

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2011**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2011

	<u>PAGE</u>
Table of Contents	1 - 3
Independent Auditor's Report	4 - 6
Required Supplementary Information:	
Management Discussion and Analysis	7-15
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	16-17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	21-22
Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	23-24
Statement of Net Assets - Proprietary Funds	25-26
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28-29
Statement of Net Assets - Fiduciary Fund - Pension Trust Fund	30

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2011

	<u>PAGE</u>
Notes to Basic Financial Statements	31-79
Required Supplementary Information:	
Statement of Revenues, Expenditures and Change in Fund Deficit - Budget and Actual	80-81
Other Supplementary Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	83
Statement of Changes in Net Assets - Fiduciary Funds, Pension Trust Fund	84
Additional Schedules:	
Statement of Revenues and Other Financing Sources - Budget and Actual	85-86
Statement of Expenditure and Other Financing Uses - Budget and Actual	87-88
Single Audit Attachments:	
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2011	89-90
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	91-92

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2011

	<u>PAGE</u>
Independent Auditors' Report on Compliance that could have a Direct and Material Effect on each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	93-94
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2011	95 -97
Status of Prior Year Findings for the Year Ended December 31, 2011	98-100
Plan for Corrective Action Taken in Regard to Audit Findings	101

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INDEPENDENT AUDITORS' REPORT

January 10, 2013

The Honorable Members of the City Council of  
the City of Scranton, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scranton, Pennsylvania (the "City") as of and for the year ended December 31, 2011 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Scranton management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Sewer Authority of the City of Scranton, Pennsylvania (the "Sewer Authority") which statements reflect total assets of \$72,676,053 at March 31, 2011 and total revenues of \$16,951,350 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$55,015,039 at December 31 2011 and total revenues of \$3,090,803 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$1,501,966 at December 31, 2011 and total revenues of \$1,159,408 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sewer Authority and Parking Authority reflected in the City's Enterprise Funds and Redevelopment Authority reflected in the City's Aggregate Remaining Fund information, is based on the reports of the other auditors. The other auditors report for the Parking Authority financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 17 to the financial statements, the Authority did not have sufficient funds to meet its 2012 debt service requirements. This raises substantial doubt about the Authority's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

The City has determined its actuarial liability for its internal service workmen's compensation fund included in the aggregate remaining fund information at August 31, 2011 instead of December 31, 2011. Accounting principles generally accepted in the United States of America require that liabilities be valued as of the report date. The amount by which this departure would affect the liabilities, fund balance, and expenditures of the aggregate remaining fund information is not reasonably determinable.

In our opinion, except for the effects, if any, of not valuing its actuarial liability as of December 31, 2011 in the aggregate remaining fund information as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the City of Scranton as of December 31, 2011, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, general fund, special revenue fund OECD, sewer authority and municipal parking authority of the City of Scranton as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 Commitments and Contingencies, the Police and Fire Departments union agreements expired at the end of 2002 and the two (2) unions have been involved in various lawsuits with the City. In 2011 and 2012, the City received rulings that upheld back pay, apparatus and shift manning issues, and health care in favor of the Unions. As of the issuance of these financial statements, the City was only able to estimate the amount of the back pay. The City has accrued back pay for the period January 1, 2003 through December 31, 2011 in the Government Wide Financial Statements in the amount of \$ 17,000,000. The liability is classified as long term at December 31, 2011 and not included in the General Fund Financial Statements because it has not been liquidated with expendable available resources as of the date of the financial statements. Apparatus and shift manning issues, and health care have not been accrued in the Government Wide Financial Statements because the amount cannot be reasonably estimated as of the date of these financial statements. Also, the court awards provide for interest if payment by the City has been delayed. The City has other court awards accrued in the Government Wide Financial Statements in the amount of \$1,807,240 that will be paid with the City's 2012 unfunded debt borrowing in December 2012.

In accordance with *Government Auditing Standards*, we have issued a report dated January 10, 2013 on our consideration of the City of Scranton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 80 through 81 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Scranton's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Robert Rossi & Co

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Scranton, Pennsylvania, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Scranton for the fiscal year ended December 31, 2011. We encourage readers to review the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

**Financial Highlights**

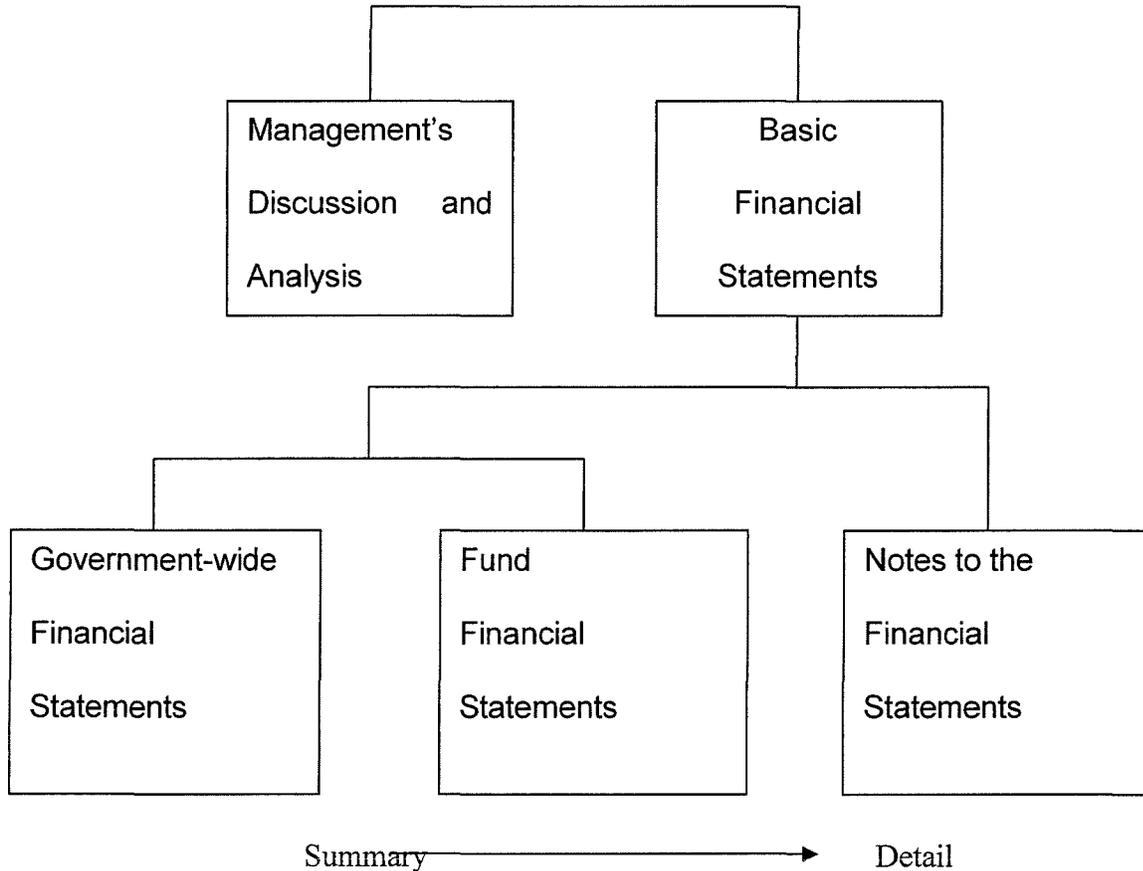
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$14,467,763 (*net assets*).
- The government's total net assets decreased by \$16,936,536.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$1,544,029, a decrease of \$1,024,717 in comparison with the prior year balance which was \$2,568,746. The largest decrease was in the General Fund of \$887,905.
- Due to the Supreme Court Ruling upholding back pay, apparatus and shift manning for the Fire and Police Unions, the City of Scranton will see additional costs in borrowing over the next few years.
- The City of Scranton Bond Rating continues to be at BB- due to the City's constrained ability to address budgetary pressures.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Scranton.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Required Components of Annual Financial Report*



**Basic Financial Statements**

The first two statements (pages 16 through 18) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 19 through 29) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The statement of net assets presents the City's assets and liabilities as of the end of the recent fiscal year. The statement of activities shows the City's current year's revenue and expenses as soon as the changes occur, regardless of the timing of the related cash flows (on the accrual basis). Thus, revenue and expenses are reported in this statement for some items that will provide cash flow or use cash flow in a future period. An example of a cash inflow in the future would be when a taxpayer pays a prior year tax or fee in the future (see Taxes and Fees Receivable \$13,450,702. An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$3,111,987). All major corporations use the accrual basis of accounting.

The government-wide financial statements include not only the City's financial information (Governmental Activities), but also the financial information of the Sewer Authority, Municipal Parking Authority, and the Municipal Recreation Authority (Business-Type Activities) and the Redevelopment Authority (Governmental Activities). Financial information for these entities is reported in separate columns.

The government-wide financial statements are on pages 16 through 18.

### **Fund Financial Statements**

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting so that its financial activities can be compared with other cities and governmental entities that use fund accounting. Fund accounting is required by the Governmental Accounting Standards Board (GASB). All of the funds of the City of Scranton, Pennsylvania can be divided into two categories: governmental funds and proprietary (fiduciary) funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year.

Because the focus of the governmental funds financial statements is narrower than that of the government wide financial statements, they are useful for comparing the information for governmental entities with similar information. By doing this readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to assist in this comparison between governmental funds and governmental activities.

The City of Scranton maintains individual government funds. Information in the governmental funds includes a balance sheet and a statement of revenues, expenditures, and changes in fund balances for the General Fund and OECD are considered to be major funds. The data for non-major funds consisting of Liquid Fuels Fund, Capital Projects Fund, Redevelopment Authority, Special Cities, and Debt Service Fund are combined in a single accounting.

**Enterprise Funds** – The enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Sewer Authority, Parking Authority, and Recreation Authority. The Sewer Authority and Parking Authority are classified as major funds. The Recreation Authority is classified as a non-major fund.

**Fiduciary Funds** – Fiduciary funds are not accounted for in the government wide financial statements, because the resources of these funds are not available to support the City's own programs. These funds are custodial in nature.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 31 through 79 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 80 through 84). A description of the schedules and reports can be found on pages 2 and 3 of the Table of Contents.

**Government-Wide Financial Analysis**

Net assets are useful indicators of a government's financial position. At the close of the current fiscal year, the City of Scranton's assets exceeded its liabilities by \$14,467,763.

Capital assets (land, buildings, roads, bridges, and equipment) less any outstanding debt issued to acquire these assets comprise a significant portion of the City of Scranton's net assets, \$71,950,448. Although these capital assets assist the City in providing services to its citizens, they are generally not available to fund the operations of future periods.

A portion of the City's net assets, \$17,798,241, is subject to external restrictions as to how they may be used. The remaining component of net assets is the unrestricted net assets, which ended the year with a deficit of \$75,280,926. The governmental activities reported negative unrestricted net assets of \$92,170,357. The business type activities reported positive unrestricted net assets of \$16,889,431.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**The City of Scranton, Pennsylvania's Net Assets**

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Current Assets	\$ 77,491,463	\$ 94,942,222	-18.4%	\$ 13,721,056	\$ 13,823,179	-0.7%	\$ 91,212,519	\$ 108,765,401	-16.1%
Restricted Assets	201,901	230,349	-12.3%	17,161,443	14,072,374	22.0%	17,363,344	14,302,723	21.4%
Capital Assets	93,538,103	97,726,791	-4.3%	94,741,670	94,218,915	0.6%	188,279,773	191,945,706	-1.9%
Deferred Charges	952,957	1,228,556	-22.4%	2,069,292	1,993,661	3.8%	3,022,249	3,222,217	-6.2%
<b>Total Assets</b>	<b>\$ 172,184,424</b>	<b>\$ 194,127,918</b>	<b>-11.3%</b>	<b>\$ 127,693,461</b>	<b>\$ 124,108,129</b>	<b>2.9%</b>	<b>\$ 299,877,885</b>	<b>\$ 318,236,047</b>	<b>-5.8%</b>
Current Liabilities	\$ 15,251,447	\$ 20,362,134	-25.1%	\$ 4,530,742	\$ 5,519,106	-17.9%	\$ 19,782,189	\$ 25,881,240	-23.6%
Non-Current Liabilities	175,103,859	171,101,458	2.3%	90,524,074	89,849,050	0.8%	265,627,933	260,950,508	1.8%
<b>Total Liabilities</b>	<b>\$ 190,355,306</b>	<b>\$ 191,463,592</b>	<b>-0.6%</b>	<b>\$ 95,054,816</b>	<b>\$ 95,368,156</b>	<b>-0.3%</b>	<b>\$ 285,410,122</b>	<b>\$ 286,831,748</b>	<b>-0.5%</b>
Net Assets:									
Invested in Capital									
assets net of related debt	\$ 71,756,825	\$ 75,098,423	-4.4%	\$ 193,623	\$ 3,463,652	-94.4%	\$ 71,950,448	\$ 78,562,075	-8.4%
Restricted	2,242,650	3,150,223	-28.8%	15,555,591	12,805,642	21.5%	15,955,865	15,955,865	0.0%
Unrestricted	(92,170,357)	(75,584,320)	21.9%	16,889,431	12,470,679	35.4%	(75,280,926)	(63,113,641)	19.3%
<b>Total Net Assets</b>	<b>\$ (18,170,882)</b>	<b>\$ 2,664,326</b>	<b>-782.0%</b>	<b>\$ 32,638,645</b>	<b>\$ 28,739,973</b>	<b>13.6%</b>	<b>\$ 14,467,763</b>	<b>\$ 31,404,299</b>	<b>-53.9%</b>

**City of Scranton, Pennsylvania Changes in Net Assets**

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
<b>Revenues</b>									
Program Revenue									
Fees, Fines & Charges for Services	\$ 6,371,740	\$ 9,363,929	-32.0%	\$ 20,042,153	\$ 19,491,379	2.8%	\$ 26,413,893	\$ 28,855,308	-8.5%
Operating Grants & Contributions	15,869,204	19,842,495	-20.0%	0	0	0.0%	15,869,204	19,842,495	-20.0%
Capital Grants & Contributions	851,054	1,316,963	-35.4%	0	0	0.0%	851,054	1,316,963	-35.4%
General Revenue									
Property Taxes	12,335,440	13,502,977	-8.6%	0	0	0.0%	12,335,440	13,502,977	-8.6%
Act 511 Taxes	29,557,078	27,324,945	8.2%	0	0	0.0%	29,557,078	27,324,945	8.2%
Cable TV Franchise Revenue	807,123	786,440	2.6%	0	0	0.0%	807,123	786,440	2.6%
Payment in Lieu of Taxes	210,427	203,314	3.5%	0	0	0.0%	210,427	203,314	3.5%
Investment Earnings	624,352	771,413	-19.1%	827,488	401,496	106.1%	1,451,840	1,172,909	23.8%
Donations	16,156	465,663	-96.5%	0	0	0.0%	16,156	465,663	-96.5%
Sale of Property	0	718	-100.0%	0	0	0.0%	0	718	-100.0%
Miscellaneous	41,224	113,998	-63.8%	489,798	324,356	51.0%	531,022	438,354	21.1%
Rents and Concessions	7,360	4,575	60.9%	0	0	0.0%	7,360	4,575	60.9%
Provision for Uncollectible Accounts	0	0	0.0%	(18,858)	(157,111)	100.0%	(18,858)	(157,111)	100.0%
Interfund Transfers	0	1,847,473	100.0%	0	(1,847,473)	100.0%	0	0	0.0%
Intergovernmental Revenues	84,781	153,416	100.0%	2,571,561	23,340	10917.8%	2,656,342	176,756	1402.8%
<b>Total Revenue &amp; Transfers</b>	<b>\$ 66,775,939</b>	<b>\$ 75,698,319</b>	<b>-11.8%</b>	<b>\$ 23,912,142</b>	<b>\$ 18,235,987</b>	<b>31.1%</b>	<b>\$ 90,668,081</b>	<b>\$ 93,934,306</b>	<b>-3.5%</b>
<b>Expenses</b>									
General Government & Admin	\$ 10,075,016	\$ 10,040,457	0.3%	\$ 0	\$ 0	0.0%	\$ 10,075,016	\$ 10,040,457	0.3%
Public Safety	39,900,153	30,929,002	29.0%	0	0	0.0%	39,900,153	30,929,002	29.0%
Public Works	15,509,654	14,870,670	4.3%	0	0	0.0%	15,509,654	14,870,670	4.3%
Health & Welfare	1,645,534	927,699	77.4%	0	0	0.0%	1,645,534	927,699	77.4%
Community Development	9,596,102	16,737,324	-42.7%	0	0	0.0%	9,596,102	16,737,324	-42.7%
Cultural & Recreation	1,596,388	1,782,493	-10.4%	0	0	0.0%	1,596,388	1,782,493	-10.4%
Other Expenditures	0	0	0.0%	0	0	0.0%	0	0	0.0%
Unallocated Depreciation	34,759	34,758	0.0%	0	0	0.0%	34,759	34,758	0.0%
Interest on Long Term Debt	4,893,816	5,246,688	-6.7%	0	0	0.0%	4,893,816	5,246,688	-6.7%
Long Term Court Awards	4,359,725	14,500,000	-69.9%	0	0	0.0%	4,359,725	14,500,000	-69.9%
Sewer Authority	0	0	0.0%	14,694,521	15,389,512	-4.5%	14,694,521	15,389,512	-4.5%
Municipal Parking Authority	0	0	0.0%	5,318,949	5,111,263	4.1%	5,318,949	5,111,263	4.1%
<b>Total Expenses</b>	<b>\$ 87,611,147</b>	<b>\$ 95,069,091</b>	<b>-7.8%</b>	<b>\$ 20,013,470</b>	<b>\$ 20,500,775</b>	<b>-2.4%</b>	<b>\$ 107,624,617</b>	<b>\$ 115,569,866</b>	<b>-6.9%</b>
Change in Net Assets	\$ (20,835,208)	\$ (19,370,772)	7.6%	\$ 3,898,672	\$ (2,264,788)	-272.1%	\$ (16,936,536)	\$ (21,635,560)	-21.7%
Net Assets, Beginning of Year	2,664,326	22,035,098	-87.9%	28,739,973	31,004,761	-7.3%	31,404,299	53,039,859	-40.8%
<b>Net Assets, End of Year</b>	<b>\$ (18,170,882)</b>	<b>\$ 2,664,326</b>	<b>-782.0%</b>	<b>\$ 32,638,645</b>	<b>\$ 28,739,973</b>	<b>13.6%</b>	<b>\$ 14,467,763</b>	<b>\$ 31,404,299</b>	<b>-53.9%</b>

**Governmental activities** Governmental activities decreased the City's net assets by \$20,835,208. This significant decrease can be directly attributed to the cost of Long Term Court Awards along with decreases in revenues such as property taxes and current and delinquent wage tax collection. The City's single greatest source of revenue is its Act 511 taxes. Act 511 taxes

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

consist of the City's Wage Tax, Mercantile Tax, and Occupational Privilege Tax and generate roughly 38% of all governmental revenues for the City of Scranton. The City's Wage Tax is 2.4%. It is commonly incorrectly stated that the rate is 3.4%. The confusion is caused by the fact that the City's Wage Tax of 2.4% is collected along with the Scranton School District's 1% Wage Tax. The taxpayers make a single payment to the Scranton Collector of Taxes. The same collection system is used for the City and School Mercantile and Business Privilege Tax and thus the same type of confusion exists. The City's Mercantile and Business Privilege Tax rate is a flat .075% (.00075). The School District has three different rates. The wholesale business rate is .0452% (.00452), the retail rate is .0679% (.000679) and the service business rate is .513% (.00513) or more than five times the City rate.

Due to the implementation of Act 32, the Wage Tax as of January 1, 2012 will be collected by a private entity. The local Act 32 Committee appointed Berkheimer as the collector of current and delinquent wage taxes for the City of Scranton.

**Business-type activities:** Business-type activities increased the City's net assets by \$3,898,672. A portion of this increase in 2011 can be attributed to the increase of Intergovernmental Revenues by \$2,548,221 from 2010.

### **Financial Analysis of the City's Funds**

**Governmental Funds --** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. The General Fund total revenues were up \$846,973 from the prior year. Total General Fund Revenue was \$56,192,396 for the year 2011 vs. \$55,345,423 for the year for the year 2010. The increase of General Fund Revenue is directly attributed to more revenue being received in Intergovernmental Revenues specifically monies transferred from the City of Scranton's Workers' Compensation Account. Additionally the City of Scranton received less funds in Licensing and Permits due to a lack of building work being completed 2011.

