

CITY OF NANTICOKE

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

FOR THE YEAR ENDED DECEMBER 31, 2012

Prepared By;

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund of City of Nanticoke, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

Management has not recorded general infrastructure and most capital assets in governmental activities and accordingly, has not recorded depreciation expense on those assets nor has depreciation expense been recorded in the sewer system in the business type activities. Accounting principles generally accepted in the United States of America require that such assets be capitalized, which would increase the assets and net position of the governmental activities. Accounting principles generally accepted in the United States of America also require that such assets be depreciated which would increase expenses of the governmental and business type activities. Also the amount of assets listed in the Business Type Activities was not audited. The amount by which 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.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Nanticoke, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and the various pension schedules, Retiree health plan schedules on pages 44 through 48, and the budgetary comparison on pages 49-53, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2013, on our consideration of the City of Nanticoke's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Nanticoke's internal control over financial reporting and compliance.



Pittston, Pa
November 7, 2013

CONCLUDED

Management Discussion & Analysis



City of Nanticoke Pennsylvania

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City of Nanticoke Management's Discussion and Analysis December 31, 2012

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, 2012. This discussion and analysis should be reviewed in conjunction with the City's accompanying financial statements and notes.

FINANCIAL HIGHLIGHTS

- The City had a change in net position of \$658,000 from \$3.6 million (2011) in the previous year to \$4.3 million in the current year (2012). This compares to the previous year when the change in net assets was \$1.013 million from \$2,622 million in 2010 to \$3,635 million in 2011.
- The assets of the City decreased \$360,000 from \$9,646 million in the previous year to \$9,286 million in the current year.
- Total liabilities of the City decreased \$1,018 million from \$6,011 million in the previous year to \$4,993 million in the current year.
- Total net position are comprised of the following:
 - 1) Invested in capital assets, net of related debt, of \$2.322 million 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 1.637 million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors.
 - 3) Net assets restricted for Debt Service of \$648,000 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 \$3,081 million as compared to \$2,727 million in 2011 and to \$2,023 million in 2010.

At the end of the current fiscal year, the General Fund balance was \$1,259 million. This compares to the prior year ending fund balance of \$1,154 million and the 2010 ending fund balance of \$774,000.

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.

Management Discussion & Analysis

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

The City has three kinds of funds:

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

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

Management Discussion & Analysis

governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives. Budgetary comparison schedules for the general fund can be found in the Required Supplementary Information section of this report. This schedule demonstrates compliance with the City's adopted and final revised budget.

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

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

Notes to the financial statements

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

Other Information

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

Overview of Net Position

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

Financial Analysis of the City as a Whole

(Dollars are in Thousands)	Governmental Activities		Business Type Activities		Totals		Amt. Chge	
	2012	2011	2012	2011	2012	2011		
Current and Other Assets	\$ 3,609	\$3,960	\$ 748	669	\$4,357	\$4,629	(272)	-5.88%
Capital Assets	209	209	4,844	4,809	5,053	5,018	35	0.70%
Total Assets	3,818	4,169	5,592	5,478	9,410	9,647	(237)	-2.46%
Long-term Liabilities	2,249	2,236	1,636	2,874	3,885	4,110	(225)	-5.47%
Other Liabilities	870	1,626	238	275	1,108	1,901	(793)	-41.71

Management Discussion & Analysis

Total Liabilities									-8.82%
	\$3,119	\$3,862	\$1,874	\$2,149	\$4,993	\$5,476	\$(483)		
Net Position:									
Invested in Capital Assets, net of related debt	(648,134)	(953K)	2,970	2,742	(645,164)	4,844	(650,008)		-13418%
Restricted for Debt Service	333	285	-	-	333	285	48		16.84%
Unrestricted	1008	974	629	(585)	1,637	389	1,248		320.82%
Total Net Position	694	306	3,600	3,328	4,294	3634	660		18.16%
Total Liabilities & Net Position	\$3,813	\$4,164	\$5,474	\$5,477	\$9,287	\$9,641	(354)		-3.67%

The City's net assets at fiscal year-end are \$4,293 million. This compares to the prior year ending fund balance (net assets) of \$3,335 million showing an increase of \$658,000 during the current year. The assets of the City decreased by 3.7% or \$360,000 from \$9,646 million in the previous year to \$9,260 million in the current year. Total liabilities of the City decreased 17% or (\$1018) million from \$6,011 million in the previous year to \$4,993 million in the current year.

Total net assets are comprised of the following: Invested in capital assets, net of related debt, of \$2.322 million, 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 1,637 million represent the deficits incurred by the City in meeting its continuing obligations to citizens and creditors. Net assets restricted for Debt Service of \$333,000 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 \$3,599 million in net assets for business-type activities. This compares to the prior year ending net asset balance of \$3,328 million showing a net increase of \$271,000 during the current year. Business-type activities include the sewer fund activities. The net activity of \$271,000 was due to a decrease of liabilities resulting from a pay down of City debt, accounts payable and lease obligations on the liability 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 positive balance of \$694,000 in net assets for governmental activities. This compares to the prior year ending net asset balance of 307,000 showing an increase of \$387,000 during the current year. The net activity of \$694,000 is comprised of a net increase in accounts receivable, and taxes receivable of \$169,000; and a decrease in prepaid expense of \$29,000 and a decrease in mortgage receivable of \$21,000 on the asset side; offset by a decrease of accounts payable of \$151,000; a decrease of \$77,000 in deferred revenue; and an increase in post-retirement benefits of \$346,000 (per GASB 43, the City must record this liability beginning in 2009); and an increase of notes payable of \$281,000.

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

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

	2012	2011	2012	2011	2012	2011	Amt. Chg.	% Chg.

