THE CITY OF NANTICOKE  
(CONTINUED)**

**3. NANTICOKE CITY SHOULD INCREASE THE AMOUNT OF EMPLOYEE BONDING AND BOND ALL  
EMPLOYEES THAT ARE COLLECTING MONEY**

Some employees that are collecting revenue money for the city are not adequately bonded. Every employee that collects money should be bonded up to an amount that will protect the city against loss. The city should establish a minimum amount of bonding for each employee that collect monies. Employees not bonded increase the risk that malfeasance or accounting irregularity may occur and the city will not be reimbursed.

**RESPONSE:** We concur with the recommendations. Such procedures will be implemented immediately.

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

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

**RESPONSE:** We concur with the recommendations; however, the city is limited by the 3<sup>rd</sup> class city code as to who collects police fines and revenue.