The General Fund expenditures for the year 2011 increased by \$ 85,722. Total General Fund Expenditures were \$ 56,506,084 for 2011 versus \$ 56,420,362 in 2010. This can be attributed to the increase in general government and administration.

At December 31, 2011, the Governmental Funds of the City of Scranton reported a combined fund balance of \$ 1,544,029 a decrease of \$ 1,024,717 over last year.

### **General Fund Highlights**

Revenues increased due to an influx of revenue within the intergovernmental revenue line item.

Overall expenditures increased due to an increase in overtime, professional services, debt funding, material and supplies, landfill and flood protection expenses.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Capital Assets**

The City's capital assets consist of land and land improvements, buildings and building improvements, infrastructure (roads, sewers, etc.), furniture & equipment, vehicles and construction in progress. Also see Footnote numbers 5, 6 and 7 for additional information.

**The City of Scranton, Pennsylvania's Net Assets**

	Governmental Activities			%	Business-Type Activities			%	Total Primary Government			%
	2011	2010	Change		2011	2010	Change		2011	2010	Change	
Land & Land Improvement	\$ 3,485,506	\$ 3,485,506	0.0%	\$ 2,097,093	\$ 2,097,093	0.0%	\$ 5,582,599	\$ 5,582,599	0.0%			
Buildings & Building Improvements	19,883,270	19,778,226	0.5%	168,454,931	167,098,950	0.8%	188,338,201	186,877,176	0.8%			
Infrastructure	111,947,267	111,317,219	0.6%	0	0	#DIV/0!	111,947,267	111,317,219	0.6%			
Furniture, Equip., & Vehicles	17,822,509	17,735,974	0.5%	9,795,232	9,374,880	4.5%	27,617,741	27,110,854	1.8%			
Construction in Progress	9,491,861	8,895,714	6.7%	3,874,077	1,064,292	264.0%	13,365,938	9,960,006	25.5%			
Accumulated Depreciation	(69,092,310)	(63,485,848)	8.8%	(89,479,663)	(85,416,300)	4.8%	(158,571,973)	(148,902,148)	6.1%			
<b>Total</b>	<b>\$ 93,538,103</b>	<b>\$ 97,726,791</b>	<b>-4.3%</b>	<b>\$ 94,741,670</b>	<b>\$ 94,218,915</b>	<b>0.6%</b>	<b>\$ 188,279,773</b>	<b>\$ 191,945,706</b>	<b>-1.9%</b>			

**General Obligation and Revenue Bonds**

**City of Scranton, Pennsylvania's Outstanding Debt**

	Governmental Activities			%	Business-Type Activities			%	Total Primary Government			%
	2011	2010	Change		2011	2010	Change		2011	2010	Change	
Balance January 1, 2011	\$ 85,695,105	\$ 89,129,834	-3.9%	\$ 91,785,828	\$ 92,026,739	-0.3%	\$ 177,480,933	\$ 181,156,573	-2.0%			
Debt Issued in 2011	0	0	#DIV/0!	2,900,000	1,705,903	70.0%	2,900,000	1,705,903	70.0%			
Accretion & Amortization	46,319	37,559	23.3%	0	0	0.0%	46,319	37,559	23.3%			
Less: Retirements	(3,258,551)	(3,472,288)	-6.2%	(2,139,116)	(1,946,814)	9.9%	(5,397,667)	(5,419,102)	-0.4%			
<b>Balance December 31, 2011</b>	<b>\$ 82,482,873</b>	<b>\$ 85,695,105</b>	<b>-3.7%</b>	<b>\$ 92,546,712</b>	<b>\$ 91,785,828</b>	<b>0.8%</b>	<b>\$ 175,029,585</b>	<b>\$ 177,480,933</b>	<b>-1.4%</b>			

The City of Scranton, Pennsylvania currently does not have a bond rating from Standard and Poor's

**Pension Trust Fund**

The City sponsors and administers three pension plans. The plans have been designated as severely distressed under Pennsylvania Act 205.

**Internal Service Workmen's Compensation**

The independent auditors qualified their opinion on the City's financial statements. This is due to the fact that the City determined its workers' compensation actuarial liability as of August 31, 2011 instead of December 31, 2011. This was also the case in 2004-2010, and the City received a letter from the actuary addressing this concern. Therefore, the City of Scranton does not view this to be a material or significant issue.

**Distressed Municipality Status**

Since 1992, the City has been declared a distressed municipality by the Pennsylvania Department of Community and Economic Development. The City continues to make progress in working towards having the distressed municipality declaration lifted. With the adoption of the 2012 Budget, the City of Scranton is making small steps to improving the financial condition of the City. Certain Expenditure line items such as personnel, salary and overtime have been made. Additionally, revenues such as Property taxes, Act 511 taxes and permits and fees have been increased to balance out the structural deficit. The raising of revenues line items and

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

expenditure cuts will put the City of Scranton in a better position to access the capital markets for the back pay of fire and police personnel.

On August 23, 2012, the City of Scranton took the first step in restoring long term fiscal stability and repairing the City's creditworthiness by adopting a new Recovery Plan that replaces the 2002 Recovery Plan. The new Recovery Plan provides the fiscal framework for the City's governing bodies to follow through 2015.

The full implementation of the 2002 Recovery Plan was never fully realized due to the opposition from the public safety unions of the City. The public safety unions sought Act 111 binding arbitration proceedings to challenge the 2002 Recovery Plan. After years of legal proceedings relating to the arbitration awards, the Pennsylvania Supreme Court ruled in late 2011 in favor of the public safety unions, overturning prior appellate court decisions.

The approved Act 47 Recovery Plan calls for an aggressive approach to current revenues. The adopted plan calls for 70.32% property tax increase from 2013 through 2015. The City of Scranton is proposing that the Pennsylvania State Legislature approve a dedicated 1% increase to the current sales tax for imposition within Lackawanna County. If this legislation is enacted, the property tax increase for 2013-2015 would be 35.01%. Additional revenue enhancements, such as increasing the current Real Estate Transfer tax from 2.8% to 2.9%, will allow the City to receive an additional \$555,000. The adoption of an Amusement Tax will net the City \$700,000 of new revenue.

The elected leadership of the City has decided to aggressively pursue the large non-profit institutions located within the City. The Recovery Plan has budgeted \$1,300,000 in 2013, \$1,950,000 in 2014 and \$2,400,000 in 2015 for receiving revenues derived from their payment-in-lieu-of-taxes ("PILOT") program. Elected leaders have begun to meet with the ten largest non-profit institutions within the City and hope to have commitments in the near future. Lastly, the Recovery Plan also calls for a Commuter Tax at 1%. The Commuter Tax is pending Court approval and when this takes place it would generate \$2,500,000 in 2013, \$4,000,000 in 2014 and \$4,000,000. On December 19, 2012, a three judge panel denied the petition for the Commuter Tax. The City of Scranton is currently reviewing their options for the revenue that will be needed. It is the intention of the City of Scranton to petition again in 2013 for the 2014 budget.

The expenditure line items within the Recovery Plan have called for the City to work with all department heads and collective bargaining units to cut expenses by \$1,600,000 from 2013-2015. Also, the Recovery Plan calls for savings to be generated within the current health care cost structure. The City works with health care professionals on a daily basis and has already begun the process of bidding out their pharmacy benefit plan and dental plan to achieve these savings of \$2,790,000 budgeted within the Recovery Plan.

In addition to the changes that will come as the Recovery Plan takes shape over the next few years, the City's downtown residential development continues to grow on a daily basis. The City will see \$11.3 million of private capital spent within the next 12 months to convert three vacant buildings in the downtown to residential apartments for students from the Commonwealth Medical College and other young professionals that have chosen to live downtown. Upon completion of these projects the City will have over 500 professionals/students living downtown.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The City is also experiencing an increase of major renovation projects at the three current acute care hospitals located within the City. The former Mercy Hospital and Moses Taylor Hospital were purchased by Commonwealth Health Systems in 2011 and significant renovations have already begun to take place. Additionally the former Community Medical Center (CMC) was purchased by Geisinger Health Systems in 2012. Geisinger Health Systems has announced plans to spend \$90 million on renovations to the existing CMC hospital building; along with the construction of a new administration building in the Mount Pleasant Corporate Center on the outskirts of downtown. The downtown development and the developments that have taken place at the local hospitals, colleges and universities, along with the low crime rate, have allowed the City to continue to attract residential demand in the face of its budgetary challenges.

**Requests for Information**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Ryan McGowan, Business Administrator, City Hall, 4<sup>th</sup> Floor, and 340 N. Washington Avenue, Scranton, PA 18503.

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2011

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 10,934,929	\$ 9,416,694	\$ 20,351,623
Investments	12,152,552	0	12,152,552
Receivables:			
Taxes and Fees Receivable, Net	13,450,702	0	13,450,702
Accounts Receivable, Net	2,238,246	3,967,960	6,206,206
Accrued Interest	87,698	0	87,698
Loans Receivable	36,825,690	0	36,825,690
Due From Other Funds	1,269,413	9,663	1,279,076
Prepaid Assets	339,182	13,826	353,008
Other Assets	50,000	312,913	362,913
Property Held For Resale	143,051	0	143,051
Restricted Assets:			
Restricted Cash and Cash Equivalents	201,901	11,385,010	11,586,911
Restricted Investments	0	5,359,699	5,359,699
Restricted Accounts Receivable	0	30,605	30,605
Accounts Receivable - Assessments	0	386,129	386,129
Capital Assets:			
Land	3,485,506	2,097,093	5,582,599
Buildings	11,997,815	168,145,886	180,143,701
Improvements	7,885,455	309,045	8,194,500
Infrastructure	111,947,267	0	111,947,267
Vehicles, Furniture & Equipment	17,822,509	9,795,232	27,617,741
Construction In Progress	9,491,861	3,874,077	13,365,938
Accumulated Depreciation	(69,092,310)	(89,479,663)	(158,571,973)
Deferred Charges, Net	952,957	2,069,292	3,022,249
<b>TOTAL ASSETS</b>	<b><u>\$ 172,184,424</u></b>	<b><u>\$ 127,693,461</u></b>	<b><u>\$ 299,877,885</u></b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
LIABILITIES			
Short Term Debt	\$ 0	\$ 166,216	\$ 166,216
Accounts Payable	6,943,324	854,035	7,797,359
Accrued Liabilities	1,244,950	307,428	1,552,378
Accrued Interest	1,019,300	0	1,019,300
Due to Other Funds	1,279,196	0	1,279,196
Current Liabilities Payable From Restricted Assets:			
Accrued Construction Cost	0	174,255	174,255
Revenue Bonds Payable	0	995,000	995,000
Accrued Revenue Bond Interest Payable	0	709,304	709,304
Current Portion Of Long Term Debt			
Lease Payable	609,924	0	609,924
General Obligation Bonds Payable	2,545,000	0	2,545,000
Notes Payable	1,609,753	1,324,504	2,934,257
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	21,191,810	0	21,191,810
Deferred Revenues	39,964,797	0	39,964,797
Long-Term Debt Obligations	59,134,711	90,227,208	149,361,919
Deferred Loss On Early Retirement Of Debt	0	(368,032)	(368,032)
Capitalized Lease Debt	18,583,485	0	18,583,485
Long Term Court Awards Payable	18,859,725	0	18,859,725
Other Post Employment Benefits	14,257,344	0	14,257,344
Compensated Absences	3,111,987	664,898	3,776,885
<b>TOTAL LIABILITIES</b>	<b>\$ 190,355,306</b>	<b>\$ 95,054,816</b>	<b>\$ 285,410,122</b>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	\$ 71,756,825	\$ 193,623	\$ 71,950,448
Restricted for:			
Specific Properties & Uses	793,212	0	793,212
Debt Service	765,586	0	765,586
Capital Projects	683,852	0	683,852
Debt Service And Capital Expenditures	0	15,555,591	15,555,591
Unreserved - Undesignated	(92,170,357)	16,889,431	(75,280,926)
<b>TOTAL NET ASSETS</b>	<b>\$ (18,170,882)</b>	<b>\$ 32,638,645</b>	<b>\$ 14,467,763</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS		
		FEES, FINES AND CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
<b>Governmental Activities</b>							
General Government and Administration	\$ 10,075,016	\$ 1,159,364	\$ 0	\$ 0	\$ (8,915,652)	\$ 0	\$ (8,915,652)
Public Safety	39,900,153	812,796	4,706,598	0	(34,380,759)	0	(34,380,759)
Public Works	15,509,654	2,104,076	1,819,464	551,054	(11,035,060)	0	(11,035,060)
Health & Welfare	1,645,534	867,111	778,329	300,000	299,906	0	299,906
Community Development	9,596,102	1,379,168	8,564,813	0	347,879	0	347,879
Culture and Recreation	1,596,388	49,225	0	0	(1,547,163)	0	(1,547,163)
Other Expenditure	0	0	0	0	0	0	0
Unallocated Depreciation	34,759	0	0	0	(34,759)	0	(34,759)
Interest on Long Term Debt	4,893,816	0	0	0	(4,893,816)	0	(4,893,816)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 83,251,422</b>	<b>\$ 6,371,740</b>	<b>\$ 15,869,204</b>	<b>\$ 851,054</b>	<b>\$ (60,159,424)</b>	<b>\$ 0</b>	<b>\$ (60,159,424)</b>
<b>Business-Type Activities</b>							
Sewer Authority	\$ 14,694,521	\$ 16,951,350	\$ 0	\$ 0	\$ 0	\$ 2,256,829	\$ 2,256,829
Municipal Parking Authority	5,318,949	3,090,803	0	0	0	(2,228,146)	(2,228,146)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 20,013,470</b>	<b>\$ 20,042,153</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 28,683</b>	<b>\$ 28,683</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 103,264,892</b>	<b>\$ 26,413,893</b>	<b>\$ 15,869,204</b>	<b>\$ 851,054</b>	<b>\$ (60,159,424)</b>	<b>\$ 28,683</b>	<b>\$ (60,130,741)</b>
<b>General Revenues:</b>							
Property taxes, levied for general purposes					\$ 12,335,440	\$ 0	\$ 12,335,440
Act 511 Taxes					29,557,078	0	29,557,078
Cable Television Franchise Revenue					807,123	0	807,123
Payments in Lieu of Taxes					210,427	0	210,427
Investment Earnings					624,352	827,488	1,451,840
Miscellaneous					41,224	489,798	531,022
Rents and Concessions					7,360	0	7,360
Donations					16,156	0	16,156
Provision for Uncollectible Accounts					0	(18,858)	(18,858)
Long Term Court Awards					(4,359,725)	0	(4,359,725)
Intergovernmental Revenues					84,781	2,571,561	2,656,342
<b>Total General Revenues and Transfers</b>					<b>\$ 39,324,216</b>	<b>\$ 3,869,989</b>	<b>\$ 43,194,205</b>
<b>Change in Net Assets</b>					<b>\$ (20,835,208)</b>	<b>\$ 3,898,672</b>	<b>\$ (16,936,536)</b>
<b>Net Assets, Beginning of Year</b>					<b>2,664,326</b>	<b>28,739,973</b>	<b>31,404,299</b>
<b>NET ASSETS, END OF YEAR</b>					<b>\$ (18,170,882)</b>	<b>\$ 32,638,645</b>	<b>\$ 14,467,763</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4,191,461	\$ 1,201,953	\$ 4,803,508	\$ 10,196,922
Taxes and Fees Receivable, Net	13,450,702	0	0	13,450,702
Accounts Receivable, Net	1,096,044	1,059,962	82,240	2,238,246
Loans Receivable	0	35,946,970	887,720	36,834,690
Due From Other Funds	131,705	487,137	650,571	1,269,413
Prepaid Assets	339,182	0	0	339,182
Other Assets	0	50,000	0	50,000
Restricted Assets:				
Restricted Cash and Cash Equivalents	91,468		0	91,468
Property Held for Resale	0	0	143,051	143,051
<b>TOTAL ASSETS</b>	<b>\$ 19,300,562</b>	<b>\$ 38,746,022</b>	<b>\$ 6,567,090</b>	<b>\$ 64,613,674</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 5,658,435	\$ 862,567	\$ 186,057	\$ 6,707,059
Other Current Liabilities	1,116,785	128,165	0	1,244,950
Due to Other Funds	5,658,898	95,247	525,051	6,279,196
Deferred Revenues	7,976,923	37,568,842	3,292,675	48,838,440
<b>TOTAL LIABILITIES</b>	<b>\$ 20,411,041</b>	<b>\$ 38,654,821</b>	<b>\$ 4,003,783</b>	<b>\$ 63,069,645</b>
<b>FUND BALANCES</b>				
Restricted for Debt Service	\$ 0	\$ 0	\$ 1,784,886	\$ 1,784,886
Restricted for Capital Projects	0	0	683,852	683,852
Restricted for Externally Imposed Restrictions	0	0	530,874	530,874
Nonspendable Property Held For Resale	0	0	143,051	143,051
Unreserved - Undesignated	(1,110,479)	91,201	(579,356)	(1,598,634)
<b>TOTAL FUND BALANCES</b>	<b>\$ (1,110,479)</b>	<b>\$ 91,201</b>	<b>\$ 2,563,307</b>	<b>\$ 1,544,029</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 19,300,562</b>	<b>\$ 38,746,022</b>	<b>\$ 6,567,090</b>	<b>\$ 64,613,674</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

Total Fund Balance - Total Governmental Funds		\$ 1,544,029
Amounts Reported for Governmental Activities in the statement of Net Assets are Different Because:		
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 \$ 162,630,413 accumulated depreciation is \$ 69,092,310.		93,538,103
Governmental funds report the effects of bond issuance cost when the debt is first issued, whereas these amounts are deferred and amortized.		952,957
Property taxes receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.		5,122,755
Refuse fee receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.		2,854,168
Internal service fund is used by management to charge the cost of the workmen's compensation insurance fund to various departments. The net revenue of the internal service fund is reported with governmental activities.		
Change in net assets is as follows:		
Cash and cash equivalents	\$ 738,007	
Investments	12,152,552	
Accrued Interest	87,698	
Due From Other Funds	5,000,000	
Restricted Cash & Cash Equivalents	110,433	
Accounts Payable	(236,265)	
Workers' Compensation Claims Payable	<u>(21,191,810)</u>	
Decrease In Net Assets		(3,339,385)
Deferred loans are loans made by SRA to qualified projects that will be repaid in future years but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		887,720
Long-Term liabilities 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:		
General obligation bonds payable	\$ (61,679,711)	
Governmental notes payable	(1,609,753)	
Accrued interest payable	(1,019,300)	
Capitalized Lease payable	(19,193,409)	
Long Term Court Awards Payable	(18,859,725)	
Compensated absences	(3,111,987)	
Termination & Post Employment Benefits	<u>(14,257,344)</u>	
Increase in Long Term Liabilities		<u>(119,731,229)</u>
Net Assets of Governmental Activities		<u>\$ (18,170,882)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:				
Taxes	\$ 43,117,977	\$ 0	\$ 0	\$ 43,117,977
Intergovernmental	4,982,191	6,347,189	4,063,343	15,392,723
Departmental Earnings	1,981,144	0	58,995	2,040,139
Refuse Disposal Fee	3,696,487	0	0	3,696,487
Licenses and Permits	1,283,449	0	0	1,283,449
Cable Television Franchise Revenue	807,123	0	0	807,123
Payments in Lieu of Taxes	210,427	0	0	210,427
Investment Income	6,993	911	13,279	21,183
User Fee	49,225	0	0	49,225
Other Revenues	41,224	0	1,365,036	1,406,260
Rents and Concessions	0	0	7,360	7,360
Donations	16,156	0	0	16,156
Program Income	0	1,139,514	0	1,139,514
Total Revenues	<u>\$ 56,192,396</u>	<u>\$ 7,487,614</u>	<u>\$ 5,508,013</u>	<u>\$ 69,188,023</u>
Expenditures:				
Current:				
General Government	\$ 10,771,442	\$ 0	\$ 179,213	\$ 10,950,655
Public Safety	33,346,289	0	0	33,346,289
Public Works	10,979,389	0	161,303	11,140,692
Health and Welfare	0	0	1,645,534	1,645,534
Community Development	663,306	7,460,674	1,297,413	9,421,393
Culture and Recreation	745,658	0	0	745,658
Debt Service				
Debt Service-Principal	0	0	3,127,322	3,127,322
Debt Service-Interest	0	0	3,877,706	3,877,706
Capital Outlay	0	0	450,323	450,323
Total Expenditures	<u>\$ 56,506,084</u>	<u>\$ 7,460,674</u>	<u>\$ 10,738,814</u>	<u>\$ 74,705,572</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (313,688)</u>	<u>\$ 26,940</u>	<u>\$ (5,230,801)</u>	<u>\$ (5,517,549)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):				
Proceeds From Tax Anticipation Note	\$ 14,500,000	\$ 0	\$ 0	\$ 14,500,000
Operating Transfers In	6,803,846	0	7,264,928	14,068,774
Operating Transfers Out	(6,870,895)	0	(2,197,879)	(9,068,774)
Repayment of Tax Anticipation Note	<u>(15,007,168)</u>	<u>0</u>	<u>0</u>	<u>(15,007,168)</u>
Net Other Financing Sources (Uses)	<u>\$ (574,217)</u>	<u>\$ 0</u>	<u>\$ 5,067,049</u>	<u>\$ 4,492,832</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ (887,905)	\$ 26,940	\$ (163,752)	\$ (1,024,717)
Fund Balances, Beginning of Year	<u>(222,574)</u>	<u>64,261</u>	<u>2,727,059</u>	<u>2,568,746</u>
FUND BALANCES, END OF YEAR	<u>\$ (1,110,479)</u>	<u>\$ 91,201</u>	<u>\$ 2,563,307</u>	<u>\$ 1,544,029</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

Net Changes in Fund Balances - Total Governmental Funds \$ (1,024,717)

Amounts Reported for Governmental Activities in the statement of activities are different because:

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 1,417,774	
Depreciation	<u>(5,606,462)</u>	(4,188,688)

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 tax revenue decreased by this amount this year. (1,225,459)

Because some refuse fees 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 refuse fee revenue increased by this amount this year. (1,762,596)

Internal service fund is used by management to charge the cost of the workmen's compensation insurance fund to various departments. The net revenue of the internal service fund is reported with governmental activities.