Management Discussion & Analysis

	Gov's Type	Gov's Type	Busine ss Type	Busines s Type	Total	Total		
Revenues								
Charges for Services	\$1,025	\$1,035	\$592	\$614	\$1,617	\$1,649	-32	-2%
Grants & Contributions	509	625	0	0	509	625	-116	-19%
Property Taxes	1,103	1419	923	0	2026	1419	607	43%
Other Local Taxes for General Purposes	2,463	2,779	0	0	2,463	2,779	-316	-11%
Grants, Etc	0	142	0	0	142	-142	-142	-100%
Misc Gen. Purpose Rev	502	502	0	0	502	502	0	0%
Investment Earnings	6	5	1	1	7	6	1	17%
Sale of Assets	172	0	0	0	172		172	-22%
Total Revenue	\$5780	\$6507	\$1516	\$615	\$7296	\$7122	174	2%
Total Expense	\$7,630	\$6028	\$ 322	\$ 611	\$7,977	\$10,458	-\$2,481	-24%
Net Activity	\$708	\$(944)	\$303	\$281	\$1,011	\$(663)	\$1,674	-253%

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

	2012	2011	2012	2011	2012	2011	Amt. Chg.	% Chg.
Net Activity	-	-	-	-	-	-	-	-
Prior Period Adj	-	(207)	-	-	-	(207)	207	-100%
Change in Net Assets	0	-207	0	-32	0	(239)	239	-100%
Net Assets - Beginning	(403)	747	3,025	2,744	2,622	3,491	(869)	-25%
Net Assets - Ending	\$(403)	\$747	\$3,025	\$2744	\$2,622	\$3491	(869)	0%

Management Discussion & Analysis

Total expenses of the City decreased \$2,483 million or 24% from \$10,147 million in 2010 to \$7,665 million. Prior year expense increase was 68% or \$4,119 million. The net activity of \$2,482 million can be attributed to a decrease in community development (grant funded projects) of \$2,619 million, these increases were offset by a various increases and decreases in other categories. Specifically, General Government expense increased \$22,000; Public Safety expense increased \$66,000; Refuse expense increased \$8,000; Public Works decreased \$9,000; Parks and Recreation increased \$32,000; Interest expense increased \$18,000; and Sewer expense increased \$10,000.

Comparison of Current vs. Prior Year Expenditures				
(Dollars are in Thousands)				
Expenses	2012	2011	Amt. Chg.	% Chg.
Gen Gov.'t & Admin	\$744	\$722	\$22	3%
Public Safety	3,176	3,110	66	2%
Sanitation	996	988	8	1%
Public Works	540	549	(9)	-2%
Community Development	2,131	4,750	(2,619)	-55%
Parks & Recreation	38	6	32	533%
Unallocated EE Benefits	-	1	(1)	-100%
Other	6	6	-	0%
Interest of LT Debt	33	15	18	120%
Sewage	214	204	10	5%
Non-operating Exp	97	107	-10	-9%
Total Expenses	\$7,976	\$10,458	-\$2,483	-24%

General Revenue decreased 9% from \$9,302 million to \$8,374 million in 2011. The net activity of \$829,000 is a result of a \$1,624 million decrease in grant revenue, offset by an increase in Property Taxes of \$496,000 and an increase in Other Taxes of \$265,000.

Comparison of Current vs. Prior Year Revenues				
(Dollars are in Thousands)				
General Revenue:	2012	2011	Amt. Chg.	% Chg.
Charges for Services	\$1,035	\$1,045	(10)	-1%
Grants & Contributions	2,491	4,115	(1,624)	-39%
Property Taxes	1,419	923	496	54%
Other Local Taxes for General Purposes	2,779	2,514	265	11%
Other Grants	142	222	-80	-36%
Investment Earnings	6	6	-	0%
Misc General Purpose Revenues	502	378	124	33%
Other	-	-	-	#DIV/0!
Total General Revenue	\$8,374	\$9,203	\$(829)	-9%

Management Discussion & Analysis

Business Type Activities

A 1% increase of \$14,000 was realized for business type activities for 2011 over 2010.

Comparison of Current vs. Prior Year Revenues					
(Dollars are in Thousands)					
Charges for Services	2012	2011	Amount Change	% Change	
Sanitation	\$1,035	\$1,044	(\$9)	-1%	
Sewage	614	591	23	4%	
Total Charges for Services	\$1,635	1,635	\$14	1%	

Charges for Services decreased 49% from \$611,000 to \$311,000 in 2010.

Comparison of Current vs. Prior Year Expenses					
(Dollars are in Thousands)					
	2012	2011	Amount Change	% Change	
Sanitation	\$996	\$988	\$8	1%	
Sewage	214	204	10	5%	
Non-operating Exp Sewer	97	107	(10)	-9%	
Total Expenses	\$1,307	\$1,299	\$8	1%	

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 \$379,000 from \$775,000 to \$1,154 million. Key factors contributing to this increase include \$379,000 excess of revenues over expenditures. 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 second time the City has had a positive General fund balance in several years. The positive fund balance comes as a result of a property tax increase.

The Debt Service Fund has a fund balance of \$284,000. Excess of revenue over expenditures was \$113,000 for 2011.

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 an increase in net assets of \$303,000 from \$3,025 million in 2010 versus \$3,328 million in 2011.

Management Discussion & Analysis

General Fund Budgetary Highlights

Actual revenues were approximately \$741,000 more than budgeted at \$4.6 million as compared to a budgeted amount of \$3.9 million. Taxes were \$445,000 over budget; intergovernmental state and local revenue was \$159,000 over budget; and Other Income was \$154,000 over budget.

Actual expenditures were approximately \$104,000 more than budgeted at \$4.3 million as compared to a budgeted amount of \$3.9 million.

The General Fund adopted budget was not amended during the 2011 fiscal year. Revenues less expenses exceed budget by \$346,000. Excess of revenues over expenditures were positive in 2009, 2010 and 2011, thus reversing the negative trend of prior years.

Long-Term Debt

At the end of the fiscal year, the City had total debt outstanding of \$3.1 million.

Debt Schedule								
(Dollars are in Thousands)								
	Gov.'t Activities		Business Type Activities		Total		Amt.	%
	2012	2011	2012	2011	2012	2011	Change	Change
General Obligation Bonds	\$544	\$726	\$2,102	\$2,320	\$2,646	\$3,046	(\$400)	-13%
Muni Financial Recovery Loans	490	580	0	0	\$490	\$580	(90)	-16%
Total	1,034	1,306	2,102	2,320	3,136	3,626	(490)	-14%

Economic Environment and Next Year's Budgets and Rates

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

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

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

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

Management Discussion & Analysis

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

The City has made significant progress over the past seven years by balancing the budget; paying down debt; and implementing cost cutting measures where appropriate. 2008 Expenditures were budgeted at \$4,415 million (prior to other financing sources/uses) in comparison to 2009 budgeted expenditures of \$3,916 million; 2010 budgeted expenses of \$4,095 million; 2011 budgeted expenses of \$4,341 million and 2012 budgeted expenses of \$3.9 million.

Contacting the City's Financial Management

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

Richard Wjeterowski, Mayor



**CITY OF NANTICOKE
GOVERNMENTWIDE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and Investments	\$ 2,661,372	\$ 747,962	\$ 3,409,334
Receivables:			
Ad Valorem Taxes	653,008	-	653,008
Other Taxes	-	-	-
Accounts	104,529	-	104,529
Accrued Interest	-	-	-
Grants	1,500	-	1,500
Mortgage	60,311	-	60,311
Due from Internal Parties	118,883	(118,883)	-
Prepaid Expenses	10,169	-	10,169
Amount to be Provided for Retirement of Long-Term Debt	-	-	-
Capital Assets:			
Equipment	225,990	117,477	343,467
Sewer System	-	4,844,474	4,844,474
Accumulated Depreciation	(22,600)	(117,477)	(140,077)
TOTAL ASSETS	\$ 3,813,162	\$ 5,473,553	\$ 9,286,715
 <u>LIABILITIES</u>			
LIABILITIES:			
Accrued Payroll	\$ 132,978	\$ -	\$ 132,978
Payables:			
Accounts	20,091	-	20,091
TAN	-	-	-
Accrued Interest	-	-	-
Current Portion of long term debt	-	-	-
Other	-	-	-
Due To External Parties	-	-	-
Due to Other Government	1,158	-	1,158
Accrued Admin Fee	-	-	-
Deferred Revenue	110,243	-	110,243
Other	10,618	-	10,618
Non Current Liabilities			
Due within one year			
Note Payable	290,337	238,000	528,337
Lease Payable	31,181	-	31,181
Compensated Absences	35,700	-	35,700
Other Post Employment Benefits-Current	237,591	-	237,591
Retroactive Pay	-	-	-
Due in More than one Year			
Note Payable	461,906	1,636,000	2,097,906
Lease Payable	68,100	-	68,100
Compensated Absences	321,297	-	321,297
Other Post Employment Benefits	1,397,898	-	1,397,898
TOTAL LIABILITIES	\$ 3,119,098	\$ 1,874,000	\$ 4,993,098
 <u>NET POSITION</u>			
Invested in net assets, net of related debt	\$ -	\$ -	\$ -
Restricted For:			
Debt Service	333,912	-	333,912
Accounts Receivable	-	-	-
Invested in Capital Assets net of Related Debt	(648,134)	2,970,474	2,322,340
Unrestricted	1,008,286	629,079	1,637,365
TOTAL NET POSITION	\$ 694,064	\$ 3,599,553	\$ 4,293,617
TOTAL LIABILITIES AND NET POSITION	\$ 3,813,162	\$ 5,473,553	\$ 9,286,715

**CITY OF NANTICOKE
GOVERNMENTWIDE-STATEMENT OF ACTIVITIES
DECEMBER 31, 2012**

FUNCTIONS/PROGRAMS GOVERNMENTAL ACTIVITIES:	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	TOTAL
General Government and Administration	\$ 805,146	-	\$ -	-	\$ (805,146)	-	\$ (805,146)
Public Safety	3,337,303	-	300,875	-	(3,036,428)	-	(3,036,428)
Sanitation	999,618	1,025,837	-	-	26,219	-	26,219
Public Works	653,926	-	208,687	872,053	426,814	-	426,814
Community Development	1,570,582	-	-	607,428	(963,154)	-	(963,154)
Parks and Recreation	55,014	-	-	40,472	(14,542)	-	(14,542)
Unallocated Depreciation	5,650	-	-	-	(5,650)	-	(5,650)
Payroll Tax/related Expense	-	-	-	-	-	-	-
Unallocated Employee Benefits	-	-	-	-	-	-	-
Other	110	-	-	-	(110)	-	(110)
Interest on Long Term Debt	25,168	-	-	-	(25,168)	-	(25,168)
TOTAL GOVERNMENTAL ACTIVITIES	7,452,517	1,025,837	509,562	1,519,953	(4,397,165)	-	(4,397,165)
BUSINESS TYPE ACTIVITIES:							
Sewage	233,895	592,486	-	-	-	358,591	358,591
Nonoperating Expense	88,284	592,486	-	-	-	(88,284)	(88,284)
	322,179	592,486	-	-	-	270,307	270,307
TOTAL PRIMARY GOVERNMENT	\$ 7,774,696	\$ 1,618,323	\$ 509,562	\$ 1,519,953	\$ (4,397,165)	\$ 270,307	\$ (4,126,858)

GENERAL REVENUE:

TAXES:	
Ad Valorem (Property Taxes)	1,470,967
Other Local Taxes Levied For General Purposes	2,618,703
Grants, Subsidies, and Contributions Not Restricted	44,485
Miscellaneous General Purpose Revenues	472,608
Investment Earnings	5,931
Sale of Assets	172,263
Total General Revenues and Transfers	<u>4,785,794</u>
CHANGE IN NET POSITION	
NET POSITION JULY 1, 2011	271,144
NET POSITION DECEMBER 31, 2012	<u>3,328,409</u>
	<u>\$ 694,064</u>
	<u>\$ 3,599,553</u>
	<u>\$ 4,253,617</u>

**CITY OF NANTICOKE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Governmental Fund Types						Totals Governmental Funds
	General Fund	Special Revenue	DCED Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	
Cash and Investments	\$ 815,117	\$ 867,433	\$ 109,245	\$ 472,687	\$ 313,308	\$ 83,582	\$ 2,661,372
Accounts Receivable	63,240	41,289	-	-	-	-	104,529
Grant Funds Receivable	-	1,500	-	-	-	-	1,500
Taxes Receivable	701,105	-	-	-	10,435	-	701,105
Due from Other Funds	255,064	175,000	-	-	10,169	-	440,499
Prepaid Expenses	-	-	-	-	-	-	-
Mortgage Receivable	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 1,834,526	\$ 1,085,222	\$ 109,245	\$ 472,687	\$ 333,912	\$ 83,582	\$ 3,919,174
LIABILITIES & FUND BALANCE							
LIABILITIES:							
Accounts Payable	\$ 4,537	\$ 3,619	\$ 11,143	\$ 792	\$ -	\$ -	\$ 20,091
Accrued Expense	132,978	-	-	-	-	-	132,978
Leases Payable	-	-	-	-	-	-	-
Due to Other Funds	185,435	47,880	-	88,301	-	-	321,616
Due to Other Governments	-	-	-	-	-	-	-
Due to Library	1,158	-	-	-	-	-	1,158
Deferred Revenue	240,484	-	-	110,244	-	-	350,728
General Obligation Bonds Payable	-	-	-	-	-	-	-
Other	10,618	-	-	-	-	-	10,618
TOTAL LIABILITIES	\$ 575,210	\$ 51,499	\$ 11,143	\$ 199,337	\$ -	\$ -	\$ 837,189
FUND BALANCE:							
Assigned Debt Service	-	-	\$ -	\$ -	\$ 333,912	\$ -	\$ 333,912
Unassigned	1,259,316	1,033,723	98,102	273,350	-	83,582	2,748,073
TOTAL FUND BALANCE	\$ 1,259,316	\$ 1,033,723	\$ 98,102	\$ 273,350	\$ 333,912	\$ 83,582	\$ 3,081,985
TOTAL LIABILITIES & FUND BALANCES	\$ 1,834,526	\$ 1,085,222	\$ 109,245	\$ 472,687	\$ 333,912	\$ 83,582	\$ 3,919,174