Change in revenue and expenditures is as follows:

Investment Income	\$ 603,169	
Elimination of expenditure on general fund and revenue on internal service fund	1,624,790	
Recording on expenditures on internal service fund in governmental activities	<u>(8,566,049)</u>	(6,338,090)

Deferred loans are loans made by SRA to qualified projects that will be repaid in future years but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. (27,198)

In the statement of activities compensated absences are measured by the amounts earned during the year. In governmental funds however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. (1,008,807)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

In the statement of activities Post Retirement Benefits are measured by the amounts earned during the year. In governmental funds however, expenditures for these items are measured by the amount of financial resources used.

This Amount represents the difference between the amount earned versus the amount used. (3,649,537)

Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also governmental funds reports the effect of issuance cost, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Advance refunding of prior debt is an expenditure in the governmental funds, whereas the difference between the carrying amount and advance refunding is deferred and amortized in the statement of net assets. The effect of these transactions in the statement of activities is shown below:

Bond Discount, Net of Amortization	\$	(46,319)	
Deferred Loss on Early Retirement of Debt, Net of Amortization		(215,234)	
Repayment of General Bond Principal		2,460,000	
Repayment of Governmental Note Payable		172,240	
Repayment of Capitalized Lease Principal		626,311	
Bond Issuance Cost, Net of Amortization		<u>(275,599)</u>	2,721,399

Interest on Long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here. 28,210

Long-Term Court Awards represents accrual for back pay awards for the period January 1, 2003 to December 31, 2011 and settlement of other employee matters. This amount differs from the amount reported in the Governmental Funds because it has not been liquidated with expendable available resources as of the date of the financial statements. (4,359,725)

Change in Net Assets of Governmental Activities \$ (20,835,208)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR		
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
ASSETS					
Cash and Cash Equivalents	\$ 9,044,554	\$ 369,771	\$ 2,369	\$ 9,416,694	\$ 738,007
Investments	0	0	0	0	12,152,552
Accounts Receivable, Net	3,793,015	174,945	0	3,967,960	0
Accrued Interest	0	0	0	0	87,698
Due From Other Funds	0	9,663	0	9,663	5,000,000
Prepaid Assets	0	13,826	0	13,826	0
Other Current Assets	312,913	0	0	312,913	0
Restricted Assets:					
Restricted Cash and Cash Equivalents	10,380,557	1,004,453	0	11,385,010	110,433
Restricted Investments	1,590,198	3,769,501	0	5,359,699	0
Restricted Accrued Interest Receivable	3,381	27,224	0	30,605	0
Accounts Receivable - Assessments	386,129	0	0	386,129	0
Capital Assets:					
Land	130,029	1,967,064	0	2,097,093	0
Land Improvements	0	309,045	0	309,045	0
Buildings and Improvements	111,570,481	56,575,405	0	168,145,886	0
Equipment	9,361,645	433,587	0	9,795,232	0
Construction In Progress	3,784,351	89,726	0	3,874,077	0
Accumulated Depreciation	(77,875,959)	(11,603,704)	0	(89,479,663)	0
Deferred Charges, Net	194,759	1,874,533	0	2,069,292	0
<b>TOTAL ASSETS</b>	<b>\$ 72,676,053</b>	<b>\$ 55,015,039</b>	<b>\$ 2,369</b>	<b>\$ 127,693,461</b>	<b>\$ 18,088,690</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR	TOTAL	
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
<b>LIABILITIES</b>					
Short-Term Debt	\$ 0	\$ 166,216	\$ 0	\$ 166,216	\$ 0
Current Portion Of Long Term Debt	1,219,628	104,876	0	1,324,504	0
Accounts Payable	787,753	66,282	0	854,035	236,265
Accrued Liabilities	258,562	48,866	0	307,428	0
Current Liabilities Payable From Restricted Assets:					
Revenue Bonds & Notes Payable	0	995,000	0	995,000	0
Accrued Construction Cost	167,055	7,200	0	174,255	0
Accrued Revenue Bond Interest Payable	269,313	439,991	0	709,304	0
Noncurrent Liabilities:					
Workers' Compensation Claims Payable	0	0	0	0	21,191,810
Long-Term Debt Obligations	37,448,125	52,779,083	0	90,227,208	0
Deferred Loss On Early Retirement Of Debt	0	(368,032)	0	(368,032)	0
Accrued Compensated Absences	664,898	0	0	664,898	0
<b>TOTAL LIABILITIES</b>	<b>\$ 40,815,334</b>	<b>\$ 54,239,482</b>	<b>\$ 0</b>	<b>\$ 95,054,816</b>	<b>\$ 21,428,075</b>
<b>NET ASSETS</b>					
Investment in Capital Assets, Net of Related Debt	\$ 5,251,370	\$ (5,057,747)	\$ 0	\$ 193,623	\$ 0
Restricted for:					
Debt Service, Capital Expenditure, and Long Term Liabilities	11,197,767	4,357,824	0	15,555,591	(3,339,385)
Unrestricted	15,411,582	1,475,480	2,369	16,889,431	0
<b>TOTAL NET ASSETS</b>	<b>\$ 31,860,719</b>	<b>\$ 775,557</b>	<b>\$ 2,369</b>	<b>\$ 32,638,645</b>	<b>\$ (3,339,385)</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 16,951,350	\$ 3,090,803	\$ 0	\$ 20,042,153	\$ 1,624,790
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,513,888
Salaries, Wages, and Fringe Benefits	6,641,520	514,646	0	7,156,166	0
Insurance	180,436	204,947	0	385,383	0
Depreciation	2,711,967	1,350,193	0	4,062,160	0
Other	4,432,866	498,171	45	4,931,082	52,161
Total Operating Expenses	\$ 13,966,789	\$ 2,567,957	\$ 45	\$ 16,534,791	\$ 3,566,049
Income (Loss) from Operations	\$ 2,984,561	\$ 522,846	\$ (45)	\$ 3,507,362	\$ (1,941,259)
Non Operating Revenues (Expenses):					
Investment Income	\$ 145,058	\$ 682,474	\$ 1	\$ 827,533	\$ 603,169
Interest Expense	(711,597)	(2,683,593)	0	(3,395,190)	0
Bond Discount	0	(11,723)	0	(11,723)	0
State Grant Revenue	2,500,000	71,561	0	2,571,561	0
Other Revenues	501,521	0	0	501,521	0
Provision for Uncollectible Accounts	0	(18,858)	0	(18,858)	0
Amortization of Deferred Charges	(16,135)	(67,399)	0	(83,534)	0
Total Non operating Revenues (Expenses)	\$ 2,418,847	\$ (2,027,538)	\$ 1	\$ 391,310	\$ 603,169
Transfers Out	\$ 0	\$ 0	\$ 0	\$ 0	\$ (5,000,000)
Net Transfers Out	\$ 0	\$ 0	\$ 0	\$ 0	\$ (5,000,000)
Change in Net Assets	\$ 5,403,408	\$ (1,504,692)	\$ (44)	\$ 3,898,672	\$ (6,338,090)
Net Assets at Beginning of Year	26,457,311	2,280,249	2,413	28,739,973	2,998,705
NET ASSETS AT END OF YEAR	<u>\$ 31,860,719</u>	<u>\$ 775,557</u>	<u>\$ 2,369</u>	<u>\$ 32,638,645</u>	<u>\$ (3,339,385)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Cash Flows From Operating Activities:					
Cash Received from Customers	\$ 17,022,794	\$ 2,914,742	\$ 0	\$ 19,937,536	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	1,624,790
Cash Payments to Vendors	(4,690,116)	(1,212,234)	(45)	(5,902,395)	(3,008,927)
Cash Payments to Employees	<u>(6,635,968)</u>	<u>0</u>	<u>0</u>	<u>(6,635,968)</u>	<u>0</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ 5,696,710</u>	<u>\$ 1,702,508</u>	<u>\$ (45)</u>	<u>\$ 7,399,173</u>	<u>\$ (1,384,137)</u>
Cash Flows From Non Capital Financing Activities:					
Other Revenue Received	<u>\$ 501,521</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 501,521</u>	<u>\$ 0</u>
Net Cash Provided by Non Capital Financing Activities	<u>\$ 501,521</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 501,521</u>	<u>\$ 0</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (3,634,849)	\$ (169,342)	\$ 0	\$ (3,804,191)	\$ 0
Proceeds from Issuance of Debt	0	2,900,000	0	2,900,000	0
Proceeds Line of Credit	0	150,000	0	150,000	0
Grant Income	2,500,000	65,000	0	2,565,000	0
Interest Paid on Bonds	(1,476,409)	(2,604,487)	0	(4,080,896)	0
Retirement of Bonds	(1,618,918)	(952,422)	0	(2,571,340)	0
Purchase of deferred asset	0	(163,500)	0	(163,500)	0
Payment Line of Credit	<u>0</u>	<u>(733,784)</u>	<u>0</u>	<u>(733,784)</u>	<u>0</u>
Net Cash Used in Capital and Related Financing Activities	<u>\$ (4,230,176)</u>	<u>\$ (1,508,535)</u>	<u>\$ 0</u>	<u>\$ (5,738,711)</u>	<u>\$ 0</u>
Cash Flow From Investing Activities:					
Sale of Investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,917,316
Purchase Of Investments	0	0	0	0	(10,910,649)
Advance To Other Funds	0	0	0	0	(5,000,000)
Operating Transfer To Other Funds	0	0	0	0	(5,000,000)
Interest on Cash and Investments	<u>191,235</u>	<u>145,119</u>	<u>1</u>	<u>336,355</u>	<u>561,165</u>
Net Cash Provided By (Used In) Investing Activities	<u>\$ 191,235</u>	<u>\$ 145,119</u>	<u>\$ 1</u>	<u>\$ 336,355</u>	<u>\$ (5,432,168)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 2,159,290</u>	<u>\$ 339,092</u>	<u>\$ (44)</u>	<u>\$ 2,498,338</u>	<u>\$ (6,816,305)</u>
Cash and Cash Equivalents, Beginning of Year	<u>17,265,821</u>	<u>1,035,132</u>	<u>2,413</u>	<u>18,303,366</u>	<u>7,664,745</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,425,111</u>	<u>\$ 1,374,224</u>	<u>\$ 2,369</u>	<u>\$ 20,801,704</u>	<u>\$ 848,440</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>TOTAL</u>	<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>SEWER AUTHORITY</u>	<u>MUNICIPAL PARKING AUTHORITY</u>	<u>MUNICIPAL RECREATION AUTHORITY</u>		
Reconciliation Of Income from Operations to Net Cash Provided by (Used In) Operating Activities:					
Income (Loss) from Operations	\$ 2,984,561	\$ 522,846	\$ (45)	\$ 3,507,362	\$ (1,941,259)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used In) Operating Activities					
Depreciation	2,711,967	1,350,193	0	4,062,160	0
Change in Assets and Liabilities:					
(Increase) Decrease in:					
Accounts Receivable	71,444	80,396	0	151,840	0
Due From Other Funds	0	0	0	0	0
Other Assets	(3,052)	(1,135)	0	(4,187)	0
Increase (Decrease):					
Accounts Payable	(19,275)	(238,194)	0	(257,469)	(60,531)
Accrued Liabilities	(82,894)	(11,598)	0	(94,492)	0
Accrued Compensated Absences	33,959	0	0	33,959	0
Accrued Workers' Compensation Claims Payable	0	0	0	0	617,653
Net Cash Provided by (Used In) Operating Activities	<u>\$ 5,696,710</u>	<u>\$ 1,702,508</u>	<u>\$ (45)</u>	<u>\$ 7,399,173</u>	<u>\$ (1,384,137)</u>
Reconciliation of Total Cash and Cash Equivalents					
Current Assets - Cash and Cash Equivalents	\$ 9,044,554	\$ 369,771	\$ 2,369	\$ 9,416,694	\$ 738,007
Restricted Assets - Cash and Cash Equivalents	<u>10,380,557</u>	<u>1,004,453</u>	<u>0</u>	<u>11,385,010</u>	<u>110,433</u>
 TOTAL CASH AND CASH EQUIVALENTS	 <u>\$19,425,111</u>	 <u>\$ 1,374,224</u>	 <u>\$ 2,369</u>	 <u>\$ 20,801,704</u>	 <u>\$ 848,440</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
DECEMBER 31, 2011

ASSETS

Cash and Short - Term Investments		\$ 190,475
Receivables:		
Members' Contributions	\$ 22,554	
Due from General fund	120	
Accrued Interest	<u>37</u>	
Total Receivables		22,711
Investments		<u>47,262,726</u>
TOTAL ASSETS		<u><u>\$47,475,912</u></u>

LIABILITIES & NET ASSETS

Liabilities		
Accrued Administrative Expenses	\$ 44,113	
Accrued Investment Expenses	<u>21,781</u>	
TOTAL LIABILITIES		<u>\$ 65,894</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		<u><u>\$47,410,018</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The City complies with generally accepted accounting principles in the United States of America applicable to state and local governments (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity: The City of Scranton, Pennsylvania (the "City") was incorporated in 1866 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. The City is a class 2A city, as defined by the state statutes. The City operates under a mayor-council form of government and provides the following services: public safety, roads, sanitation, health, culture and recreation, and general government services.

The City has evaluated its relationship with the following organizations to determine if these organizations should be included in the annual government-wide and fund-financial statements of the City.

- Sewer Authority of the City of Scranton, Pennsylvania
- Parking Authority of the City of Scranton, Pennsylvania
- Scranton Municipal Recreation Authority
- Redevelopment Authority of the City of Scranton
- Scranton Housing Authority
- Scranton School District
- Scranton Lackawanna Health and Welfare Authority
- Municipal Industrial Development Authority of Scranton
- Joint Zoo Authority of the City of Scranton and the County of Lackawanna
- Scranton Public Library
- Single Tax Office

As required by Governmental Accounting Standards Board Statements No. 14, and GASB 39 determining whether organizations are component units – an amendment of GASB Statement #14 the financial reporting entity, these entities have been placed in one of the following categories.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

- 1)      Component Unit - A legally separate organization for which meet the following criteria: a) Financial interdependency, b) Selection of governing authority, c) Designation of management, d) Ability to significantly influence operations, e) Scope of public service, f) Accountability for fiscal matters, and g) Special Financing Relationships. This type of entity may then be reported in one of the two following manners:

Discrete presentation - Financial data for the component unit is presented in a column separate from that of the City's financial data. There is no such presentation included in the City's government wide and fund financial statements.

Blended presentation - Financial data for the component unit is presented in the same manner as that of the City's financial data and is reported as part of the City's financial operations.

- 2)      Joint Venture - A legal entity or other organization resulting from a contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility. There are no such entities included in the City's reporting entity.
- 3)      Related Organization - An organization for which the City is not financially accountable even though the City appoints a voting majority of the organization's governing board.

As a result of applying these criteria, the following organizations have been categorized and determined to be and are presented as blended component units for the year ended December 31, 2011.

Sewer Authority of the City of Scranton, Pennsylvania: The Sewer Authority of the City of Scranton, Pennsylvania (the "Sewer Authority") owns the sewer system that provides waste water treatment services to the City and nearby communities. The City appoints all Sewer Authority members and guarantees its bonded debt. The Sewer Authority reports its financial position and its operating activities on a fiscal year of April 1 to March 31. The amounts included in the accompanying government-wide and fund financial statements for the Sewer Authority reflects its operating results for its fiscal year of April 1, 2010 to March 31, 2011.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Parking Authority of the City of Scranton, Pennsylvania: The Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") operates parking facilities within the City. The City appoints all Parking Authority members and the City guaranteed its bonded debt.

As discussed in Note 17 Going Concern, the Parking Authority's financial statements have been prepared assuming the Parking Authority will continue as a going concern; however, the conditions raise substantial doubt about the Parking Authority's ability to do so. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Scranton Municipal Recreation Authority: The Scranton Municipal Recreation Authority (the "Recreation' Authority") operated the City's municipal golf course. The City appoints all Recreation Authority members and guaranteed its debt.

Redevelopment Authority of the City of Scranton: The Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") operates for the purpose of promoting the elimination of blighted areas by declaring acquisition, sound replanning and redevelopment of such areas to be for the promotion of health, safety, convenience, and welfare for the general public good, through contract with private redevelopers and public authorities for redevelopment. The City appoints all Redevelopment Authority members and assigned repayment on seven loans receivable related to Urban Development Action Grants, Enterprise Development Zone Grants, and Commercial Industrial Loans toward repayment of the Redevelopment Authority's debt and is financially dependent upon the city.

To obtain individual financial statements for any of the above-mentioned entities, individuals should contact the administrative office of each specific entity.

#### BASIS OF PRESENTATION

Government-wide Financial Statements: The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

1) Governmental Fund Types

- a) The General Fund is the general operating fund of the City and is always classified as a major fund. It accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in the fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.
- b) Special Revenue Funds are utilized to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) used to finance specific activities as required by law or administrative regulation. The following funds included in the accompanying government-wide and fund-financial statements are accounted for as Special Revenue Funds: Special City, Liquid Fuels, Office of Economic and Community Development (OECD), and Redevelopment Authority of the City of Scranton.

The OECD is classified as a major fund. Liquid Fuels, Redevelopment Authority of the City of Scranton, and Special Cities are classified as non-major funds.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

- c)      Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest, and related costs on general long-term debt. The fund balance of the Debt Service Fund is reserved to signify the amounts are restricted exclusively for Debt Service Expenditure, and is classified as a non-major fund.
  
- d)      Capital Project Fund is used to account for the acquisition or construction of capital facilities being financed from general obligation bond proceeds, or transfers from other funds and is classified as a non-major fund.

2.      Proprietary Fund Types:

- a)      Internal Service Funds: The Internal Service Fund is used to account for the financing of goods or services provided by one department to other departments on a cost reimbursement basis. The City accounts for its self-insurance of worker's compensation claims in this fund. These are Proprietary Funds reported within governmental activities in the government-wide financial statements.
  
- b)      Enterprise Funds: The enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Sewer Authority, Parking Authority, and Recreation Authority.

The Sewer Fund and Parking Authority are classified as major funds. The Recreation Authority is classified as a non-major fund.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses from the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

- c)      Fiduciary Fund Type: Fiduciary Funds are used to account for assets held by the City in a trustee capacity or an agent for individuals, private organizations, other governmental units and/or other funds. The Pension Trust Funds consist of the Police Pension Fund, Firemen Pension Fund, and Nonuniformed Pension Fund. These funds are accounted for within a single aggregate fund.

Management Focus and Basis of Accounting. The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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 collectible within the current period or soon enough thereafter to pay current liabilities. The City considers property tax revenues to be available if they are collected within 60 days of the end of the calendar 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.

Major revenue sources susceptible to accrual include: Act 511 Taxes, property taxes, refuse disposal fee, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

The City reports deferred revenue on its government-wide and fund financial balance sheet. Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying Expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**Budgetary Process:** The City follows these procedures in developing the budgetary data reflected in the accompanying financial statements:

The preparation of the annual operating budget begins by September 15 for the subsequent budget year. By November 15, the Mayor submits to City Council a proposed budget for the General Fund for the fiscal year commencing January 1. City Council publishes, in one or more newspapers of general circulation within the City, a summary of the budget and a notice that the budget is available for public inspection. A public hearing takes place by December 1, at which time City Council may adopt the budget with or without amendment. In amending the budget, City Council may delete, increase or decrease programs or amounts, except for expenditures required by law or for debt service. If a change in a program or a budgetary item exceeds 10% of the Mayor's proposed budget, another public hearing must take place within 72 hours to justify the change. In no case can an amendment increase authorized expenditures to an amount greater than total estimated funds available. City Council must adopt an annual budget by December 15. If City Council fails to adopt a budget by December 15, the Mayor's proposed budget becomes the official budget for the City for the ensuing year.

**Cash, Cash Equivalents and Investments:** For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

**Investments:** City investments are stated at fair value based on quoted market prices. Fair value is the amount at which a financial investment could be exchanged in a current transaction between willing parties.

**Real Estate Taxes:** Real Estate Taxes are based upon assessed valuations provided by Lackawanna County. The elected tax collector bills and collects real estate taxes. The assessed value at January 1, 2011, upon which the 2011 levy was based, was approximately \$385 million. Delinquent taxes for the first year are collected by the Single Tax Office and thereafter are collected by an outside collection agency. The schedule for real estate taxes levied is as follows:

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

February 1	Original levy date
February 1 - March 1	2 1/2% discount period
March 1 - April 30	2% discount period
May 1 - June 30	Face payment period
July 1 - January 15	10% penalty period
January 16	Lien date

In addition, City taxes may be paid in four installments in which the first two quarterly payments aggregating 50% of the face amount are due by June 30. The third and fourth quarterly payments are due on August 31 and October 31, respectively. Any delinquent installment is subject to a penalty of 10%.

The millage rate at January 1, 2011 was 92.263 mills on the assessed value of land and 20.065 mills on the assessed value of improvements.

Real Estate Taxes Receivable: The City utilizes the reserve method for writing off uncollectible real estate taxes.

Allowance for Doubtful Accounts: Accounts Receivable included in the Enterprise Fund represent amounts outstanding from Sewer Authority customer's reported net of an allowance for doubtful accounts of \$1,959,000 at March 31, 2011. The Authority's policy for providing for uncollectible accounts is to charge current year earnings for accounts receivable considered currently uncollectible, based on the historical collection experience of the Sewer Authority and collection percentages applicable to public utilities.

A major portion of the allowance for doubtful accounts is felt to be collectible in future years because of the Authority's power to convert past due accounts into municipal claims. This procedure is an operation of law and the claims have the status of a legal lien or judgment. There are currently in force municipal claims of approximately three million dollars.

The Parking Authority provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. There was no allowance at December 31, 2011.

Loans Receivable: Loans receivable consist of economic development loans to third parties that are administered by OECD and the Redevelopment Authority. Most of these loans bear interest, usually at a very low rate. These loans receivable, are reported at the gross principal outstanding. The outstanding loans are considered deferred revenue until collection of the principal is received. Interest income is recorded when received.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Interfund Receivables and Payables: During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Grant Funds are considered to be earned to the extent of expenditures made under the provision of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

Fixed Assets: The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to December 31, 2002.

Depreciation of all exhaustible fixed assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Sewer Authority</u> <u>Useful Life</u>	<u>Parking Authority</u> <u>Useful Life</u>
Building and Building Improvements		10-50 years
Sewer treatment plant	40 years	
Land improvements	10 years	10-15 years
Operating equipment	10 years	3-10 years
Vehicles	3- 6 years	
Extraordinary repairs:		
Sewer system	20 years	
Equipment	5 years	

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

	Redevelopment Authority Useful Life	Governmental Funds
Equipment	15 years	
Building and Building Improvements		20-50 years
Land Improvements		10-15 years
Operating Equipment		05-07 years
Vehicles		08-15 years
Roadways		30-50 years
Traffic Systems		15 years

GASB No. 34 required the City to report and depreciate new infrastructure assets effective with implementation of GASB-34. Infrastructure assets include roads, bridges, underground pipe (other than related utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation had been historically reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2007. The City implemented the retroactive infrastructure provisions in the fiscal year ending December 31, 2007.

#### Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

#### Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds and notes payable and accrued compensated absences.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Bond issuance cost in the Government-wide and Proprietary are amortized over the terms of the respective bonds using the straight line method. Bond discounts, premium, the reacquisition price, and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The Government Fund Financial Statements recognizes the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Equity:

Beginning with fiscal year 2011, the City of Scranton, Pennsylvania implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a 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 high 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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

- Assigned fund balance – amounts a 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.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences: The City's vacation policy generally provides that unused vacation benefits lapse at year-end. Unused vacation may be carried over only with the approval of the department head. Unused sick pay accumulates to varying maximum amounts for the various classes of City employees. At December 31, 2011 aggregate liability for unused vacation and sick pay is \$3,111,987.

Note 2      Cash and Cash Equivalents and Investments

Pennsylvania Statutes provide for investment of governmental funds into certain authorized investment types including U. S. Treasury bills, other short-term U.S. and Commonwealth of Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

The deposit policy of the City adheres to state statutes. Deposits of the City are either maintained in demand deposits or invested in certificates of deposit.

Custodial Credit Risk: 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 government does not have a deposit policy for custodial credit risk. As of December 31, 2011, \$27,507,615 of the government's bank balance of \$30,441,564 was exposed to custodial credit risk as follows:

Secured by FDIC Insurance up to \$250,000 per Bank	\$ 2,933,949
Uninsured and collateral held by pledging banks' trust department not in the city's name	<u>27,507,615</u>
Total	<u>\$ 30,441,564</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2011, the City had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings ( 1 )	Weighted Average Months To Maturity ( 2 )
<b>GOVERNMENTAL FUNDS</b>				
Primary Government:				
Internal Service Fund				
Corporate Obligations:				
Domestic	\$ 766,805	\$ 738,487	A 1	65.61
Domestic	1,927,635	1,893,339	A 2	30.48
Domestic	838,488	748,700	A 3	38.66
Domestic	912,408	854,294	A A 2	35.14
Domestic	393,715	377,883	A A 3	51.38
Johnson & Johnson (3)	1,682,694	1,693,068	A A A	30.48
Governmental Securities:				
U. S. Treasury Notes	2,301,631	2,315,438	N/A	20.99
Federal Agency Notes				
FFCBank (3)	1,564,640	1,531,239	A A A	68.85
FFCredit (3)	1,279,207	1,198,042	A A A	88.12
Federal Agency Notes	485,329	466,210	A A A	79.27
Total Internal Service Fund	<u>\$ 12,152,552</u>	<u>\$ 11,816,700</u>		
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><b>\$ 12,152,552</b></u>	<u><b>\$ 11,816,700</b></u>		
<b>BUSINESS TYPE ACTIVITIES</b>				
Sewer Authority				
Governmental Securities:				
U.S. Government Obligations	\$ 1,590,198	\$ 1,590,198	N/A	3.00
Total Sewer Authority	<u>\$ 1,590,198</u>	<u>\$ 1,590,198</u>		
Parking Authority				
Other Obligations				
Interest Earnings Investment				
Contract (At Cost)	\$ 1,173,528	\$ 1,173,528	N/A	152.50
Governmental Securities:				
U.S. Government Obligations	2,595,973	2,595,973	N/A	304.50
Total Parking Authority	<u>\$ 3,769,501</u>	<u>\$ 3,769,501</u>		
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<u><b>\$ 5,359,699</b></u>	<u><b>\$ 5,359,699</b></u>		
<b>TOTAL INVESTMENTS</b>	<u><b>\$ 17,512,251</b></u>	<u><b>\$ 17,176,399</b></u>		
Fiduciary Funds				
Pension Trust Fund				
Mutual Funds				
Equity Funds	\$ 37,642,535	\$ 37,642,535	N/A	N/A
Cash and Cash Equivalents	190,475	190,475	N/A	N/A
Fixed Income	9,620,191	9,620,191	A A	N/A
Total Pension Trust Fund	<u>\$ 47,453,201</u>	<u>\$ 47,453,201</u>		

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2      Cash and Cash Equivalents and Investments (Continued)

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated weighted average months to maturity.
- (3) Concentration of credit risk by amount and by issuer investments in any one issuer that that represent 5% or more of total investments seperately disclosed

The City did not have a formal investment policy. Investments are monitored through an investment advisor. On September 21, 2010, the City entered into an agreement with Penn Security Bank & Trust for \$10,000,000 and Fidelity Deposit & Discount Bank for the remaining assets of the Workmen’s Compensation Fund.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. To extent practical, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer.

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

Note 3      Taxes and Fees Receivable

Taxes and fees receivable in the General Fund consist of the following at December 31, 2011:

Current Real Estate Taxes	\$ 353,303
Delinquent Real Estate Taxes	12,364,206
Act 511 Taxes:	
Earned Income	4,086,631
Local Service Tax	391,380
Business Priviledge/Mercantile	64,969
Delinquent Refuse Disposal Fee	<u>6,646,881</u>
Total	\$ 23,907,370
Less:	
Allowance for Uncollectible Taxes & Fees	<u>(10,456,668)</u>
Net	<u><u>\$ 13,450,702</u></u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 3      Taxes and Fees Receivable (Continued)

Of the above, the receivables not expected to be collected within one year are \$4,200,000 delinquent real estate taxes and \$4,400,000 delinquent refuse disposal fee after provision for uncollectible taxes and fees.

Note 4      Due From and Due to Other Funds

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2011 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund		
OECD	\$           95,247	\$                   0
Special Cities	34,794	569,891
Capital Projects	1,664	0
Parking Authority	0	9,663
Pension Fund	0	120
Liquid Fuels	0	79,224
Insurance fund	0	5,000,000
Special Cities		
General Fund	569,891	34,794
Capital Projects	0	1,456
OECD		
Redevelopment Authority	487,137	0
General Fund	0	95,247
Redevelopment Authority		
OECD	0	487,137
Capital Projects Fund		
Special Cities	1,456	0
General Fund	0	1,664
Pension		
General Fund	120	0
Liquid Fuels		
General Fund	79,224	0
Insurance Fund		
General Fund	5,000,000	0
Parking Authority		
General Fund	9,663	0
	<u>\$           6,279,196</u>	<u>\$           6,279,196</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance at January 1, 2011	Additions	Disposals	Balance at December 31, 2011
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 3,485,506	\$ 0	\$ 0	\$ 3,485,506
Construction in Progress	<u>8,895,714</u>	<u>623,945</u>	<u>(27,798)</u>	<u>9,491,861</u>
Total Capital Assets Not Being Depreciated	<u>\$ 12,381,220</u>	<u>\$ 623,945</u>	<u>\$ (27,798)</u>	<u>\$ 12,977,367</u>
Capital assets being depreciated				
Building	\$ 11,997,815	\$ 0	\$ 0	\$ 11,997,815
Land & Building Improvements	7,780,411	105,044	0	7,885,455
Infrastructure	111,317,219	630,047	0	111,947,266
Vehicles, Furniture & Equipment	<u>17,735,974</u>	<u>86,536</u>	<u>0</u>	<u>17,822,510</u>
Total Capital Assets being Depreciated	<u>\$ 148,831,419</u>	<u>\$ 821,627</u>	<u>\$ 0</u>	<u>\$ 149,653,046</u>
Totals at Historical Cost	<u>\$ 161,212,639</u>	<u>\$ 1,445,572</u>	<u>\$ (27,798)</u>	<u>\$ 162,630,413</u>
Less: Accumulated Depreciation				
Building	\$ (3,930,345)	\$ (245,058)	\$ 0	\$ (4,175,403)
Land & Building Improvements	(3,252,136)	(640,828)	0	(3,892,964)
Infrastructure	(45,913,752)	(3,397,964)	0	(49,311,716)
Vehicles, Furniture & Equipment	<u>(10,389,615)</u>	<u>(1,322,612)</u>	<u>0</u>	<u>(11,712,227)</u>
Total Accumulated Depreciation	<u>\$ (63,485,848)</u>	<u>\$ (5,606,462)</u>	<u>\$ 0</u>	<u>\$ (69,092,310)</u>
Governmental Activities Capital Assets, Net	<u>\$ 97,726,791</u>	<u>\$ (4,160,890)</u>	<u>\$ (27,798)</u>	<u>\$ 93,538,103</u>
<b>Business - Type Activities:</b>				
Capital assets not being depreciated				
Land	\$ 2,097,093	\$ 0	\$ 0	\$ 2,097,093
Construction in Progress	<u>1,064,292</u>	<u>2,930,132</u>	<u>(120,347)</u>	<u>3,874,077</u>
Total Capital Assets Not Being Depreciated	<u>\$ 3,161,385</u>	<u>\$ 2,930,132</u>	<u>\$ (120,347)</u>	<u>\$ 5,971,170</u>
Capital assets being depreciated				
Land Improvements	\$ 309,045	\$ 0	\$ 0	\$ 309,045
Building & Building Improvements	166,789,905	1,355,981	0	168,145,886
Equipment	<u>9,374,880</u>	<u>420,352</u>	<u>0</u>	<u>9,795,232</u>
Total Capital Assets being Depreciated	<u>\$ 176,473,830</u>	<u>\$ 1,776,333</u>	<u>\$ 0</u>	<u>\$ 178,250,163</u>
Totals at Historical Cost	<u>\$ 179,635,215</u>	<u>\$ 4,706,465</u>	<u>\$ (120,347)</u>	<u>\$ 184,221,333</u>
Less: Accumulated Depreciation				
Land Improvements	\$ (9,069,984)	\$ (2,337,479)	\$ 0	\$ (11,407,463)
Building & Building Improvements	(69,022,767)	(1,355,088)	0	(70,377,855)
Equipment	<u>(7,323,549)</u>	<u>(370,796)</u>	<u>0</u>	<u>(7,694,345)</u>
Total Accumulated Depreciation	<u>\$ (85,416,300)</u>	<u>\$ (4,063,363)</u>	<u>\$ 0</u>	<u>\$ (89,479,663)</u>
Business - Type Capital Assets, Net	<u>\$ 94,218,915</u>	<u>\$ 643,102</u>	<u>\$ (120,347)</u>	<u>\$ 94,741,670</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets (Continued)

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 218,438
Public Safety	557,660
Public Works	4,031,902
Parks & Recreation	762,848
Community Development	855
Unallocated	<u>34,759</u>
Total Depreciation Expense	<u>\$ 5,606,462</u>

Governmental Activities:

Construction-in-progress of \$9,491,861 consists of expenditures relating to the construction of flood control projects and improvement to various city roads and bridges. Commitments at December 31, 2011 totaled approximately \$4,000,000.

Business Type Activities:

Construction in progress at December 31, 2011 for the Parking Authority, consisted of expenditures paid in connection with pay stations for the Electric City and SPA Garages. Estimated completion date is spring 2012 in the amount of \$262,000.

In December, 2002, the Environmental Protection Agency issued a compliance order requiring the Sewer Authority to make certain capital improvements. Initial costs are estimated to be approximately \$5,500,000 for the planning phase of the project. The total cost of the capital improvements cannot be estimated until the planning phase is complete. The Sewer Authority expects to obtain funding for this project through a bond issue and available grant funding.

During the year ended March 31, 2004, the Sewer Authority entered into a subgrant agreement with Lackawanna County as partial funding for the project. The total amount of the subgrant is \$4,178,295, as amended, with the Sewer Authority responsible for 45%. For the year ended March 31, 2011, the County did not invoice the Sewer Authority. Total construction in progress for this project at March 31, 2011 amounted to \$5,901,764.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 6      Short-Term Debt

The following summarizes the changes in short-term debt of the General Fund and the Enterprise Fund for the year ended December 31, 2011:

	Balance 01/01/11	Increases	Decreases	Balance 12/31/11
General Fund				
Tax Anticipation Note Payable	\$ 9,500,000	\$ 0	\$ 9,500,000	\$ 0
Sewer Authority:				
Line of Credit	127,223	116,082	243,305	0
Parking Authority:				
Line of Credit	750,000	150,000	733,784	166,216
	<u>\$10,377,223</u>	<u>\$ 266,082</u>	<u>\$10,477,089</u>	<u>\$ 166,216</u>

The City of Scranton borrowed \$9,500,000 4% interest tax anticipation note payable in 2010 from a local bank. The note was repaid in January 2011. Total repayment in 2011 was \$9,880,473.

Sewer Authority

Line of Credit: In November 2010, the Sewer Authority renewed a \$4,000,000 line of credit to provide interim financing for a capital improvement program. Interest is payable monthly at a variable rate equal to 70% of the prime rate (2.275% at March 31, 2011). Security for the line of credit is all receipts and accounts receivable. The line of credit matures November, 2015. There were no borrowings at March 31, 2011.

On January 20, 2011, the Authority renewed a \$ 2,000,000 line of credit to be used for general working capital. Interest is payable at a variable rate equal to National Prime, but never less than a floor of 4%. Security for the line of credit is all receipts and accounts receivable, accounts, instruments, and contract rights. The line of credit will expire December 21, 2011, and will be renewable at the option of the Bank. There was no activity for the year ended March 31, 2011 and there were no borrowings outstanding at March 31, 2011.

Parking Authority

The Parking Authority had a line of credit with a local bank for working capital purposes. The maximum borrowing capacity is \$900,000 and the line bears interest at the national prime rate (3.25% at December 31, 2011).

The line was renewed with the same terms in January 2012, but was terminated in June 2012, see Note 17.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2011:

	Balance 01/01/11	Additions	(Amortization) Accretion	Retirements	Balance 12/31/11	Due With In One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligations Bonds:						
Emmaus General Authority Series 2002	\$ 6,005,000	\$ 0	\$ 0	\$ 245,000	\$ 5,760,000	\$ 255,000
Series A of 2003	1,990,000	0	0	475,000	1,515,000	490,000
Series B of 2003	30,650,000	0	0	790,000	29,860,000	815,000
Series C of 2003	15,810,000	0	0	380,000	15,430,000	395,000
Series D of 2003	9,950,000	0	0	570,000	9,380,000	590,000
(Amortization) / Accretion	(311,608)	0	46,319	0	(265,289)	0
Total General Obligation Bonds	\$ 64,093,392	\$ 0	\$ 46,319	\$ 2,460,000	\$ 61,679,711	\$ 2,545,000
Lease Obligations Payable						
2007 Capitalized Lease Vehicles	\$ 157,067	\$ 0	\$ 0	\$ 76,604	\$ 80,463	\$ 80,463
2008 Capitalized Lease Vehicles	54,625	0	0	54,625	0	0
2006 Capitalized Lease Equipment Energy System	1,218,028	0	0	85,082	1,132,946	89,461
2004 Capitalized Lease Buildings	2,770,000	0	0	340,000	2,430,000	385,000
2006 Capitalized Lease Buildings	9,725,000	0	0	65,000	9,660,000	50,000
2008 Capitalized Lease Buildings	5,895,000	0	0	5,000	5,890,000	5,000
Total Lease Obligations Payable	\$ 19,819,720	\$ 0	\$ 0	\$ 626,311	\$ 19,193,409	\$ 609,924
Notes Payable:						
Note Payable	\$ 1,609,326	\$ 0	\$ 0	\$ 48,927	\$ 1,560,399	\$ 1,560,399
Redevelopment Authority:						
Note Payable	\$ 172,667	\$ 0	\$ 0	\$ 123,313	\$ 49,354	\$ 49,354
Total Redevelopment Authority	\$ 172,667	\$ 0	\$ 0	\$ 123,313	\$ 49,354	\$ 49,354
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 85,695,105</b>	<b>\$ 0</b>	<b>\$ 46,319</b>	<b>\$ 3,258,551</b>	<b>\$ 82,482,873</b>	<b>\$ 4,764,677</b>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Revenue Bonds:						
Major Enterprise Fund:						
Parking Authority						
2004 Series	\$ 14,695,000	\$ 0	\$ 0	\$ 215,000	\$ 14,480,000	\$ 220,000
2006 Series	4,460,000	0	0	290,000	4,170,000	305,000
2007 Series	32,045,000	0	0	350,000	31,695,000	370,000
Sewer Authority						
2007 Series	16,730,000	0	0	45,000	16,685,000	45,000
Total Revenue Bonds	\$ 67,930,000	\$ 0	\$ 0	\$ 900,000	\$ 67,030,000	\$ 940,000
Notes Payable:						
Major Enterprise Fund:						
Sewer Authority						
Equipment Note Payable	\$ 7,304,362	\$ 0	\$ 0	\$ 270,393	\$ 7,033,969	\$ 282,654
2000 Series Pennvest	3,390,546	0	0	219,306	3,171,240	226,077
2002 Series Pennvest	3,457,902	0	0	199,254	3,258,648	204,852
2003 Series Pennvest	1,874,876	0	0	103,625	1,771,251	106,536
2004 Series Pennvest	3,083,486	0	0	152,840	2,930,646	155,835
2007 Series Pennvest	4,013,275	0	0	196,276	3,816,999	198,674
Parking Authority						
2009 Loan Payable	731,381	0	0	97,422	633,959	104,876
2011 Revenue Note Payable	0	2,900,000	0	0	2,900,000	100,000
	\$ 23,855,828	\$ 2,900,000	\$ 0	\$ 1,239,116	\$ 25,516,712	\$ 1,379,504
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 91,785,828</b>	<b>\$ 2,900,000</b>	<b>\$ 0</b>	<b>\$ 2,139,116</b>	<b>\$ 92,546,712</b>	<b>\$ 2,319,504</b>
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 177,480,933</b>	<b>\$ 2,900,000</b>	<b>\$ 46,319</b>	<b>\$ 5,397,667</b>	<b>\$ 175,029,585</b>	<b>\$ 7,084,181</b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

A summary of long-term debt outstanding at December 31, 2011 is as follows:

Emmaus General Authority Series 2002:

Variable rate demand bonds, Series of 1996 of Emmaus General Authority, due in annual principal installments of \$190,000 to \$440,000 commencing August 2004 through August 2028. Monthly payments of interest based upon a pro rata share of the interest accrued on the variable rate bonds calculated by the administrator based on the interest rates determined by the remarketing agent for the current month plus interest at the rate estimated by the administrator for the remaining portion of the month which has not been determined by the Remarketing Agent, plus 55 basis points. Interest rate at December 31, 2011 is 2.153%.