See Notes to Financial Statements
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CITY OF NANTICOKE

Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position DECEMBER 31, 2012

Total Fund Balances - governmental Funds \$ 3,081,985

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

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

Mortgage Receivable 60,311

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 \$ 225,990 and the accumulated depreciation is \$ 22,600. 203,390

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. (\$240,438-48,095. provision for uncollectible.) 192,388

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	\$ 752,243	
Capital Leases Payable	99,281	
Compensated Absences	356,997	
Other Post employment Benefits	1,635,489	(2,844,010)

TOTAL NET POSITIONS (DEFICIT)-Governmental Activity \$ 694,064

CITY OF NANTICOKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Governmental Fund Types						Totals Governmental Funds
	General Fund	Special Revenue	DCED Fund	Refuse Fund	Debt Service Fund	Highway Aid Fund	
REVENUES:							
Taxes	\$ 3,566,374	\$ -	\$ -	\$ -	\$ 350,715	\$ -	\$ 3,917,089
Charges for Services	-	-	-	1,025,837	-	-	1,025,837
Fines, Forfeitures and Costs	43,523	-	-	-	-	-	43,523
Interest	1,161	-	-	904	882	463	5,931
License and Permits	207,907	2,279	242	-	-	-	207,907
Intergovernmental-State and Local Sources	357,537	360,782	-	-	-	199,812	918,131
Intergovernmental-Federal	30,475	872,052	295,994	-	-	-	1,498,521
Other	250,263	37,751	24,763	-	-	-	312,777
Total Revenue	\$ 4,457,240	\$ 1,272,864	\$ 320,999	\$ 1,026,741	\$ 351,597	\$ 200,275	\$ 7,629,716
EXPENDITURES:							
General Government	\$ 805,146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 805,146
Public Safety	3,055,544	-	-	-	-	-	3,055,544
Sanitation	-	-	-	999,618	-	-	999,618
Public Works	396,929	-	-	-	-	256,997	653,926
Community Development	-	1,241,949	328,633	-	-	-	1,570,582
Parks and Recreation	55,014	-	-	-	-	-	55,014
Debt Service and Bond Payments	403,164	-	-	-	302,556	-	705,720
Insurance	-	-	-	-	-	-	-
Payroll related expenses	-	-	-	-	-	-	-
Unallocated employee benefits	-	-	-	-	-	-	-
Other	-	-	-	-	110	-	110
Total Expenditures	\$ 4,715,797	\$ 1,241,949	\$ 328,633	\$ 999,618	\$ 302,666	\$ 256,997	\$ 7,845,660
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (258,557)	\$ 30,915	\$ (7,634)	\$ 27,123	\$ 48,931	\$ (56,722)	\$ (215,944)
OTHER FINANCING SOURCES (USES)							
General Obligation Notes	399,000	-	-	-	-	-	399,000
Insurance Proceeds	-	-	-	-	-	-	-
Sale of Assets	14,383	157,880	-	-	-	-	172,263
Interfund Transfers in (out)	(50,000)	50,000	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ 363,383	\$ 207,880	\$ -	\$ -	\$ -	\$ -	\$ 571,263
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 104,826	\$ 238,795	\$ (7,634)	\$ 27,123	\$ 48,931	\$ (56,722)	\$ 355,319
Fund Balance (Deficit) - Beginning	\$ 1,154,490	\$ 794,928	\$ 105,736	\$ 246,227	\$ 284,981	\$ 140,304	\$ 2,726,666
FUND BALANCE (DEFICIT) - ENDING	\$ 1,259,316	\$ 1,033,723	\$ 98,102	\$ 273,350	\$ 333,912	\$ 83,582	\$ 3,081,985

See Notes to Financial Statements
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CITY OF NANTICOKE

**Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to Statement of Activities
DECEMBER 31, 2012**

Total net change in fund balances - governmental Funds \$ 355,319

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

Because some property taxes will not be collected for several months after the City's year end, they are not considered as "available" revenues in the governmental funds. Deferred revenues were reduced by this amount during the year. 46,552

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 709,965

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.)

	<u>(earned) Paid</u>
Compensated Absences	13,811
Retroactive Pay	51,692
Other Post Employment Healthcare	<u>(376,675)</u>

(311,172)

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 position. 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. \$ (399,000)

Mortgage principal payments received are reported as income in the fund financial statements; However, the payment reduces mortgage receivable in the Statement of Net Position. (8,222)

CHANGE IN NET ASSETS-Governmental Activities \$ 387,792

**CITY OF NANTICOKE
 STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2012**

	Business Type Activities
	Enterprise Fund
	Sewer Fund
ASSETS:	
Cash and Investments	\$ 747,962
Machinery & Equipment	117,477
Sewer System	4,844,474
Accumulated Depreciation	(117,477)
TOTAL ASSETS	\$ 5,592,436
LIABILITIES:	
CURRENT LIABILITIES	
Due to other Funds	118,883
NONCURRENT LIABILITIES	
Portion Due or Payable within one year	
Note Payable	\$ 238,000
Due in more than one year	
Note Payable	1,636,000
TOTAL LIABILITIES	1,992,883
NET POSITION	
Invested in Capital Assets, Net of Related Debt	\$ 2,970,474
Unrestricted (Deficit)	629,079
TOTAL NET POSITION	\$ 3,599,553

CITY OF NANTICOKE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business Type Activities
	Enterprise Fund
	Sewer Fund
OPERATING REVENUES:	
Sewer User Fees	\$ 592,486
	-
TOTAL OPERATING REVENUES	592,486
OPERATING EXPENSES:	
Supplies and Materials	115,790
Personal Services	118,105
Depreciation	-
Other Operating Expenses	-
TOTAL OPERATING EXPENSES	233,895
OPERATING INCOME (LOSS)	358,591
NONOPERATING REVENUES (EXPENSES):	
Investment Income	837
Refund of prior years expenses	-
Interest Expense	(88,284)
Amortization	-
TOTAL NONOPERATING REVENUES (EXPENSES):	(87,447)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	271,144
Interfund Transfers in/(out)	-
CHANGES IN NET POSITION	271,144
TOTAL NET POSITION-Beginning of Year	3,328,409
TOTAL NETPOSITION -End of Year	\$ 3,599,553