General Obligation Bonds, Series A of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$5,025,000. of 1.00% to 3.50% General Obligation Bonds, Series A of 2003 to provide funds to advance refund the City's General Obligation Bonds, Series of 2001 A, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2014. The bonds maturing after September 1, 2006 are subject to extraordinary mandatory redemption prior to maturity on March 1, 2006 at the direction of the City at 100% to the extent that there are available amounts generated in the preceding fiscal year as determined under IRC section 1.148-6(d)(3)(iii) of the 1986 code. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

General Obligation Bonds, Series B of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$35,650,000. of 1.30% to 4.50% General Obligation Bonds, Series B of 2003 to provide funds to advance refund the City's General Obligation Bonds, Series of 1997 A, to advance refund the City's General Obligation Bonds, Series of 2001C, to fund various capital projects within the City, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2031. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

General Obligation Bonds, Series C of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$18,145,000. of 1.40% to 5.60% Federally Taxable General Obligation Bonds

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

Pension Funding, Series C of 2003 to pay off pension management termination fee, fund the pension actuarial accrued liability, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2033. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

General Obligation Bonds, Series D of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$13,480,000. of 1.40% to 5.50% Federally Taxable General Obligation Bonds, Series D of 2003 to fund the actuarial accrued workmen's compensation liability, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2023. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

Redevelopment Authority:

Note Payable: the Authority has a note payable with Fidelity Deposit and Discount Bank, dated November 1998, maturing in August of 2012. The note carries an interest rate that will adjust every five years to a rate equal to 51.65 percent of the New York Prime Rate on each adjustment date. The rate was adjusted in November, 2008 to 2.066%. The outstanding debt is secured by the assignment of the repayments on seven loans held by the City of Scranton related to certain grant programs. The note is payable in monthly installments of \$3,500, including principal and interest, and an annual principal installment of \$84,000. The balance of the loan at December 31, 2011 was \$49,354. Interest payments in 2011 totaled \$2,428.

City of Scranton:

Note Payable: During 2007, the Authority obtained a note payable with Pennstar Bank in the amount of \$2,296,570 for the purpose of purchasing delinquent taxes from the City of Scranton. The note has an interest rate equal to the New York prime rate, not to exceed 8%, and matures in January 2012. The interest rate on December 31, 2011 was 3.25%. Interest payments on the note are due on a monthly basis commencing in February 2008. Principal payments are due quarterly beginning in April 2008 in an amount based on the available funds from the collection of delinquent taxes. The note is secured by the delinquent taxes along with all proceeds received from redemptions. The City of Scranton has an obligation to reacquire the unpaid delinquent taxes at the maturity date of the note payable in an amount necessary to satisfy the balance of the note. The Authority has no obligation beyond the repayments of the delinquent taxes and the proceeds from the City of Scranton for the reacquisition of the unpaid delinquent taxes. The balance

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

of the loan at December 31, 2011 was \$1,560,399. Interest payments in 2011 totaled \$52,007. In November 2010, the Authority terminated its contract with the agency responsible for the collection of delinquent taxes thus limiting its ability to repay the debt obligation with Pennstar Bank. In April 2011, the Authority was notified by Pennstar Bank that it was in default on its note payable due to the violation of various provisions set forth in the Note Agreement. As part of the original purchase agreement, the City of Scranton was obligated for repayment of the Note if the delinquent tax collections were not adequate to repay the Note. The City of Scranton assumed responsibility for the collection of the delinquent taxes and the related debt obligation. Based on this information, the Authority has recorded transactions to remove the delinquent taxes receivable, the debt reserve account and the debt obligation with Pennstar Bank from its financial statements for the year ended December 31, 2011. Based on this information, the City has recorded transactions to record the delinquent taxes receivable, the Debt Reserve Account, and the debt obligation with Pennstar Bank on its financial statements for the year ended December 31, 2011.

Parking Authority:

2004 Parking Revenue Bonds:

On January 1, 2004, the Authority issued \$16,145,000 of Guaranteed Parking Revenue Bonds through the Third Supplemental Trust Indenture. The proceeds from the issue were used to acquire, construct and equip a new parking facility, renovate existing parking facilities, redeem the remaining 1969 Series Bonds outstanding and establish an escrow account to advance refund \$4,580,000 of the 1995 Series Bonds.

Optional Redemption:

The 2004 Series Bonds maturing on or after September 15, 2014, are subject to redemption at the option of the Authority beginning September 15, 2013, out of monies deposited with or held by the Trustee for such purposes as a whole or in part at any time, and, in any order of maturities selected by the Authority, 100% of the par amount, plus accrued interest thereon upon thirty days notice.

Mandatory Redemption of Term Bonds:

The 2004 Bonds stated to mature on September 15, 2025 (the "2025 Bonds"), September 15, 2028 (the "2028 Bonds"), and September 15, 2033 (the "2033 Bonds"). are subject to mandatory redemption by the Authority prior to maturity, in part by lot, on September 15th of the years 2024 through 2033, inclusive, from monies in the Series of 2004 Sinking Fund, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the redemption date. The Authority covenants and directs the Trustee to redeem according to the bond document the principal amount of 2004 Series Bonds.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

2006 Parking Revenue Bonds:

On June 1, 2006, the Authority issued \$5,695,000 of Guaranteed Parking Revenue Bonds through the Fourth Supplemental Trust Indenture. The proceeds from this issue will be used to construct and equip a new parking facility (the Medallion Garage), renovate existing parking facilities, and redeem the remaining 1995 Series Bonds outstanding.

Optional Redemption:

The 2006 Series Bonds maturing on or after September 15, 2012, are subject to redemption prior to maturity, at the option of the Authority beginning September 15, 2011, out of monies deposited with or held by the Trustee for such purposes as a whole or in part at any time, and, in any order of maturities selected by the Authority, 100% of the par amount, plus accrued interest thereon upon thirty days notice.

Mandatory Redemption of Term Bonds:

The 2006 Bonds stated to mature on September 15, 2018 (the "2018 Bonds"), September 15, 2022 (the "2022 Bonds"), September 15, 2030 (the "2030 Bonds"), and September 15, 2033 (the "2033 Bonds"), are subject to mandatory redemption by the Authority prior to maturity, in part by lot, on September 15th of the years 2017 through 2033, inclusive, from the monies in the Series 2006 Sinking Fund, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the redemption date.

2007 Parking Revenue Bonds:

On October 1, 2007, the Authority issued \$32,295,000 of Guaranteed Parking Revenue Bonds through the Fifth Supplemental Trust Indenture. The proceeds from this issue will be used to construct and equip a new parking facility, renovate existing parking facilities, and pay off the lease payable due to the Redevelopment Authority for the Casey Garage.

Optional Redemption:

The 2007 Series Bonds maturing on or after June 1, 2018, are subject to redemption prior to maturity, at the option of the Authority beginning June 1, 2017, out of monies deposited with or held by the Trustee for such purposes as a whole or in part at any time, and, in any order of maturities selected by the Authority, 100% of the par amount, plus accrued interest thereon upon thirty days notice.

Mandatory Redemption of Term Bonds:

The 2007 Bonds stated to mature on June 1, 2017 (the "2017 Bonds"), June 1, 2022 (the "2022 Bonds"), June 1, 2027 (the "2027 Bonds", June 1, 2034 (the "2034 Bonds"), and June 1, 2039 (the "2039" Bonds) are subject to mandatory redemption by the Authority prior to maturity, in part by lot, on June 1st of the years 2016 through 2039, inclusive, from the monies in the Series 2007 Sinking Fund, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the redemption date.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

2009 Parking Authority Loan Payable:

During 2009, the Authority obtained a term loan from Pennstar Bank. The proceeds from the loan were used to pay off the existing Pennstar line of credit and fund debt service payments. The loan has one year of interest only payments, with monthly principal and interest payments commencing May 1, 2010 in the amount of \$12,031 per month. Interest is fixed at a rate of 6.75%. The term loan matures in April, 2017.

2011 Parking Authority Loan Payable

On September 8, 2011, the Parking Authority issued a Revenue Note in the amount of \$ 2,900,000. The Proceeds will be used to refund existing debt, fund capital improvements, and fund the cost of issuance. Interest is calculated semi-annually based on unpaid principal balance at a rate of prime plus 1.5%. The maximum rate of interest at any point in the note term shall be 12.00%. The rate at December 31, 2011 was 4.75%.

Sewer Authority:

2007 Revenue Bonds Payable:

On September 1, 2007, the Authority issued \$16,810,000 of Sewer Revenue Bonds. The proceeds from this issue will primarily be used to fund capital improvement projects.

Original Redemption:

The 2007 Series Bonds maturing on or after December 1, 2016 are subject to redemption prior to maturity, at the option of the Authority beginning December 1, 2015, out of monies deposited with or held by the Trustee for such purposes as a whole or in part at any time, and, in any order of maturities selected by the Authority, 100% of the par amount, plus accrued interest.

Mandatory Redemption:

The Bonds stated to mature on December 1, 2024, December 1, 2032, and December 1, 2036 are subject to mandatory redemption prior to maturity on December 1 of each year, in each case at a redemption price equal to 100% the principal amount thereof to be redeemed plus accrued interest to the redemption date, from funds to be deposited in the Sinking Fund, on or before December 1 of each year.

Equipment Note Payable: In 2008 the Sewer Authority received an \$8,000,000 equipment note payable with monthly payments \$52,576 including interest at 4.95% through March 2017, when all remaining principal is due. The balance outstanding at March 31, 2011 was \$7,033,969.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

Sewer Authority 2000 Series (PENNVEST Loan):

The balance outstanding at March 31, 2011 amounted to \$3,171,240. The loan is secured by the gross revenues of the Authority and the guarantee of the City of Scranton. Interest only was payable on advances until July 1, 2003, when monthly principal and interest payments are due up to and including January 2023. Interest is at 1.522% for the first 5 months and 3.045% thereafter. Legal fees relating to obtaining the financing amounted to \$44,338 and have been recorded as deferred charges.

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2011 amounted to \$3,258,468. This loan closed in October 2002 in the amount of \$4,947,000. The security is the same as above. Interest only is payable on advances until August 1, 2004, when monthly principal and interest payments are due up to and including July 1, 2024. Interest is at 1.387% for the first 81 months and 2.774% thereafter.

Sewer Authority 2003 Series (PENNVEST Loan):

The loan closed in December 2003, in the amount of \$2,806,264. The balance outstanding at March 31, 2011 amounted to \$1,771,251. The security is the same as above. Interest only is payable on advances until February 1, 2005, when monthly principal and interest payments are due up to and including January 1, 2025. Interest is at 1.387% for the first 73 months and 2.774% thereafter.

Sewer Authority 2004 Series (PENNVEST Loan):

In December 2004, the Authority closed on a fourth loan in the amount of \$3,690,127. The balance outstanding at March 31, 2011 was \$2,930,646. The security is the same as above. Monthly principal and interest payments began June 2007 and are due up to and including May 2027. Interest is at 1.942% for the first 60 months and 3.052% thereafter.

Sewer Authority 2007 Series (PENNVEST Loan):

In November, 2007, the Authority closed on a fifth loan in the amount of \$4,329,181. The balance outstanding at March 31, 2011 was \$3,816,999. The security is the same as above. Monthly principal and interest payments began May 1, 2009 and are due up to and including April, 2029. Interest is at 1.214% for the first 60 months and 2.428% thereafter.

The PENNVEST loans are federally funded and therefore subject to various compliance requirements. Refer to loan documents for complete details.

Capitalized Lease Obligation:

On December 22, 2004, the Sewer Authority issued \$4,000,000 5.99% Guaranteed Lease Revenue Bonds for the benefit of the City of Scranton pursuant to a sale/lease back agreement entered into between the Sewer Authority and the City. The Sewer Authority purchased the new DPW complex located on Popular Street and

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

leased the complex back to the City at the same terms as the Guaranteed Lease Revenue Bonds. The City will purchase the complex for \$1 at the end of the lease term. The amount outstanding on the bonds at December 31, 2011 was \$2,430,000. Interest is payable on June 15th and December 15th each year with final maturity on December 15, 2016. Principal is payable annually starting on December 15, 2006. The City has guaranteed the Sewer Authority Debt.

On December 1, 2006, the Redevelopment Authority issued \$10,000,000 6.10% Federally Taxable Guaranteed Lease Revenue Bonds, Series of 2006, for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2024. The Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and interest on the Bonds. The Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the Bonds at December 31, 2011 was \$9,660,000. Interest is payable on May 1<sup>st</sup> and November 1<sup>st</sup> each year, starting on May 1, 2008. Principal is payable annually starting on November 1, 2008.

On November 1, 2008 the Redevelopment Authority issued \$5,900,000 Guaranteed Variable Lease Revenue Bonds, Series of 2008 for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2026. The Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and interest on the Bonds. The Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the Bonds at December 31, 2011 was \$5,890,000.

Interest is payable monthly based upon whether the Bonds are on the weekly mode or term rate mode. If interest is on the weekly rate interest shall be computed based upon 365 or 366 days as applicable for the number of days actually elapsed. Interest under the term mode will be calculated on a 30/360 basis. The remarketing advisor shall determine the current rate on the immediately preceding weekly rate calculation date. If the remarketing agent does not determine a weekly rate, the rate shall be the 30 day taxable commercial paper rate published for that weekly rate period by Munifacts Wire System, Inc. or a replacement publisher designated in writing by the issuer to the trustee and the remarketing agent. The Bonds are subject to mandatory redemption starting on November 1, 2010. Interest rate at December 31, 2011 is .35%.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

The Sewer Authority and Parking Authority have restricted certain cash balances, investments, and related accounts for the retirement of long-term debt.

Capitalized Vehicles:

In 2007, the City entered into a Master Equipment Lease Purchase Agreement to purchase three (3) Rear Load Packers. The lease required annual payments of \$84,539. The lease rate is 4.98%. Maturity March 2012.

In 2008, the City entered into a master equipment lease purchase agreement to purchase seven (7) police vehicles. The lease requires monthly payments of \$6,234. The lease rate is 6.45%. Maturity September 2011.

Capitalized Energy System:

In 2006, the City entered into a Master Equipment Lease Purchase Agreement to purchase an Energy Management System. The lease requires quarterly payments of \$36,249. The lease rate is 5.05%. Maturity December 2021.

Future Debt Service Requirements as of December 31, 2011 are as follows:

Year Ending December 31,	Governmental Activities City General Obligation Bonds			Year Ending December 31,	Governmental Activities Redevelopment Authority Note Payable		
	Principal	Interest	Total		Principal	Interest	Total
2012	\$ 2,545,000	\$ 2,800,036	\$ 5,345,036	2012	\$ 49,354	\$ 516	\$ 49,870
2013	2,640,000	2,709,242	5,349,242	2013	0	0	0
2014	2,745,000	2,611,305	5,356,305	2014	0	0	0
2015	2,315,000	2,503,084	4,818,084	2015	0	0	0
2016	2,695,000	2,407,432	5,102,432	2016	0	0	0
2017-2021	15,405,000	10,088,272	25,493,272				
2022-2026	16,385,000	6,278,901	22,663,901		<u>\$ 49,354</u>	<u>\$ 516</u>	<u>\$ 49,870</u>
2027-2031	14,945,000	2,633,133	17,578,133				
2032-2036	<u>2,270,000</u>	<u>192,360</u>	<u>2,462,360</u>				
	<u>\$ 61,945,000</u>	<u>\$ 32,223,765</u>	<u>\$ 94,168,765</u>				
	Governmental Activities City Notes Payable						
Year Ending December 31,	Principal	Interest	Total				
2012	\$ 1,560,399	\$ 38,034	\$ 1,598,433				
2013	0	0	0				
2014	0	0	0				
2015	0	0	0				
2016	<u>0</u>	<u>0</u>	<u>0</u>				
	<u>\$ 1,560,399</u>	<u>\$ 38,034</u>	<u>\$ 1,598,433</u>				

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

Year Ending December 31,	Business-Type Activities Revenue Bonds & Notes Payable Parking Authority			Year Ending December 31,	Business-Type Activities Revenue Bonds & Notes Payable Sewer Authority		
	Principal	Interest	Total		Principal	Interest	Total
2012	\$ 1,099,876	\$ 2,683,231	\$ 3,783,107	2012	\$ 1,219,628	\$ 1,483,672	\$ 2,703,300
2013	1,142,178	2,632,538	3,774,716	2013	1,230,696	1,470,155	2,700,851
2014	1,184,988	2,582,071	3,767,059	2014	1,241,864	1,436,454	2,678,318
2015	1,233,343	2,526,872	3,760,215	2015	1,302,164	1,396,692	2,698,856
2016	1,282,280	2,468,080	3,750,360	2016	1,326,802	1,374,123	2,700,925
2017-2021	6,951,294	11,425,212	18,376,506	2017-2021	10,699,581	5,471,545	16,171,126
2022-2026	8,790,000	9,593,553	18,383,553	2022-2026	4,566,894	4,369,827	8,936,721
2027-2031	9,390,000	7,321,736	16,711,736	2027-2031	1,835,124	3,645,298	5,480,422
2032-2036	12,110,000	4,523,967	16,633,967	2032-2036	7,305,000	1,951,250	9,256,250
2037-2041	10,695,000	948,282	11,643,282	2037-2041	7,940,000	106,750	8,046,750
	<u>\$ 53,878,959</u>	<u>\$ 46,705,542</u>	<u>\$ 100,584,501</u>		<u>\$ 38,667,753</u>	<u>\$ 22,705,766</u>	<u>\$ 61,373,519</u>

The debt service for capitalized leases is as follows for governmental activities:

Year Ending December 31,	Principal	Interest	Total
2012	\$ 609,924	\$ 812,826	\$ 1,422,750
2013	559,065	777,567	1,336,632
2014	588,906	744,929	1,333,835
2015	1,163,996	710,393	1,874,389
2016	949,348	643,772	1,593,120
2017-2021	5,797,170	2,261,267	8,058,437
2022-2026	9,525,000	541,462	10,066,462
TOTAL	<u>\$ 19,193,409</u>	<u>\$ 6,492,216</u>	<u>\$ 25,685,625</u>

The total principal and interest equals the required minimum payments for the period shown.

The cost of the assets are \$ 6,049,577

The accumulated depreciation expense through December 31, 2011 is (1,448,538)

The net book value of the capitalized leased building and vehicles is \$ 4,601,039

Advance Refunding:

On August 7, 2003 the City issued \$ 5,025,000 in General Obligation Bonds Series A dated August 1, 2003 with an average interest rate (coupon) of 2.934% to advance refund \$4,885,000 of outstanding 2001 A series bonds with an average interest rate of 5.620%. Total proceeds including bond discount and accrued interest was \$ 5,000,406. Underwriting fees and other issuance cost were \$ 123,247. Net proceeds of \$ \$ 4,875,047 were used to

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 504,997 from the debt service fund (sinking fund) and an additional \$ 233,318 from the 2004 B issue were deposited in the irrevocable trust with subsequent debt service payments on the refunded bond issue to be paid from the irrevocable trust. As a result, refunded series 2001 A is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and new debt show a cash flow benefit of \$ 540,303. In 2005, the United States Treasury Securities - State and Local Government were refinanced and the City received an additional \$108,435 from the escrow account. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$20,161 for the year ended December 31, 2011. The 2001 Series A Bonds were called and retired during the year.

On August 7, 2003 the City issued \$ 20,870,000 in General Obligation Bonds Series B dated August 1, 2003 with an average interest rate (coupon) of 4.407% to advance refund \$17,440,000 of outstanding 2001 C series bonds with an average interest rate of 6.407%. Total proceeds included bond discount and accrued interest was \$20,792,205. Underwriting fees and other issuance cost were \$ 645,712. Net proceeds of \$ 19,516,640 were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 1,700,162 from the debt service fund (sinking fund) and \$355,629 from the sinking fund applicable to the 2001 C bonds were deposited in the irrevocable trust. Additional proceeds of \$233,318 were deposited in the irrevocable trust to advance refund the 2001 A bonds noted above. Additional proceeds of \$207,611 were deposited in the irrevocable trust to advance refund the 1997 A bonds noted below. Additional proceeds of \$174,232 were deposited into the 2004 sinking fund to fund the September 1, 2003 interest payments. Subsequent debt service payments on the refunded bond issue will be paid from the irrevocable trust, as a result, refunded series 2001 C is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and new debt show cash flow benefit of \$3,992,959. In 2005, the United States Treasury Securities - State and Local Government were refinanced and the City received an additional \$387,123. from the escrow account. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$195,072 for the year ended December 31, 2011. The 2001 Series C Bonds were called and retired during the year.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

The breakdown of interest expense as of December 31, 2011 is as follows:

	Interest Expense Charged To Expense	Interest Expense Capitalized
City of Scranton	\$ 4,891,388	\$ 0
Sewer Authority of the City of Scranton	711,597	763,418
Parking Authority of the City of Scranton	2,683,593	0
Redevelopment Authority of the City of Scranton	2,428	0
	\$ 8,289,006	\$ 763,418

Note 8 Risk Management

The City's risk management activities are reported with governmental activities and recorded in the Workman's Compensation Internal Service Fund. The purpose of this fund is to administer a Self-Insured Retention Program (SIR). Claims in excess of SIR limit of \$350,000 are covered through third party insurance policies. Payments of actual claim costs are made by a third party administrator and are billed to the City and reimbursed by the General Fund. The claims costs are reflected as revenues in the Internal Service Fund.

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 retains the risk up to various levels depending on the type of risk. Excess loss coverage is purchased for coverage on claims exceeding the retention level.

At December 31, 2011, the City's self-insured retention limits are as follows:

Type of Coverage	Self-Insurance Retention (SIR) (All Claims Up To)	Excess Coverage Policy (From SIR Up To)
General Liability	\$ 50,000	\$ 950,000
Law Enforcement Liability	\$ 50,000	\$ 950,000
Public Officials Liability	\$ 50,000	\$ 950,000
Property	\$ 50,000	\$ 15,000,000
Automobile Liability	\$ 50,000	\$ 950,000
Excess Worker's Compensation	\$ 350,000	\$ Unlimited
Boiler and Machinery	\$ 50,000	\$ 15,000,000

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management (Continued)

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim Loss Reserve of \$21,191,810 at December 31, 2011 was determined by an actuary and represents the discounted present value of expected losses using a 5.00% interest factor. The actuarial value was determined as of August 31, 2011. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2011 is calculated as follows:

Claims and Costs Paid	\$2,896,235
Increase in Actuarial Discounted Loss Reserve	<u>617,653</u>
Worker's Compensation Claims	<u><u>\$3,513,888</u></u>

The reconciliation of changes in the aggregate liabilities for the current year and the prior year are as follows:

Calendar Year Ended	Balance Beginning of Calendar Year	Current Year Claims and Changes In Estimates	Claim Payments	Balance End of Calendar Year
31-Dec-11	\$ 20,574,157	\$ 3,513,888	\$ 2,896,235	\$ 21,191,810
31-Dec-10	\$ 21,237,277	\$ 2,629,158	\$ 3,292,278	\$ 20,574,157

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2011 were as follows:

Operating Transfers

	In	Out
General Fund		
Debt Service Fund	\$ 0	\$ 6,870,895
Liquid Fuels Fund	1,502,992	0
Special Cities	300,854	0
Insurance Fund	5,000,000	0
Special Cities		
Capital Projects Fund	0	394,033
General Fund	0	300,854
Capital Projects		
Special Cities	394,033	0
Debt Service		
General Fund	6,870,895	0
Liquid Fuels		
General Fund	0	1,502,992
Insurance Fund		
General Fund	0	5,000,000
	\$ 14,068,774	\$ 14,068,774

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits

Defined Benefit Plans: The City sponsors and administers three single employer defined benefit pension plans covering substantially all full-time employees. These plans are the Police, Fireman, and Nonuniformed pension plans (the "Plans"). Pennsylvania Act 205 and the City's Home Rule Charter assign the authority to establish and amend benefit provisions to the Pension Fund Board as authorized by City Council. The Plans have been designated as severely distressed under Pennsylvania Act 205.

The Police Pension Plan provides for normal retirement with 25 years of credited service with a retirement age of 55 years for the members hired on or after July 1, 1987. For members hired prior to July 1, 1987, the Plan provides for normal retirement with 25 years of credited service with a retirement age of 65 years. The Fireman's pension plan provides for normal retirement at age 55 with 25 years of credited service for members hired on or after July 1, 1987. For members hired prior to July 1, 1987, the Plan provides for normal retirement with 25 years of credited service. The Nonuniformed pension plan provides for normal retirement at age 55 with completion of 15 years of service and have contributed to the pension fund for 20 years. Members are 100% vested when eligible.

Information regarding the plans can be obtained from the City. The plans do not issue separate financial statements but are included in the City's fund financial statements as a fiduciary fund type – Pension Trust Funds.

Police are required to contribute 3.5% of covered payroll for members hired on or after July 1, 1987. For members hired prior to July 1, 1987, the police are required to contribute 4.0% of covered payroll. Firemen are required to contribute 3.5% of covered payroll for members hired on or after July 1, 1987. For members hired prior to July 1, 1987, the Fireman are required to contribute 4.0% of covered payroll. Nonuniformed nonunion employees are required to contribute 3% of covered payroll but not more than \$22 per month if hired after July 1, 1987. Nonuniformed nonunion employees shall contribute \$24 per month if hired before July 1, 1987 or amounts as determined by ordinance.

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (as amended) (Act 205) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the Plans' biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent valuation for all of the City's plans was completed as of January 1, 2011. The MMO is now defined as the total financial requirement to the pension fund, less funding adjustment and estimated member contribution. The Commonwealth of Pennsylvania provides an allocation of funds which must be used for pension funding. Any financial requirements established by the MMO which exceeds Commonwealth and member contributions must be funded by the City. In accordance with Act 205, the City was not required to contribute to each plan for the year 2011.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Contributions, based on the MMO, in 2011 consisted of the following:

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
City/Commonwealth Employees	\$ 1,719,673 <u>282,856</u>	\$ 2,030,078 <u>283,053</u>	\$ 956,847 <u>41,516</u>	\$ 4,706,598 <u>607,425</u>
Total	<u>\$ 2,002,529</u>	<u>\$ 2,313,131</u>	<u>\$ 998,363</u>	<u>\$ 5,314,023</u>

A summary of the change in the net pension obligation as of January 1, 2011, 2009, and 2007 is presented below:

<u>January 1, 2011</u>				
	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 1,733,562	\$ 1,467,039	\$ 239,047	\$ 3,439,648
Interest on pension benefit obligation	<u>4,525,110</u>	<u>6,171,252</u>	<u>1,370,230</u>	<u>12,066,592</u>
Annual pension cost	\$ 6,258,672	\$ 7,638,291	\$ 1,609,277	\$ 15,506,240
Contributions made	(2,680,442)	(4,438,495)	(1,755,026)	(8,873,963)
Increase for assumption change	792,904	686,785	(82,018)	1,397,671
Contribution above (below) total financial requirement	(1,298,021)	(445,343)	(668,919)	(2,412,283)
Net actuarial (gain) loss on plan assets	<u>12,298,964</u>	<u>20,667,797</u>	<u>1,259,936</u>	<u>34,226,697</u>
Net Increase (Decrease) in pension benefit obligation	\$ 15,372,077	\$ 24,109,035	\$ 363,250	\$ 39,844,362
Pension benefit obligation beginning	<u>27,401,925</u>	<u>37,788,571</u>	<u>8,599,093</u>	<u>73,789,589</u>
Pension benefit obligation ending	<u>\$ 42,774,002</u>	<u>\$ 61,897,606</u>	<u>\$ 8,962,343</u>	<u>\$ 113,633,951</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2009				
	Police	Firemen	Non-Uniformed	Total
Annual required contribution	\$ 1,768,554	\$ 1,486,750	\$ 250,161	\$ 3,505,465
Interest on pension benefit obligation	<u>3,275,089</u>	<u>5,230,654</u>	<u>1,013,884</u>	<u>9,519,627</u>
Annual pension cost	\$ 5,043,643	\$ 6,717,404	\$ 1,264,045	\$ 13,025,092
Contributions made	(2,939,613)	(5,004,922)	(1,642,671)	(9,587,206)
Decrease for assumption change	(7,805,021)	(6,242,729)	(786,539)	(14,834,289)
Contribution above (below) total financial requirement	543,148	888,261	(204,150)	1,227,259
Net actuarial (gain) loss on plan assets	<u>12,472,320</u>	<u>8,886,195</u>	<u>3,571,435</u>	<u>24,929,950</u>
Net Increase (Decrease) in pension benefit obligation	\$ 7,314,477	\$ 5,244,209	\$ 2,202,120	\$ 14,760,806
Pension benefit obligation beginning	<u>20,087,448</u>	<u>32,544,362</u>	<u>6,396,973</u>	<u>59,028,783</u>
Pension benefit obligation ending	<u>\$ 27,401,925</u>	<u>\$ 37,788,571</u>	<u>\$ 8,599,093</u>	<u>\$ 73,789,589</u>

January 1, 2007				
	Police	Firemen	Non-Uniformed	Total
Annual required contribution	\$ 1,845,580	\$ 1,566,065	\$ 242,525	\$ 3,654,170
Interest on pension benefit obligation	<u>3,588,921</u>	<u>6,005,386</u>	<u>972,674</u>	<u>10,566,981</u>
Annual pension cost	\$ 5,434,501	\$ 7,571,451	\$ 1,215,199	\$ 14,221,151
Contributions made	(3,484,670)	(5,917,976)	(1,590,026)	(10,992,672)
Net actuarial gain (loss) on plan assets	<u>(3,805,533)</u>	<u>(6,704,664)</u>	<u>798,719</u>	<u>(9,711,478)</u>
Net Increase (Decrease) in pension benefit obligation	\$ (1,855,702)	\$ (5,051,189)	\$ 423,892	\$ (6,482,999)
Pension benefit obligation beginning	<u>21,943,150</u>	<u>37,595,551</u>	<u>5,973,081</u>	<u>65,511,782</u>
Pension benefit obligation ending	<u>\$ 20,087,448</u>	<u>\$ 32,544,362</u>	<u>\$ 6,396,973</u>	<u>\$ 59,028,783</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2011. The actuarial cost method used is the Entry Age Normal Cost Valuation Method. Significant assumptions used include a rate of return on investment of present and future assets of 8% per year net of investment expenses, projected salary increases of 5% per year and cost of living increases of 5% for members hired before July 1, 1987 and 2.5% per year for disabled members and widows of members hired after June 30, 1987. Plan assets are valued using a four year smoothing method described in Internal Revenue Service Procedure 2000-40, Approval 16. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis over a period of approximately 20 years. Effective in 2004, the unfunded actual liability calculation for the years 2002 and 2003 was revised to be amortized as a level percentage of projected payroll on an open basis over a period of 30 years.

	January 1, 2011			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$ 74,540,015	\$ 86,648,557	\$ 12,192,578	\$ 173,381,150
Actuarial value of assets	<u>31,766,013</u>	<u>24,750,951</u>	<u>3,230,235</u>	<u>59,747,199</u>
Pension benefit obligation	<u>\$ 42,774,002</u>	<u>\$ 61,897,606</u>	<u>\$ 8,962,343</u>	<u>\$ 113,633,951</u>
Funded ratio	<u>43.00%</u>	<u>29.00%</u>	<u>26.00%</u>	<u>34.00%</u>
Covered payroll	<u>\$ 6,853,015</u>	<u>\$ 6,132,381</u>	<u>\$ 5,728,079</u>	<u>\$ 18,713,475</u>
Pension benefit obligation to covered payroll	<u>624.00%</u>	<u>1009.00%</u>	<u>156.00%</u>	<u>607.00%</u>
	January 1, 2009			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$ 61,223,688	\$ 64,840,397	\$ 12,007,430	\$ 138,071,515
Actuarial value of assets	<u>33,821,763</u>	<u>27,051,826</u>	<u>3,408,337</u>	<u>64,281,926</u>
Pension benefit obligation	<u>\$ 27,401,925</u>	<u>\$ 37,788,571</u>	<u>\$ 8,599,093</u>	<u>\$ 73,789,589</u>
Funded ratio	<u>55.00%</u>	<u>42.00%</u>	<u>28.00%</u>	<u>47.00%</u>
Covered payroll	<u>\$ 6,560,337</u>	<u>\$ 6,014,938</u>	<u>\$ 5,487,828</u>	<u>\$ 18,063,103</u>
Pension benefit obligation to covered payroll	<u>418.00%</u>	<u>628.00%</u>	<u>157.00%</u>	<u>409.00%</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2007

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$ 60,404,883	\$ 65,113,943	\$ 10,552,330	\$ 136,071,156
Actuarial value of assets	<u>40,317,435</u>	<u>32,569,581</u>	<u>4,155,357</u>	<u>77,042,373</u>
Pension benefit obligation	<u>\$ 20,087,448</u>	<u>\$ 32,544,362</u>	<u>\$ 6,396,973</u>	<u>\$ 59,028,783</u>
Funded ratio	<u>67.00%</u>	<u>50.00%</u>	<u>39.00%</u>	<u>57.00%</u>
Covered payroll	<u>\$ 6,319,358</u>	<u>\$ 5,785,293</u>	<u>\$ 5,315,947</u>	<u>\$ 17,420,598</u>
Pension benefit obligation to covered payroll	<u>318.00%</u>	<u>563.00%</u>	<u>120.00%</u>	<u>339.00%</u>

Historical trend information for the plans is presented below:

Three - Year Trend Information for the City of Scranton Pension Plans

Police Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01-Jan-07	5,434,501	62.28%	20,087,448
01-Jan-09	5,043,643	58.30%	27,401,925
01-Jan-11	6,258,672	42.83%	42,774,002

Firemen Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01-Jan-07	7,571,451	90.82%	32,544,362
01-Jan-09	6,717,404	74.50%	37,788,571
01-Jan-11	7,638,291	58.11%	61,897,606

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Non - Uniformed Pension Fund

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
01-Jan-07	1,215,199	92.82%	6,396,973
01-Jan-09	1,264,045	130.00%	8,599,093
01-Jan-11	1,609,277	109.00%	8,962,343

Defined Contribution Plan: The City contributes to a union sponsored, multi-employer plan for certain employees. The Plan is not administered by the City and contributions are determined in accordance with labor contracts. Pension expense was \$262,139 in 2011.

The Parking Authority sponsors a money purchase pension plan covering all eligible employees. Pension expense was \$45,760 for the year ended December 31, 2011.

The Sewer Authority contributes to the Central Pennsylvania Teamsters Pension Fund, a defined contribution pension plan covering substantially all of its full time employees. Employees become eligible after they have been on the payroll for thirteen weeks. Contributions made by the Authority were \$396 per month for the year ended March 31, 2011 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2011 amounted to \$361,642.

Effective January 1, 2006, the Sewer Authority adopted a money purchase pension plan for employees who meet age and service requirements and are not members of the Union. Employer contributions are 4% of eligible compensation and employees must contribute 2%. Employees are also permitted to make additional contributions up to the maximum allowed by law. For the year ended March 31, 2011, employer contributions totaled \$26,710 and employee contributions totaled \$11,426.

Other Postemployment Benefits: Under the terms of its collective bargaining agreements with its police, firemen, clerical, and public works employees, the City is required to provide health insurance to retiring employees who meet the criteria specified in each contract.

Under the police, firemen, and clerical contracts, the City is responsible for providing health insurance to retirees and spouses for the remainder of their lives if the employee was hired or retired prior to December 31, 1993. Employees hired after December 31, 1993 are not eligible for these benefits. The City's contribution for retiree health insurance is equal to the cost in effect in 1993 plus 75% of any increase above that cost. The retiree pays the other 25%.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Under the public works contract, the City will provide health insurance to retirees and spouses only from age 62 to 65. The City's contribution is equal to the cost in effect in 1994 plus 75% of any increase above those costs. The retiree pays the other 25%.

The City uses the cash basis to account for these expenditures. The City has not determined the amount of such expenditures for 2011 nor the number of participants eligible for these benefits.

Termination Benefit Payable: The City is providing group insurance healthcare termination benefits to various employees, spouses and dependents. The termination benefits end between October 1, 2011 and February 28, 2043.

Annual termination benefits of \$466,719 have been projected to increase at an annual rate of 9% for 2012 and decreasing by .5% per year to an ultimate level of 5% per year and have been discounted to 4.25% estimated yield on investments expected to be used to figure the benefits.

Beginning of year net present value	\$10,607,807
Payment benefits made during the year	(459,580)
Change in net present value of benefits	<u>(2,363,484)</u>
End of year present value	<u>\$ 7,784,743</u>

Post-Employment Healthcare Plan:

Plan description: The City administers a Single-Employer Plan that covers current and former employees as follows:

For most employees if hired prior to January 1, 1996, medical, prescription, drug, dental, and vision coverage is provided the same as active employees. If hired after January 1, 1996 no post-employment medical benefits are provided. Certain named employees in the settlement agreement entered into in 2012, their spouses, and eligible dependents receive coverage for life. The remainder of eligible employees and their spouses receive retiree coverage until they and their spouse reach Medicare age or for a period of ten years whichever is longer including Medicare Part B premium. If a uniformed employee retires as of January 1, 2013 or after, all other retirees must contribute 50% of the amount that active employees pay for the same coverage. Non uniformed retiree pays a contribution equal to the active contribution at the time of their retirement. For uniformed personnel life insurance is two times the salary of the officer at the time of retirement. For non-uniformed personnel life insurance ranges between \$ 7,500 and \$ 10,000 for life of the retiree.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Funding Policy: The required contributions are based upon the pay as you go financing requirements.

Under the Pay-As-You Go scenario, the City continues to pay healthcare premiums and cost with no additional contributions to pre-fund the post-employment benefits. A lower discount rate is assumed since the City's General Fund is the "funding source" and is expected to be conservatively invested. The lower the discount rate, the higher the liabilities and cost. If the City continues to finance retiree healthcare benefits on a pay-as-you-go basis, the under-funded OPEB liability is projected to grow in future years.

An actuarial valuation measures the program's funded status and annual funding of accounting cost based on the assumptions and methods selected. The funded status compares the assets held in segregated irrevocable trust to Actuarial Accrued Liabilities, and the Annual Required Contribution (ARC) represents the Normal Cost plus an amortization of the Unfunded Actuarial Accrued Liability adjusted for interest.

In the valuation process, certain economic and demographic assumptions are made relating to the projection of benefits, as well as the timing and duration of benefits. The stream of expected benefits is discounted to a present value as of the valuation date. The present value is then spread over past service (actuarial accrued liabilities), and service for the current year (normal cost) based on the chosen method.

Where appropriate, the actuarial assumptions are consistent with the assumptions utilized for pension actuarial valuations or City experiences were analyzed and assumed the same would occur in the future.

The following assumptions were made:

Actuarial Cost Method:

Entry Age Normal Cost Method was used. This cost method effectively spreads liabilities over the working lifetime of active participants as a level dollar amount

Discount Rate:

The discount rate is based upon the funding basis that the sponsor employs. Since the City uses the pay as you go method of funding, benefits to be paid out of the general fund is expected to earn a short-term investment rate of 4%.