CITY OF NANTICOKE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

Business Type Activities
Enterprise Fund
Sewer Fund

CASH FLOWS FROM OPERATION ACTIVITIES

Received from User Charges	\$ 592,487
Cash Payments to Employees for Services	(118,105)
Cash Payment to Suppliers for Goods and Services	(79,650)
Cash Payments for Other	-
NET CASH USED BY OPERATING ACTIVITIES	394,732

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Nonoperating Revenue Received-Federal	-
Nonoperating Revenue Received-State	-
Refund of prior year expenses	-
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	-

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Principal Paid on Debt	(228,000)
Interest Paid on Debt	(88,284)
Principal Paid on Lease	-
Interest Paid on Leases	-
Acquisition of Capital Assets	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(316,284)

CASH FLOWS FROM INVESTMENT ACTIVITIES

Interest on Investments	836
-------------------------	-----

NET DECREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS January 1, 2012	79,284
	668,678

CASH AND CASH EQUIVALENTS December 31, 2012

\$ 747,962

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

Operating Income or Loss	\$ 358,591
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities</i>	
Depreciation	-
Donated Commodities	-
<i>Changes in Assets and Liabilities</i>	
Prepaid Expenses	-
Fixed Assets	-
Receivables	-
Inventories	-
Payables	(47,083)
Current Liabilities	-
Due to other funds	83,224

NET CASH USED BY OPERATING ACTIVITIES

\$ 394,732

NONCASH NON CAPITAL FINANCING ACTIVITIES

CITY OF NANTICOKE
FIDUCIARY FUND TYPE-PENSION FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS	Retirement Trusts
Cash	\$ 89,651
Investments	6,569,561
Due from Police Plan	-
Receivable Municipal Contribution	-
Receivable Member Contribution	9,446
Total Assets	<u>\$ 6,668,658</u>
LIABILITIES	
Due To Fire Plan	\$ -
Other Current Liabilities	-
Total Liabilities	<u>-</u>
NET POSITION	
Held in trust for pension benefits	\$ 6,668,658
TOTAL NET POSITION	<u>\$ 6,668,658</u>

CITY OF NANTICOKE
 FIDUCIARY FUNDS-PENSION FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 DECEMBER 31, 2012

ADDITIONS	Retirement Trusts
Contributions	
Employer	\$ 70,218
Employee	69,246
State	-
State Aid	243,406
Appreciation (Depreciation) in Fair Value of Invest.	575,978
Interest	29,502
Dividend	56,050
Other	-
Other-Transfer from Fireman Plan	-
Total Additions	<u>\$ 1,044,400</u>
DEDUCTIONS	
Investment Expense	\$ 35,018
Pension Benefits	513,644
Administrative Expense	4,871
Actuarial Fees	9,800
Refund of Member Contributions	9,605
Allocated Insurance Premiums	386
Other	5,528
Other-State Aid Deposited in Incorrect Fund	-
Total Deductions	<u>\$ 578,852</u>
Change in Net Position	465,548
Net Position At the Beginning of Year	<u>\$ 6,203,110</u>
Net Position End of Year End of Year	<u><u>\$ 6,668,658</u></u>

Note 1 - Description of the City and Reporting Entity

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

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

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

Reporting Entity

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

Component Units

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

A. Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City 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 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.

C. Measurement Focus

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

D. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds 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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting

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

1. In accordance with the City Code and City procedures, the City Finance Director submits to the Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal Year commencing the following January 1. The budget must be advertised and available for public inspection before adoption. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, sanitation, public works, parks and recreation, debt service, and employee benefits and miscellaneous.
2. Public hearings are conducted to obtain taxpayer comment.
3. By December 15, the budget is approved by motion of the Council. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
4. All modifications over a certain threshold, 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.

G. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

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

Note 2 - Summary of Significant Accounting Policies (continued)

Investments

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

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

Real Estate Taxes

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

Tax levies are collected by the appointed City Treasurer, in her capacity as tax collector. The tax levy for 2012 was 4.0594 mills on every dollar of assessed value; 3.0830 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 \$371,757,947.

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.

Long Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Equity

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

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

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

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

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

Interfund Activity

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

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

Note 3 - Stewardship, Compliance and Accountability

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Excess of Expenditures over Appropriations in Individual Funds

For the year ended December 31, 2012, the General Fund had an excess of expenditures over appropriations in the amounts of \$258,557.

C. Budgetary Compliance

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

Note 4 - Cash

Primary Government

Custodial Credit Risk- Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does have a policy for custodial credit risk. As of December 31, 2012, \$3,307,022 of the City's bank balance of \$3,887,856. 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.	3,307,022
Total	\$3,307,022

Reconciliation to Financial Statements:

Uncollateralized Amount Above	\$3,307,022
Plus: Insured Amount	580,835
Less: Outstanding Checks	(478,523)
Carrying Amount-Bank Balances	3,409,334
Plus: Petty Cash	0
Total Cash Per Financial Statements	\$3,409,334

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.

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 5 – Investments (continued)

Fiduciary Funds

As of December 31, 2012, 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.

Investment Type	Police Pension Fair Value	Firemen's Pension Fair Value	NonUniform's Pension Fair Value	Total
Managed Equity	\$3,140,156	\$1,311,559	\$0	\$4,451,715
Corporate Bonds	191,605	165,317	0	356,922
Government Securities	350,256	439,600	0	789,856
Pooled Fixed Income	66,217	353,752	0	419,969
Real Estate	18,355	0	0	18,355
Cash	89,652	0	0	89,652
Employees Contribution	5,610	3,837		9,447
Due to other Funds	0	0		0
Pa Muni Ret System	0	0	532,742	532,742
Total	\$3,861,851	\$2,274,065	\$532,742	\$6,668,658

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

Investment Type	Police Pension Fair Value	Firemen's Pension Fair Value	Maturity	Rating
Corporate Bonds	\$191,605	\$165,317	Avg. of 8 Years	Avg. of BBB
Government Bonds	350,256	439,600	Avg. of 5-10 Years	Avg. of AA
Corp. & Govt. Bonds	0	0		
Fixed Income Fund	66,217	353,752	Avg. of 3.69 Years	AA
Total	\$608,078	\$958,669		

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, 2012 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.

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 5 – Investments (Continued)

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, Commercial insurer, or evidenced by a contract with the insurance company, except nonuniformed which is run by the Pennsylvania Municipal Retirement System.