Healthcare Cost Trend:

The medical, prescription drug and vision rates for Non-Medicare retirees is assumed to be 0% in 2011, 9% in 2012 decreasing by 0.5% per year to an ultimate level of 5% per year. The medical, prescription drug and vision rates for Medicare retirees is assumed to be 0% in 2011, 7% in 2012 decreasing by 0.5% per year to an ultimate level of 5% per year. The dental rate is assumed to be 3.5%

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

per year. The Medicare Part B Premium trend rate is assumed to be 1% per year.

Retirement:

Fire Fighters retirement is assumed to occur at age 57 with 25 years of service.

Police retirement is assumed to occur at age 55 with 25 years of service.

Non-Uniformed retirement is assumed to occur at age 60 with 20 years of service.

Mortality:

Uniformed – RP - 2000 Tables with Blue Collar Adjustments for Males and Females.

Non-Uniformed RP – 2000 Tables for Males and Females

Disability:

1955 United Auto Workers Disability Table

Withdrawals:

Uniformed starting at 5.5% for age 20 and decreasing by a .05% every five years until 0.00% at age 50

Non-Uniformed 15.0% for age 20 decreasing to 15% at age 25 and then 2.5% every five years until 0.00 at age 55

Medicare Part B

Premium Reimbursement:

85% of current and future retirees are assumed to be reimbursed for the Medicare Part B Premium.

Salary Scale:

Employees salaries are assumed to increase at the rate of 6.59% during 2012, 7.0% during 2013 and 2014 and 2.25% per year thereafter. The rate is based upon increases in recent contract settlement plus additional 0.5% per year for merit increases and promotions.

Participation:

100% of retirees who are eligible to participate are assumed to do so

Marital Status:

85% of future retirees are assumed to be married with a spouse participating in coverage

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Age:

Females spouses of future retirees are assumed to be the same age as male spouses

Annual Required Contribution	\$ 15,661,938
Interest on Net OPEB Obligation	0
Adjustment to Annual Required Contribution	<u>0</u>
Annual OPEB Cost (Expense)	\$ 15,661,938
Interest On employer Contributions	(194,880)
Contributions Made	<u>(8,994,457)</u>
Increase in Net OPEB Obligation	\$ 6,472,601
Net OPEB Obligation - Beginning of Year	<u>0</u>
Net OPEB Obligation - End of Year	<u>\$ 6,472,601</u>

Fiscal Year	Annual OPEB	Percentage	Net OPEB
<u>Ending</u>	<u>Cost</u>	<u>Contributed</u>	<u>Obligation or</u>
			<u>(Asset)</u>
12/31/11	\$ 15,661,938	58.67%	\$ 6,472,601

Schedule of Funding Process

Actuarial	Actuarial	Unfunded	Funded	Annual	Ratio of UAL
Valuation	Value of	Accrued	Actuarial	Covered	to Payroll
Date	Plan	Liability	Liability (UAL)	Payroll	to Payroll
	Assets				
01/01/11	\$ 0	\$ 225,539,050	\$ 225,539,050	0.00%	\$ 24,963,173 903.49%

Note 11 Credit Risk and Market Risk

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 85% of the total taxes collected by the City in 2011. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

The market value of the City's investments are subject to fluctuations in the prevailing market prices of those investments.

Note 12 Related Party Transactions

The City paid approximately \$847,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$37,600,000 of tax revenues on behalf of the City in 2011.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies

Litigation: Currently, there are various claims and suits pending against the City, the more significant of which are summarized below:

Various lawsuits have been instituted against the City resulting mainly from injuries sustained in accidents on City properties. Legal counsel cannot estimate the probability of successful outcome and the amount of the potential liability from these matters at this time. However, the City has affirmed that it has adequate insurance to cover any possible claim or judgment. The risk in some cases is that a nominal award will be granted and counsel fees of significant sums will be awarded.

The City is a defendant in various labor and employment matters. Counsel for the City cannot determine the likelihood of success at the present time. The City believes the suits are without merit and is vigorously defending its position. The liability, if any, will not have a material impact on the financial statements as presented.

In June 2012, the City entered into settlement agreements with both the Fire Fighters and Police Unions. In part it required the City to fully and promptly implement and comply with all terms and condition of the Act 111 Awards between the parties for the periods 2003 – 2007 and 2008 – 2014, including but not limited to the payment of longevity and use and accrual of sick leave and adjustment of existing pensions as a result of the increase in base wages.

In consideration for the City's execution of and compliance with the terms of the agreement, the Union agrees to discontinue any further effort to prosecute its claim for damages in the case involving the failure of the City to perform a health care claim audit from 1995 to the present currently pending before the Arbitrator. The City shall reimburse the Unions for all attorney fees and arbitrator expenses on or before December 31, 2012 for \$ 30,143. In addition the City shall be responsible for all incurred but not billed fees and expenses charged by the Arbitrator in the 2011 – 2012 proceedings.

On or before December 31, 2012, the City shall pay to current and former bargaining unit members the amount of \$ 362,131 in damages and interest as reimbursement to bargaining unit members from the Award of Stanley Aegis involving the deduction of health care contributions as enforced by the Pennsylvania Labor Relations Act and affirmed by the Commonwealth Court along with \$ 22,342 in payment of attorney's fees and cost as directed by the Arbitrator.

On or before December 31, 2012, the City shall pay the amount of \$ 1,445,109 in damages and interest arising from the Award involving the SIT as enforced by the Pennsylvania Labor Relations Act and affirmed by the Commonwealth Court.

For the three (3) preceding paragraphs, the City is expecting to pay the settlements of \$ 1,859,725 out of the additional 2012 unfunded debt borrowing noted in Notes 14 and 17 and has been accrued in the Government Wide Financial Statements.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

On or before June 30, 2013, the City shall pay all back pay damages and interest arising from the application of the terms of the Act 111 Awards between the parties for 2003 – 2007 and 2008 – 2014 to all current and former members of the bargaining unit, including the adjustment of the pensions as a result of the increase in base wages. Such damages shall include interest computed from the date initially payable to June 30, 2013 at 6%, compounded in accordance with the procedures established by the Pennsylvania Labor Relations Board and confirmed by the Commonwealth Court. In the event that any delay should occur beyond June 30, 2013, interest shall be computed to date of actual payment. The City has estimated the damages to be \$ 17,000,000 and will pay the damages out of the 2013 Sale / Leaseback borrowing noted in Notes 14 and 17 and has been accrued in the Government Wide Financial Statements.

The City has been named, as a party defendant in two (2) cases with construction contractors. The contractors are seeking payment allegedly due for services allegedly performed pursuant to a construction agreement. Management of the City is responding to the litigation and intends to contest this case vigorously. If unsuccessful, the potential exposure could be material to the financial statements.

The City is involved in a lawsuit over the development of Phase 3 of a section of the City. The City believes that the suit is without merit and is vigorously defending its position. The City has been successful in motions to limit the originally asserted claims to one claim presently pending. The City received a declaratory judgment action in an attempt to establish insurance coverage after coverage had been denied. The outcome was favorable to the City in that the Court determined that the Insurance has a duty to defend the case unless and until such time as the claim asserted is limited to one outside the scope of coverage. However, the Court did not make a determination as to the Insurance Company's obligation to indemnify the City if damages are awarded. If unsuccessful and insurance coverage is denied, the potential exposure could be material to the financial statements.

The City is defendant in a Class Action Suit brought by the Police Pension Fund of Scranton. The plaintiffs are seeking recovery of longevity increases to which they contend they were entitled in addition to their pension payments. Any settlement of funds will be paid out of the Police Pension Fund and will increase longevity payments of retired members on a going forward basis. Potential exposure could be material to the financial statements of the Pension Fund and future city contributions under its required municipal minimum obligation.

Collective Bargaining Agreements: Substantially all of the City's nonmanagement employees are covered by collective bargaining agreements between the City and various unions. .

Fund Deficit Self-Insurance Fund Settlement Agreement: On December 18, 2001, the City entered into a Settlement Agreement and Release with the Commonwealth of

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

Pennsylvania Department of Labor and Industry, Bureau of Worker's Compensation (Bureau) in order to maintain its ability to self-insure.

The settlement requires the City to correct various program deficiencies and to provide for unfunded outstanding claims in various annual increments beginning in 2004 through 2012 and to keep current on annual costs for claims, administration, and operating expenses.

During 2003, the City funded the Internal Service Fund with \$13,000,000 from the 2003 debt issuance, thereby meeting the various annual increments through 2013.

In February 2006, the Bureau and the City entered into the third amendment to the irrevocable agreement of trust modification of the December 2001 Settlement Agreement and Release. The agreement modification to allow a deficit of no more than 25% between the city's outstanding liability and asset value of the Reserve Account of the City's Worker's Compensation Trust Fund and will require that any shortfall above the permitted 25% deficit amount be funded over a five-year period.

Note 14      Distressed Municipality Status

In 1992, the Pennsylvania Department of Community and Economic Development (DCED) declared the City a distressed municipality under the Financially Distressed Municipalities Act (Act). DCED then appointed the Pennsylvania Economy League as coordinator to administer a recovery plan for the City pursuant to this Act.

On August 24, 2012, the City revised and updated its act 47 recovery plan. The 2012 plan identifies mandates that the City must implement to eliminate the City's operating budget deficits as projected by the Act 47 Coordinator.

It is the express intention of the Act 47 Coordinator that the City shall timely implement all of the following mandates to:

- 1.) Eliminate the projected operating budget deficits
- 2.) Enable the City to promptly pay its debts and expenditures
- 3.) Firmly place the City on a course to fiscal stability by restoring the City's credit worthiness
- 4.) Enable the City to pay its employees and vendors in a timely manner
- 5.) Put the City on a path that will allow the Commonwealth to rescind the City's determination of Act 47 financial distress

Therefore, it is imperative that the City shall take the necessary actions to implement all of the following mandates to eliminate the projected 2012 – 2015 operating budget deficits.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 14      Distressed Municipality Status (Continued)

- 1.) 2012 Budgeted \$ 9,850,000 Unfunded Debt Borrowing and \$ 6,000,000 Debt Service Refinancing
- 2.) Additional 2012 Unfunded Debt Borrowing of \$ 6,000,000
- 3.) DCED 2012 Loan/Grant
- 4.) Repayment of 2012 Workmen's Compensation Loan \$ 1,500,000
- 5.) Nonresident Earned Income Tax Increase
- 6.) Increase Payment In Lieu of Taxes Contributions
- 7.) 2013 Sale Lease back Borrowing \$ 22,100,000
- 8.) Refuse Fee
- 9.) Real Estate Transfer Tax Increase
- 10.) Amusement tax
- 11.) Increase Business Privilege & Mercantile Taxes
- 12.) Health Care Savings
- 13.) Explore Market Based Revenue Opportunity Agreements
- 14.) Reduction in Departmental Expenditures
- 15.) Parking Enhancement Program
- 16.) Debt Service Increases

After the implementation of all of the above mandates the city is still projected to incur operating deficits for the years 2014 and 2015. In addition to any revenue increases that may be necessary to generate revenue for all mandates listed above that are not fully implemented for whatever reasons, the city shall increase its real estate tax millage. If the City shall receive legislative authorization to implement or be eligible to receive any other revenue during the 2012 – 2015 period, the City may use the revenue generated from these alternative sources to offset any mandated real estate or other tax increases included in the 2012 Revised Recovery Plan. The Act 47 Coordinator in consultation with the City's elected leadership will make the appropriate amendments to the 2012 Revised Recovery Plan to incorporate these alternative revenue sources should they become available to the City.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 15 Current Real Estate Taxes

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	92,575,729	292,400,118	384,975,847
Millage Rates	9.2263%	2.0065%	
Total Original Taxes Levied	8,541,314	5,867,008	\$14,408,323
Add: Additions			64,272
Less: Abatements			<u>(29,493)</u>
Real Estate Taxes To be Collected At Face			\$14,443,102
Add: Penalties Collected			<u>89,367</u>
Total Before Deductions			\$14,532,469
Less: Discounts Taken			(216,692)
Less: Home Vouchers			(8,174)
Less: KOZ Credits			(141,201)
Less: Delinquent Taxes Returned			(1,780,072)
Less: Other Miscellaneous			<u>(56,083)</u>
<b>TOTAL REAL ESTATE TAXES COLLECTED</b>			<b><u>\$12,330,247</u></b>

Note 16 Subsequent Events

Pursuant to ASC 855, subsequent events were evaluated through January 10, 2013, which is the date the financial statements were available to be issued.

CITY OF SCRANTON

On September 12, 2012, the Department of Community and Economic Development issued the City a ten year (10) zero interest loan for \$ 2,000,000. Annual repayments are \$ 100,000 with a balloon payment at maturity.

On October 23, 2012, the City issued \$ 9,850,000 of Series A of 2012 General Obligation Bonds and \$1,470,000 of Series B of 2012 General Obligation Notes. The proceeds from this issue will be primarily used to fund the unfunded debt of the City and pay a portion of the debt service due on the 2003 A,B,C, and D Bonds due March 1, 2013. The Bonds/Notes are not subject to redemption at the option of the City prior to maturity. The Notes are subject to mandatory redemption from required sinking fund amortization and extraordinary Mandatory Redemption. The Bonds/Notes maturing on and after September 1, 2012 are subject to extraordinary mandatory redemption prior to maturity, as whole or in part at any time, on or after March 30, 2012, at the discretion of the City, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest thereon to the date fixed for such mandatory redemption to the extent that there are "available amounts" generated in the preceding Fiscal Year of the City. "Available amounts" shall be equal to the available amounts as determined under section 1.148-6(d) (3) (iii) of the Internal Revenue Code of 1986, as amended. The Bonds/Notes are General Obligations of the City, secured by a pledge of its full faith, credit, and taxing powers.

On December 12, 2012, the City issued \$ 9,750,000 of Series C of 2012 General Obligation Bonds. The proceeds from this issue will be primarily used to fund the unfunded debt of the City. The bonds are not subject to redemption at the option of the

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 16      Subsequent Events (Continued)

City prior to maturity. The Bonds are subject to mandatory redemption from required sinking fund amortization and extraordinary Mandatory Redemption. The Bonds maturing on and after September 1, 2013 are subject to extraordinary mandatory redemption prior to maturity, as whole or in part at any time, on or after March 30, 2013, at the discretion of the City, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest thereon to the date fixed for such mandatory redemption to the extent that there are "available amounts" generated in the preceding Fiscal Year of the City. "Available amounts" shall be equal to the available amounts as determined under section 1.148-6(d) (3) (iii) of the Internal Revenue Code of 1986, as amended. The Bonds are General obligations of the City, secured by a pledge of its full faith, credit, and taxing powers.

On December 12, 2012, in conjunction with the Series C of 2012 borrowing, the City will be issuing \$ 4,910,000 of Series A of 2013 General Obligation Bonds on January 9, 2013. The proceeds from this issue will be primarily used to refund the February to December 2013 portions of its debt service payments for the 2003 A, B, C, & D Bonds. The bonds are not subject to redemption at the option of the City prior to maturity. The Bonds are subject to mandatory redemption from required sinking fund amortization and extraordinary Mandatory Redemption. The Bonds maturing on and after September 1, 2013 are subject to extraordinary mandatory redemption prior to maturity, as whole or in part at any time, on or after March 30, 2013, at the discretion of the City, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest thereon to the date fixed for such mandatory redemption to the extent that there are "available amounts" generated in the preceding Fiscal Year of the City. "Available amounts" shall be equal to the available amounts as determined under section 1.148-6(d) (3) (iii) of the Internal Revenue Code of 1986, as amended. The Bonds are General obligations of the City, secured by a pledge of its full faith, credit, and taxing powers.

SEWER AUTHORITY:

On June 10, 2011, the Sewer Authority issued \$ 21,340,000 of Series A of 2011 Sewer Revenue Bonds. The proceeds from this issue will be primarily used to fund various capital improvements projects. The Series A of 2011 Bonds maturing on or after December 1, 2022 are subject to redemption prior to maturity, at the option of the Authority in any order of maturity either as a whole, or in part, at any time on or after December 1, 2021, and if in part, by lot within a maturity, at a redemption price equal to 100% of the principal amount, together with accrued interest to the date fixed for redemption. The Series A of 2011 Bonds stated to mature on December 1, 2031 and on December 1, 2035 are subject to mandatory redemption, in part, prior to maturity, by lot within a maturity, at a redemption price equal to 100% of the principal amount, together with accrued interest, to the dates fixed for redemption, on December 1 of the years.

On June 10, 2011, the Sewer Authority issued \$ 8,135,000 of Series B of 2011 Federally Taxable Sewer Revenue Bonds. The proceeds from this issue will be primarily used to currently refund the Sewer Authority's Equipment Note Payable outstanding at a local bank. The Series B of 2011 Bonds maturing on or after December 1, 2021 are subject

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 16      Subsequent Events (Continued)

to redemption prior to maturity, at the option of the Authority in any order of maturity either as a whole, or in part, at any time on or after December 1, 2021, and if in part, by lot within a maturity, at a redemption price equal to 100% of the principal amount, together with accrued interest to the date fixed for redemption. The Series B of 2011 Bonds stated to mature on December 1, 2031 and on December 1, 2025 are subject to mandatory redemption, in part, prior to maturity, by lot within a maturity, at a redemption price equal to 100% of the principal amount, together with accrued interest, to the dates fixed for redemption, on December 1 of the years.

Note 17      Going Concern

PARKING AUTHORITY

The Parking Authority has significant annual debt service payments and limited ability to increase operating revenues, creating substantial projected cash flow deficiencies. Based upon the 2012 budget prepared by management, the projected cash shortfall for 2012 is \$ 1,621,000, which includes approximately \$ 3,692,000 for principal and interest on debt service. The Authority will have to rely on the City to provide the funds needed for the Authority's 2012 debt service payments. The Official Statements of the Guaranteed Parking Revenue Bonds, Series of 2004, 2006, and 2007 state that in the event of insufficiency of parking revenues for repayment, such payments are payable from the tax and other general revenues of the City. The Authority has no taxing power. Due to the current financial status of the City, the method and timing of receiving funds is uncertain.

On June 1, 2012, funds were not transferred by the Authority for the debt service due on the 2007 Series Bonds. The Trustee withdrew debt service reserve funds for the debt service due. On June 15, 2012, the City transferred \$ 1,035,949 to replenish the fund. Legal counsel has informed the Authority that the trustee and bond insurers are evaluating the current financial situation of the Authority.

As a result of the default from the late payment to the Trustee for the Authority's 2007 Bonds, and the occurrence and continuation of certain other non-payment defaults by the Authority under its Bond documents, The Authority's Bond Trustee petitioned the Court of Common Pleas of Lackawanna County to appoint a receiver. On August 14, 2012, the Court appointed a receiver (the "SPA Receiver") for certain properties of the Authority consisting of five (5) parking garage facilities (the "Receivership Estate"). The SPA Receiver terminated the Operating agreement with the City on September 11, 2012 and entered into an agreement with Central Parking System of Pennsylvania, Inc. ("Central Parking") pursuant to which Central Parking would manage the Receivership Estate effective immediately. On September 13, 2012, the Board of Directors of the Authority furloughed all Authority employees, including seven (7) parking meter employees. The following day, the City hired all seven (7) of the parking meter employees by the Authority.

Additionally, City Council enacted an Ordinance terminating the Cooperation Agreement with the Authority effective as of October 8, 2012. The City will now keep the ten percent (10%) SPA Meter Revenue Share of parking meter revenues and retain the direct expense money to pay the new parking meter employees in 2012.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 17      Going Concern (Continued)

Under the terms of the lease, the City is obligated to fund any net revenue shortfall of the Authority, which, after the actions of the SPA Receiver and the City, is anticipated to drop from \$1.6 million in 2012 to approximately \$ 700,000 in 2013. To address the remaining shortfall liability, The City has undertaken a Parking Meter Revenue Enhancement Program. The program is expected to generate \$ 1.5 to \$ 1.8 million in new revenues, less financing cost of new equipment.

The City anticipates that (i) new revenues and reduced expenses under the Central Parking contract will reduce the Authority deficit and (ii) the new source of revenue raised by the Parking Meter Revenue Enhancement Program and the savings realized from the termination of the Cooperation Agreement will provide additional resources for the City to cover the remaining Authority deficit without impacting the City's 2012 Recovery Plan. However, no assurances can be given that (i) these measures will meet the revenue and expense projections provided by the City and its service providers, (ii) the Authority will not require additional City funds under the guarantee to pay debt service on the Authority Bonds, or (iii) the City will achieve other cost savings sufficient to fund its liabilities under the lease.

Also, in June 2012, the Authority's line of credit was cancelled by the Bank and payment of the outstanding balance of \$ 166,216 was required.