	Police	Firemen	NonUniformed	Total
NationWide	\$442,865	\$2,270,229	\$0	\$2,713,094
TD Ameritrade	3,413,376	0	0	3,413,376
Pa Muni Retire System	0	0	532,742	532,742
Total	\$3,856,241	\$2,270,229	\$532,742	\$6,659,212

Note 6 Capital Assets

A summary of transactions in capital assets for 2012 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Governmental Activities		
Capitalized Leased Equipment 12-31-2011	\$ 225,991	\$ 16,950
Additions/Disposals	0	5,650
Capitalized Leased Equipment 12-31-2012	<u>\$ 225,991</u>	<u>\$ 22,600</u>
Business-Type Activities		
Sewer System 12-31-2010	\$ 4,844,474	\$ -
Additions		
Sewer System 12-31-11	<u>\$ 4,844,474</u>	<u>\$ -</u>
Capitalized leased equipment 12-31-2011	\$ 117,477	\$ 117,477
Additions		0
Capitalized leased equipment 12-31-2012	<u>\$ 117,477</u>	<u>\$ 117,477</u>

There were no disposals in 2012. Amortization of business-type activities capitalized leases is reported as depreciation expense.

NOTE 7. DUE TO / FROM OTHER FUNDS AND TRANSFERS

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for payments made on its behalf or for lending/borrowing arrangements outstanding at the end of the year. General Fund interfund payables are not expected to be satisfied within one year. Interfund due from/due to of \$321,616. has been eliminated in the Statement of Net Assets to minimize the grossing up of internal balances, leaving a net amount due of \$118,883. between the governmental and business-type activities, which is reported as Due from Internal Parties. The following reports individual fund due from/due to amounts.

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

City of Nanticoke
Fund Transfer Schedule
For Year Ended 12/31/2012

	Due From	Due To
General:		
Proprietary Fund	118,882	
Due From Refuse	88,301	
Special Revenue	47,880	0
Special Revenue		175,000
Community Development	0	
Debt Service		10,435
	<u>255,064</u>	<u>185,435</u>
Special Revenue:		
General Fund	0	47,880
General Fund	175,000	
	<u>175,000</u>	<u>47,880</u>
Refuse Fund:		
Due to General Fund		88,301
	<u>0</u>	<u>88,301</u>
Debt Service:		
General Fund	10,435	
	<u>10,435</u>	<u>0</u>
Governmental Activities	440,498	321,616
	<u>440,498</u>	<u>321,616</u>
Proprietary-General		118,882
Business Tye Activities	0	118,882
	<u>0</u>	<u>118,882</u>
Total	<u>440,498</u>	<u>440,498</u>

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. They are permanent and not expected to be reimbursed. The following is a list of fund transfers.

Nanticoke City
Permanent Transfers
12-31-12

FUND	General Fund Out	Special Revenue In	Total(In)/Out
General	0.00	50,000.00	50,000.00
Special Revenue	(50,000.00)	0.00	(50,000.00)
Total (IN)/OUT	<u>(50,000.00)</u>	<u>50,000.00</u>	<u>0.00</u>

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 8. Taxes Receivable

Taxes Receivable at December 31, 2012:

Earned Income	\$401,269
Real Estate Transfer	5,531
Mercantile/Business Privilege	38,037
Local Service Tax	15,784
Real Estate Taxes	240,484
Total Fund Financial Statements	<u>\$701,105</u>
Allowance for Uncollectible Taxes	<u>(48,097)</u>
Total Statement of Net Assets	<u><u>\$653,008</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, 2012, the following amounts were owed to the City under the various programs:

Urban Development	\$6,591
Rehabilitation And Redevelopment	53,720
	<u>\$60,311</u>

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal and contractual funding limitations.

Note 10. Pension Plans (continued)

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, and is controlled by provisions of Ordinance # 10 of 1986 adopted pursuant to Act 317. 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 \$83,517. of its State Pension Allocation to this fund in 2012. For detailed financial information, refer to financial management report covering the period January 1, 2012 to December 31, 2012 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, 2012 net assets available for benefits was \$2,274,065 with Nationwide Life Insurance annuity contract investments of \$2,270,229. 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, 2012:

Active Employees	9
Retirees and beneficiaries	
currently receiving benefits	6
Terminated Employees entitled to	
benefits but not yet receiving them	0
Total	15

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 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.

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, and is controlled by provisions of Ordinance # 17 of 1989 adopted pursuant to Act 317. 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 \$120,321. of its State Pension Allocation to this fund in 2012. For detailed financial information, refer to financial management report covering the period January 1, 2012 to December 31, 2012 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, 2012 net assets *available* for benefits was \$3,861,851. with the following concentrations exceeding 5% of the Police Pension Plan available for pension benefits:

Nationwide	\$442,865
TD Ameritrade	\$3,413,376

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, 2012:

Active Employees	12
Retirees and beneficiaries	
currently receiving benefits	16
Terminated Employees entitled to	
benefits but not yet receiving them	0
Total	28

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.

Note 10. Pension Plans (continued)

Non-Uniform Pension Plan

The Nanticoke City non-uniformed pension plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 15 of 2003 adopted pursuant to Act 15 of 1974. The plan 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. The City has contributed \$39,568, of its State Pension Allocation to this fund in 2012. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). The CAFR is available on the PMRS Website at www.pmr.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, 2012:

Active Employees	13
Retirees and beneficiaries	
currently receiving benefits	1
Terminated Employees entitled to	
benefits but not yet receiving them	0
Total	<u>14</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
DECEMBER 31, 2012

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 12/31/2011</i>	<i>Issued or Additions</i>	<i>Payments Retirements</i>	<i>Outstanding Balance 12/31/2012</i>	<i>Interest Paid This Year</i>	<i>Due Within One Year</i>
Governmental						
2004 Note	268,635		115,684	152,951	10,485	121,628
2005 Note	275,160		75,868	199,292	10,277	78,709
2006 Recovery Loan	350,000		70,000	280,000		70,000
2007 Recovery Loan	140,000	-	20,000	120,000	-	20,000
	<u>\$ 1,033,795</u>	<u>\$ -</u>	<u>\$ 281,552</u>	<u>752,243</u>	<u>20,762</u>	<u>290,337</u>
Business Type						
2007 Recovery Loan	2,102,000	-	228,000	1,874,000	88,284	238,000
	<u>\$ 2,102,000</u>	<u>\$ -</u>	<u>\$ 228,000</u>	<u>1,874,000</u>	<u>88,284</u>	<u>238,000</u>

Note 11. Long-Term Debt (continued)

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

Long-term Debt Service Requirements: (Governmental Activities)

Year	Series of 2004	Series of 2005	Recovery Loan 2006	Recovery Loan 2007	Total
2013	121,628	78,709	70,000	20,000	290,337
2014	31,143	82,194	70,000	20,000	203,337
2015		38,389	70,000	20,000	128,389
2016			70,000	20,000	90,000
2017				20,000	20,000
2018-2022				20,000	20,000
	<u>\$152,771</u>	<u>\$199,292</u>	<u>\$280,000</u>	<u>\$120,000</u>	<u>\$752,063</u>

Year	Principal	Interest	Total
2013	290,337	11,760	302,097
2014	203,337	3,907	207,244
2015	128,389	521	128,910
2016	90,000		90,000
2017	20,000		20,000
2018-2022	20,000	0	20,000
	<u>\$752,063</u>	<u>\$16,188</u>	<u>\$768,251</u>

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

Year	Principal	Interest	Total
2013	238,000	78,708	316,708
2014	248,000	68,712	316,712
2015	257,000	58,296	315,296
2016	266,000	47,502	313,502
2017	275,000	36,330	311,330
2017-2019	590,000	37,422	627,422
	<u>\$1,874,000</u>	<u>\$326,970</u>	<u>\$2,200,970</u>

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 11. Long-Term Debt (continued)

Capitalized Leases

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
2013	31,181	5,969	37,150
2014	33,056	4,094	37,150
2015	35,044	2,107	37,151
	<u>\$99,281</u>	<u>\$12,170</u>	<u>\$111,451</u>

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

	Outstanding Balance 12/31/2011	Issued or Additions	Payments Retirements	Outstanding Balance 12/31/2012	Interest Paid This Year	Due Within One Year
<i>Governmental</i>						
2009 Firetruck Lease	128,694	-	29,413	99,281	7,737	31,181
	<u>\$ 128,694</u>	<u>\$ -</u>	<u>\$ 29,413</u>	<u>99,281</u>	<u>7,737</u>	<u>31,181</u>

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.

	Balance 12/31/2011	Net Increases (Decrease)	Balance 12/31/2012	Due Within One Year
Compensated Absences	\$ 370,808	\$ (13,811)	\$ 356,997	\$ 35,700

Retroactive Pay

Retroactive pay was from a settlement between the City of Nanticoke and The Nanticoke Police Officers Association on July 24, 2009. The parties amicably resolved the dispute which resulted in the city owing retroactive increased holiday pay in the amount of \$206,768. payable in four equal installments.

	Balance 12/31/2011	Net Increases (Decrease)	Balance 12/31/2012	Due Within One Year
Retroactive Pay	\$ 51,692	\$ (51,692)	\$ -	\$ -

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) .

Note 11. Long-Term Debt (continued)

Program Description:

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

Funding Policy:

Police Officers:

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

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

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

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

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

Fire Fighters:

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

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

Note 11. Long-Term Debt (continued)

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

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

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

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

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

Annual OPEB Cost and Net OPEB Obligation:

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

	General Fund
Annual required contribution (ARC)	\$ 634,899
Interest on Net OPEB obligation	56,647
Adjustment to annual required contribution (ARC)	<u>(77,280)</u>
Annual OPEB cost	614,266
Contributions Made (Estimated)	<u>(237,591)</u>
Estimated increase in Net OPEB Obligation	376,675
Net OPEB Obligation-Beginning of year	1,258,814
Net Opeb Obligation-End of Year	<u><u>\$ 1,635,489</u></u>

Note 11. Long-Term Debt (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Est Cost Contributed	Net OPEB Obligation
2010	\$ 620,320	22.44%	\$ 958,693
2011	\$ 613,642	51.09%	\$ 1,258,814
2012	\$ 614,266	38.68%	\$ 1,635,489

Funded Status and Funding Progress:

As of January 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,547,459, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,306,279, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 501.06 %.

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 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, 2012 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, 2012, 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 7.5% initially, reduced by decrements of .5 per year to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Both rates include a 3% inflation assumption. The City's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a closed period. The remaining amortization period at December 31, 2012 was 16.2889 years.

Note 12. Risk Management

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

Note 13. Tax Collection

Under the Third Class City Code, the City's city finance director also serves as an appointed tax collector for municipal and school City property and per capita taxes.

Note 14. Accounting Change Policies

There was one Governmental Accounting Standards Board (GASB) Statement effective for the City in the fiscal year ending June 30, 2013.

GASB Statement 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" objective is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Note 15. 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, 2012.

Litigation:

As of December 31, 2012, 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, 2012 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, 2012.

Note 16. Recovery Plan Act 47

The December 31, 2009 audit report contained an explanatory paragraph citing a 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 had an operating deficit in 2010 of 166,068.

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 City 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.

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.
- Expedite debt reduction with a resultant reduction in the debt service millage rate.
- 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.

<<<< SUPPLEMENTARY INFORMATION >>>>

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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	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%
1/1/2011	4,197,164	5,004,086	806,922	84%	718,630	112%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	(1) Contributions
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
2010	8,170	23,461
2011	112,411	151,123
2012	120,321	156,403

(1) Includes general municipal pension system State Aid

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	16
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increases	5.00%

THE CITY OF NANTICOCHE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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	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%
1/1/2011	2,300,991	2,953,315	652,324	78%	499,305	131%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Contributions
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
2010	82,395	112,976
2011	150,522	175,849
2012	153,646	172,620

(1) Includes general municipal pension system State Aid

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar
Remaining Amortization Period	12
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	5.00%

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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%
1/1/2009	266,856	234,419	(32,437)	114%	380,618	-8.52%
1/1/2011	414,037	429,376	15,339	96%	507,092	3.02%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Actuarial Valuation Date Basis for Contributions	Percentage Contributed
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%
2010	36,383	2007	100%
2011	39,568	2009	100%
2012	39,637	2009	100%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age, Normal
Amortization method	Level Dollar Closed
Remaining Amortization Period	9
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	Age Related/Seniority

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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	1/1/2012	\$0	\$6,547,459	\$6,547,459	0%	\$1,306,729	501.06%
	1/1/2009	\$0	\$5,804,124	\$5,804,124	0%	\$1,193,701	486.23%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Latest Actuarial Valuation Date	January 1, 2012
Actuarial Cost Method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining Amortization Period	16.2889
Asset Valuation Method	None
Actuarial Assumptions:	
Interest Rate	4.50%

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

City of Nanticoke
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2012
Required Supplementary Information

	<u>Budgeted Amounts</u>		<u>Actual General Fund</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes	\$ 3,366,821	\$ 3,366,821	\$ 3,566,374	\$ 199,553
Fines, Forfeitures and Costs	42,900	42,900	43,523	623
Interest	2,500	2,500	1,161	(1,339)
License and Permits	214,450	214,450	207,907	(6,543)
Intergovernmental-State and Local	378,616	378,616	357,537	(21,079)
Intergovernmental-Federal		-	30,475	30,475
Other	121,526	121,526	250,263	128,737
Total Revenue	<u>\$ 4,126,813</u>	<u>\$ 4,126,813</u>	<u>\$ 4,457,240</u>	<u>\$ 330,427</u>
<u>EXPENDITURES:</u>				
General Government	\$ 801,797	\$ 801,797	\$ 805,146	\$ (3,349)
Public Safety	2,885,880	2,885,880	3,055,544	(169,664)
Public Works	391,077	391,077	396,929	(5,852)
Parks and Recreation	17,500	17,500	55,014	(37,514)
Debt Service and Bond Payments	-	-	403,164	(403,164)
Total Expenditures	<u>\$ 4,096,254</u>	<u>\$ 4,096,254</u>	<u>\$ 4,715,797</u>	<u>\$ (619,543)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 30,559	\$ 30,559	\$ (258,557)	\$ (289,116)
OTHER FINANCING SOURCES (USES)				
Tan Note (Source)	\$ -	\$ -	399,000	399,000
Sale of Assets	-	-	14,383	35,559
Interfund Transfers in (out)	5,000	5,000	(50,000)	(55,000)
Budgetary Reserve	(35,559)	(35,559)	-	35,559
Total Other Financing Sources (Uses)	<u>\$ (30,559)</u>	<u>\$ (30,559)</u>	<u>\$ 363,383</u>	<u>\$ 415,118</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ 104,826	\$ 104,826
Fund Balance (Deficit) - Beginning			1,154,490	\$ 1,154,490
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,259,316</u>	<u>\$ 1,259,316</u>

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

City of Nanticoke
Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2012
Required Supplementary Information

	Budgeted Amounts		Actual General Fund	Favorable (Unfavorable) Variance
	Original	Final		
REVENUES:				
Interest	1,100	1,100	2,279	1,179
Intergovernmental	9,908,388	9,908,388	1,232,834	(8,675,554)
Other	-	-	37,751	37,751
Total Revenue	\$ 9,909,488	\$ 9,909,488	\$ 1,272,864	\$ (8,636,624)
EXPENDITURES:				
Community Development	10,298,007	10,298,007	1,241,949	9,056,058
Total Expenditures	\$ 10,298,007	\$ 10,298,007	\$ 1,241,949	\$ 9,056,058
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (388,519)	\$ (388,519)	\$ 30,915	\$ 419,434
OTHER FINANCING SOURCES (USES)				
Sale of Assets	\$ 104,000	\$ 104,000	157,880	53,880
Interfund Transfers in (out)	50,000	50,000	50,000	-
Total Other Financing Sources (Uses)	\$ 154,000	\$ 154,000	\$ 207,880	\$ 53,880
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USE	\$ (234,519)	\$ (234,519)	\$ 238,795	\$ 473,314
Fund Balance (Deficit) - Beginning	\$ 234,519	\$ 234,519	\$ 794,928	\$ 560,409
FUND BALANCE (DEFICIT) - ENDING	\$ -	\$ -	\$ 1,033,723	\$ 1,033,723

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

City of Nanticoke
DCED Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2012
Required Supplementary Information

	<u>Budgeted Amounts</u>		Actual General Fund	Favorable (Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Interest	700	700	242	(458)
Intergovernmental-Federal	1,240,336	1,240,336	295,994	(944,342)
Other	-	-	24,763	24,763
Total Revenue	<u>\$ 1,241,036</u>	<u>\$ 1,241,036</u>	<u>\$ 320,999</u>	<u>\$ (920,037)</u>
<u>EXPENDITURES:</u>				
Community Development	1,291,036	1,291,036	328,633	962,403
Total Expenditures	<u>\$ 1,291,036</u>	<u>\$ 1,291,036</u>	<u>\$ 328,633</u>	<u>\$ 962,403</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (50,000)	\$ (50,000)	\$ (7,634)	\$ 42,366
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	50,000	50,000	-	(50,000)
Total Other Financing Sources (Uses)	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ (7,634)	\$ (7,634)
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 105,736	\$ 105,736
FUND BALANCE (DEFICIT) - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,102</u>	<u>\$ 98,102</u>

THE CITY OF NANTICOKE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

City of Nanticoke
Refuse Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget To Actual
For The Year Ended December 31, 2012
Required Supplementary Information

	<u>Budgeted Amounts</u>		<u>Actual General Fund</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Charges for Services	750	750	1,025,837	1,025,087
Interest	1,025,500	1,025,500	904	(1,024,596)
Total Revenue	<u>\$ 1,026,250</u>	<u>\$ 1,026,250</u>	<u>\$ 1,026,741</u>	<u>\$ 491</u>
<u>EXPENDITURES:</u>				
Sanitation	998,644	998,644	999,618	(974)
Total Expenditures	<u>\$ 998,644</u>	<u>\$ 998,644</u>	<u>\$ 999,618</u>	<u>\$ (974)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 27,606	\$ 27,606	\$ 27,123	\$ (483)
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 27,606	\$ 27,606	\$ 27,123	\$ (483)
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 246,227	\$ 246,227
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 27,606</u>	<u>\$ 27,606</u>	<u>\$ 273,350</u>	<u>\$ 245,744</u>

**City of Nanticoke
 Highway Aid Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget To Actual
 For The Year Ended December 31, 2012
 Required Supplementary Information**

	<u>Budgeted Amounts</u>		<u>Actual General Fund</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental-State and Local	400	400	463	63
Interest	200,715	200,715	199,812	(903)
Total Revenue	\$ 201,115	\$ 201,115	\$ 200,275	\$ (840)
EXPENDITURES:				
Public Works	201,115	201,115	256,997	(55,882)
Total Expenditures	\$ 201,115	\$ 201,115	\$ 256,997	\$ (55,882)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ (56,722)	\$ (56,722)
OTHER FINANCING SOURCES (USES)				
Interfund Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	\$ (56,722)	\$ (56,722)
Fund Balance (Deficit) - Beginning	\$ -	\$ -	\$ 140,304	\$ 140,304
FUND BALANCE (DEFICIT) - ENDING	\$ -	\$ -	\$ 83,582	\$ 83,582