The Authority's financial statements have been prepared that assuming the Authority will continue as a going concern; however, the above conditions raise substantial doubt about the Authority's ability to do so. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

## **SUPPLEMENTARY INFORMATION**

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$43,440,478	\$43,440,478	\$ 43,117,977	\$ (322,501)
Intergovernmental	2,910,000	2,910,000	4,982,191	2,072,191
Departmental Earnings	3,265,200	3,265,200	1,981,144	(1,284,056)
Refuse Disposal Fees	5,125,943	5,125,943	3,696,487	(1,429,456)
Licenses and Permits	2,526,714	2,526,714	1,283,449	(1,243,265)
Cable Television Franchise Revenue	975,000	975,000	807,123	(167,877)
Payments in Lieu of Taxes	183,250	183,250	210,427	27,177
Interest Income	20,000	20,000	6,993	(13,007)
User Fees	60,564	60,564	49,225	(11,339)
Other Revenues	104,000	104,000	41,224	(62,776)
Donations	1,000	1,000	16,156	15,156
Rents and Concessions	700	700	0	(700)
Total Revenues	<u>\$58,612,849</u>	<u>\$58,612,849</u>	<u>\$ 56,192,396</u>	<u>\$ (2,420,453)</u>
Expenditures				
General Government	\$10,291,305	\$10,300,823	\$ 10,771,442	\$ (470,619)
Public Safety	30,660,092	30,674,392	33,346,289	(2,671,897)
Public Works	10,143,859	10,144,659	10,979,389	(834,730)
Community Development	690,255	690,255	663,306	26,949
Culture and Recreation	809,757	809,757	745,658	64,099
Total Expenditures	<u>\$52,595,268</u>	<u>\$52,619,886</u>	<u>\$ 56,506,084</u>	<u>\$ (3,886,198)</u>
Excess of Revenues Over Expenditures	<u>\$ 6,017,581</u>	<u>\$ 5,992,963</u>	<u>\$ (313,688)</u>	<u>\$ (6,306,651)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Other Financing Sources (Uses)				
Proceeds from Tax Anticipation				
Notes	\$ 14,500,000	\$ 14,500,000	\$ 14,500,000	\$ 0
Operating Transfers In	1,877,919	1,877,919	6,803,846	4,925,927
Operating Transfers Out	(7,106,000)	(7,106,000)	(6,870,895)	235,105
Proceeds from 2008 Borrowing	500	500	0	(500)
Contingency	(100,000)	(75,382)	0	75,382
Payments of Tax Anticipation				
Notes	<u>(15,190,000)</u>	<u>(15,190,000)</u>	<u>(15,007,168)</u>	<u>182,832</u>
Net Other Financing Sources (Uses)	<u>\$ (6,017,581)</u>	<u>\$ (5,992,963)</u>	<u>\$ (574,217)</u>	<u>\$ 5,418,746</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 0	\$ 0	\$ (887,905)	\$ (887,905)
Fund Balance, Beginning of Year	<u>(222,574)</u>	<u>(222,574)</u>	<u>(222,574)</u>	<u>0</u>
FUND DEFICIT, END OF YEAR	<u>\$ (222,574)</u>	<u>\$ (222,574)</u>	<u>\$ (1,110,479)</u>	<u>\$ (887,905)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2011

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 9,543	\$ 709,577	\$ 471,195	\$ 1,828,307	\$ 1,784,886	\$ 4,803,508
Accounts Receivable, Net	0	10	0	82,230	0	82,240
Loans Receivable	0	0	887,720	0	0	887,720
Due From Other Funds	79,224	1,456	0	569,891	0	650,571
Property Held for Resale	<u>0</u>	<u>0</u>	<u>143,051</u>	<u>0</u>	<u>0</u>	<u>143,051</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 88,767</u></b>	<b><u>\$ 711,043</u></b>	<b><u>\$ 1,501,966</u></b>	<b><u>\$ 2,480,428</u></b>	<b><u>\$ 1,784,886</u></b>	<b><u>\$ 6,567,090</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 0	\$ 25,527	\$ 49,500	\$ 111,030	\$ 0	\$ 186,057
Due to Other Funds	0	1,664	487,137	36,250	0	525,051
Deferred Revenues	<u>0</u>	<u>0</u>	<u>959,527</u>	<u>2,333,148</u>	<u>0</u>	<u>3,292,675</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 0</u></b>	<b><u>\$ 27,191</u></b>	<b><u>\$ 1,496,164</u></b>	<b><u>\$ 2,480,428</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 4,003,783</u></b>
<b>FUND BALANCES</b>						
Restricted for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,784,886	\$ 1,784,886
Restricted for Capital Projects	0	683,852	0	0	0	683,852
Restricted for Externally Imposed						
Regulations	88,767	0	442,107	0	0	530,874
Nonspendable Property Held For Resale	0	0	143,051	0	0	143,051
Unreserved - Undesignated	<u>0</u>	<u>0</u>	<u>(579,356)</u>	<u>0</u>	<u>0</u>	<u>(579,356)</u>
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 88,767</u></b>	<b><u>\$ 683,852</u></b>	<b><u>\$ 5,802</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,784,886</u></b>	<b><u>\$ 2,563,307</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 88,767</u></b>	<b><u>\$ 711,043</u></b>	<b><u>\$ 1,501,966</u></b>	<b><u>\$ 2,480,428</u></b>	<b><u>\$ 1,784,886</u></b>	<b><u>\$ 6,567,090</u></b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>Revenues:</b>						
Intergovernmental	\$ 1,551,281	\$ 0	\$ 1,150,579	\$ 1,361,483	\$ 0	\$ 4,063,343
Departmental Earnings	0	0	0	58,995	0	58,995
Interest Income	388	427	469	5,689	6,306	13,279
Other Revenues	0	0	1,000	1,364,036	0	1,365,036
Rents and Concessions	0	0	7,360	0	0	7,360
<b>Total Revenues</b>	<b>\$ 1,551,669</b>	<b>\$ 427</b>	<b>\$ 1,159,408</b>	<b>\$ 2,790,203</b>	<b>\$ 6,306</b>	<b>\$ 5,508,013</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	\$ 0	\$ 56	\$ 1,604	\$ 177,553	\$ 0	\$ 179,213
Public Works	0	0	0	161,303	0	161,303
Health and Welfare	0	0	0	1,645,534	0	1,645,534
Community Development	0	0	1,186,487	110,926	0	1,297,413
<b>Debt Service</b>						
Debt Service-Principal	0	0	123,313	0	3,004,009	3,127,322
Debt Service-Interest	0	0	2,428	0	3,875,278	3,877,706
Capital Outlay	0	450,323	0	0	0	450,323
<b>Total Expenditures</b>	<b>\$ 0</b>	<b>\$ 450,379</b>	<b>\$ 1,313,832</b>	<b>\$ 2,095,316</b>	<b>\$ 6,879,287</b>	<b>\$ 10,738,814</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,551,669	\$ (449,952)	\$ (154,424)	\$ 694,887	\$ (6,872,981)	\$ (5,230,801)
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In	\$ 0	\$ 394,033	\$ 0	\$ 0	\$ 6,870,895	\$ 7,264,928
Operating Transfers Out	(1,502,992)	0	0	(694,887)	0	(2,197,879)
<b>Net Other Financing Sources (Uses)</b>	<b>\$ (1,502,992)</b>	<b>\$ 394,033</b>	<b>\$ 0</b>	<b>\$ (694,887)</b>	<b>\$ 6,870,895</b>	<b>\$ 5,067,049</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ 48,677	\$ (55,919)	\$ (154,424)	\$ 0	\$ (2,086)	\$ (163,752)
Fund Balances, Beginning of Year	40,090	739,771	160,226	0	1,786,972	2,727,059
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 88,767</b>	<b>\$ 683,852</b>	<b>\$ 5,802</b>	<b>\$ 0</b>	<b>\$ 1,784,886</b>	<b>\$ 2,563,307</b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
YEAR ENDED DECEMBER 31, 2011

Additions:

Contributions

Employee	\$ 593,808	
Employer	0	
Commonwealth State Aid	<u>4,706,598</u>	
Total Contributions		\$ 5,300,406

Investment Income:

Investment Return (Depreciation)	\$ <u>(604,232)</u>	
Total Investment Income		<u>(604,232)</u>

TOTAL ADDITIONS \$ 4,696,174

DEDUCTIONS

Benefit Payments	\$12,131,933	
Refund of Members' Contributions	19,547	
Administrative Expenses	<u>108,684</u>	
Total Deductions		<u>12,260,164</u>

CHANGE IN NET ASSETS \$ (7,563,990)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

Beginning of Year		<u>54,974,008</u>
END OF YEAR		<u>\$ 47,410,018</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP BASIS	FINAL BUDGET POSITIVE (NEGATIVE)
Revenues				
Taxes				
Act 511:				
Wage	\$21,537,545	\$21,537,545	\$21,526,817	\$ (10,728)
Delinquent Wage Tax	900,000	900,000	564,940	(335,060)
Real Estate Transfer	2,520,000	2,520,000	4,186,381	1,666,381
Mercantile	881,250	881,250	786,459	(94,791)
Business Privilege	562,500	562,500	533,044	(29,456)
Local Service Tax	1,738,878	1,738,878	1,671,557	(67,321)
Delinquent Mercantile	100,000	100,000	47,460	(52,540)
Delinquent Business Privilege	75,000	75,000	138,588	63,588
Total Act 511	<u>\$28,315,173</u>	<u>\$28,315,173</u>	<u>\$29,455,246</u>	<u>\$ 1,140,073</u>
Current Real Estate	\$12,998,293	\$12,998,293	\$12,330,247	\$ (668,046)
Delinquent Real Estate	1,700,000	1,700,000	1,230,652	(469,348)
Public Utility	60,912	60,912	58,826	(2,086)
Filing Fees Delinquent Accounts	315,000	315,000	0	(315,000)
Penalties & Interest	51,100	51,100	43,006	(8,094)
Total Taxes	<u>\$43,440,478</u>	<u>\$43,440,478</u>	<u>\$43,117,977</u>	<u>\$ (322,501)</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,710,000	\$ 2,710,000	\$ 4,706,598	\$ 1,996,598
OECD Reimbursement Demolition Program	200,000	200,000	7,410	(192,590)
FEMA Emergency Grants	0	0	268,183	268,183
Total Intergovernmental	<u>\$ 2,910,000</u>	<u>\$ 2,910,000</u>	<u>\$ 4,982,191</u>	<u>\$ 2,072,191</u>
Departmental Earnings				
Parking Meters	\$ 1,400,000	\$ 1,400,000	\$ 982,713	\$ (417,287)
Fines and Forfeits	1,467,200	1,467,200	738,409	(728,791)
Pave Cuts	215,000	215,000	170,185	(44,815)
Report Copies Fire & Police	70,000	70,000	67,837	(2,163)
Alarm Fees	82,000	82,000	6,550	(75,450)
Zoning	31,000	31,000	15,450	(15,550)
Total Departmental Earnings	<u>\$ 3,265,200</u>	<u>\$ 3,265,200</u>	<u>\$ 1,981,144</u>	<u>\$ (1,284,056)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 5,125,943	\$ 5,125,943	\$ 3,696,487	\$ (1,429,456)
Licenses and Permits	2,526,714	2,526,714	1,283,449	(1,243,265)
Cable Television Franchise Revenue	975,000	975,000	807,123	(167,877)
Payments in Lieu of Taxes	183,250	183,250	210,427	27,177
Interest Income	20,000	20,000	6,993	(13,007)
User Fees	60,564	60,564	49,225	(11,339)
Other Revenues	104,000	104,000	41,224	(62,776)
Donations	1,000	1,000	16,156	15,156
Rents and Concessions	700	700	0	(700)
Total Other Revenues	<u>\$ 8,997,171</u>	<u>\$ 8,997,171</u>	<u>\$ 6,111,084</u>	<u>\$ (2,886,087)</u>
Total Revenues	<u>\$58,612,849</u>	<u>\$58,612,849</u>	<u>\$56,192,396</u>	<u>\$ (2,420,453)</u>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$14,500,000	\$14,500,000	\$14,500,000	\$ 0
Other Financing Sources	500	500	0	(500)
Operating Transfers in from:				
Liquid Fuels Fund	1,577,819	1,577,819	1,502,992	(74,827)
Other Funds	300,100	300,100	5,300,854	5,000,754
Total Other Financing Sources	<u>\$16,378,419</u>	<u>\$16,378,419</u>	<u>\$21,303,846</u>	<u>\$ 4,925,427</u>
Total Revenues and Other Financing Sources	<u>\$74,991,268</u>	<u>\$74,991,268</u>	<u>\$77,496,242</u>	<u>\$ 2,504,974</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
General Government				
Salaries and Wages	\$ 1,742,639	\$ 1,742,639	\$ 1,670,363	\$ 72,276
Employee Benefits	3,177,598	3,187,915	4,238,049	(1,050,134)
Workers' Compensation Claims	1,951,925	1,951,925	1,624,790	327,135
General Insurance	1,003,379	997,758	892,047	105,711
Office Supplies and Expense	102,438	99,554	101,160	(1,606)
Professional Fees	468,217	467,819	531,419	(63,600)
Telephone	91,372	101,666	101,665	1
Equipment	59,131	57,967	57,957	10
Travel	226	0	0	0
Other	152,290	152,290	48,772	103,518
Boards and Commissions	115,300	115,300	98,884	16,416
Utilities	659,405	658,605	719,418	(60,813)
Grants and Contributions	5,150	5,150	5,100	50
Court Awards & Settlements	200,000	200,000	160,797	39,203
Parking Authority Ticket Issuers	562,235	562,235	521,021	41,214
	<u>\$10,291,305</u>	<u>\$10,300,823</u>	<u>\$10,771,442</u>	<u>\$ (470,619)</u>
Total General Government				
Public Safety				
Salaries and Wages	\$17,705,867	\$17,705,867	\$17,972,262	\$ (266,395)
Employee Benefits	12,686,434	12,700,733	15,152,559	(2,451,826)
Supplies	71,471	67,567	34,733	32,834
Equipment	137,759	139,983	142,292	(2,309)
Training	36,811	38,492	36,988	1,504
Travel	5,000	5,000	2,392	2,608
Professional Fees	16,750	16,750	5,063	11,687
	<u>\$30,660,092</u>	<u>\$30,674,392</u>	<u>\$33,346,289</u>	<u>\$ (2,671,897)</u>
Total Public Safety				
Public Works				
Salaries and Wages	\$ 3,697,805	\$ 3,697,805	\$ 4,089,381	\$ (391,576)
Employee Benefits	2,021,426	2,021,425	1,989,215	32,210
Supplies	210,815	198,597	197,069	1,528
Professional Fees	147,717	174,234	149,707	24,527
Equipment	1,146,807	1,138,108	1,221,279	(83,171)
Electric	387,147	387,147	454,723	(67,576)
Landfill Fees	1,502,450	1,427,657	1,449,454	(21,797)
Salt	290,000	290,000	319,720	(29,720)
Flood Protection	40,173	36,284	306,227	(269,943)
Street Lighting	699,519	773,402	802,614	(29,212)
	<u>\$10,143,859</u>	<u>\$10,144,659</u>	<u>\$10,979,389</u>	<u>\$ (834,730)</u>
Total Public Works				

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 626,402	\$ 626,402	\$ 611,584	\$ 14,818
Employee Benefits	15,500	15,500	11,502	3,998
Supplies	<u>48,353</u>	<u>48,353</u>	<u>40,220</u>	<u>8,133</u>
Total Community Development	<u>\$ 690,255</u>	<u>\$ 690,255</u>	<u>\$ 663,306</u>	<u>\$ 26,949</u>
Culture and Recreation				
Salaries and Wages	\$ 614,793	\$ 614,793	\$ 619,583	\$ (4,790)
Employee Benefits	1,625	1,625	2,590	(965)
Supplies	163,324	163,324	96,845	66,479
Programs	<u>30,015</u>	<u>30,015</u>	<u>26,640</u>	<u>3,375</u>
Total Culture and Recreation	<u>\$ 809,757</u>	<u>\$ 809,757</u>	<u>\$ 745,658</u>	<u>\$ 64,099</u>
Total Expenditures	<u>\$52,595,268</u>	<u>\$52,619,886</u>	<u>\$56,506,084</u>	<u>\$ (3,886,198)</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$15,190,000	\$15,190,000	\$15,007,168	\$ 182,832
Contingency	100,000	75,382	0	75,382
Operating Transfers Out to: Debt Service Fund	<u>7,106,000</u>	<u>7,106,000</u>	<u>6,870,895</u>	<u>235,105</u>
Total Other Financing Uses	<u>\$22,396,000</u>	<u>\$22,371,382</u>	<u>\$21,878,063</u>	<u>\$ 493,319</u>
Total Expenditures and Other Financing Uses	<u>\$74,991,268</u>	<u>\$74,991,268</u>	<u>\$78,384,147</u>	<u>\$ (3,392,879)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
CDBG - Entitlement Grant Cluster			
Community Development Block Grants/Entitlement Grants	14.218		\$ 3,731,949
Community Development Block Grants/ARRA Entitlement Grant Recovery Program	14.253		<u>69,822</u>
TOTAL CDBG - ENTITLEMENT GRANT CLUSTER			3,801,771
Emergency Shelter Grants Program	14.231		167,906
Homeless Prevention & Rapid Re-Housing (HPRP) (Recovery Act Funded)	14.257		716,809
Economic Development Initiative-Special Project	14.251		91,597
Home Investment Partnerships Program	14.239		<u>508,698</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 5,286,781</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Passed through the PA Department of Community & Economic Development			
Neighborhood Stabilization Program	14.228		
Received in 2011 and Incurred in 2011			\$ 722,984
Received in 2012 and Incurred in 2011			<u>11,535</u>
Total PA Department of Community & Economic Development			<u>\$ 734,519</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 6,021,300</u>
U.S. Department of Energy			
Energy Efficiency Conservation Block Recovery	81.128		\$ 51,515
Total U.S. Department of Energy			<u>\$ 51,515</u>
U.S. DEPARTMENT OF JUSTICE:			
Recovery Act Edward Byrne Memorial Justice Assistance Grant Program	16.804		\$ 33,176
Justice Grant Assistance Program	16.580		<u>52,976</u>
Total U.S. Department of Justice			<u>\$ 86,152</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation			
Highway Planning and Construction			
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 0441761 & 040809B	
Incurred 2011 Paid 2011			232
Incurred 2011 Paid 2012			0
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222	
Incurred 2011 Paid 2011			11,248
Incurred 2011 Paid 2012			0
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement Number 041912 Part II	
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement 041912 Part III	
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement 041439 Contract # 8322	
Incurred 2011 Paid 2011			146,355
Incurred 2011 Paid 2012			<u>3,425</u>
Total U.S. Department of Transportation			<u>\$ 161,260</u>
Environmental Protection Agency			
Brownfield Assessment & cleanup Cooperative Agreements Recovery Act	66.818		\$ 36,149
Total Environmental Protection Agency			<u>\$ 36,149</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Department of Homeland Security			
Passed through the Pennsylvania Emergency Agency Diaster Grants Public Assist (Presidentially Declared)	97.036		\$ <u>268,183</u>
Total Department of Homeland Security			\$ <u>268,183</u>
U.S. General Service Administration			
Passed through the Pennsylvania Department of General Services Donation of Federal Surplus Property Program	39.003		\$ <u>21,826</u>
Total U.S. General Service Administration			\$ <u>21,826</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>6,646,385</u>

Note: The schedule of expenditures of Federal Awards is prepared  
 On the modified accrual basis of accounting.

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

January 10, 2013

To Honorable Members of City Council  
The City of Scranton, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scranton as of and for the year ended December 31, 2011, which collectively comprise the City of Scranton's basic financial statements, and have issued our report thereon dated January 10, 2013. The report on the aggregate remaining fund information was qualified due to valuing its actuarial liability for its internal service workmen's compensation fund at August 31, 2011 and not December 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Other auditors audited the financial statements of the Parking Authority of the City of Scranton, the Sewer Authority of the City of Scranton, and the Redevelopment Authority of the City of Scranton, as described in our report on the City of Scranton financial statements. This report does not include the results of the other Auditor's testing of internal control over financial reporting of compliance and other matters that are reported on separately by those Auditors.

Internal Control Over Financial Reporting

Management of The City of Scranton, is responsible for establishing and maintaining effective internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Scranton's financial statements that is more than inconsequential will not be prevented or detected and corrected on a timely basis. We considered the deficiencies described in the accompanying Schedule of Findings and

Questioned Cost to be a material weakness 2011-2.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, 2011-01 and 2011-03. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

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

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

This report is intended for the information of the City of Scranton's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Robert Ross + Co". The signature is written in a cursive, flowing style.

ROBERT ROSSI & CO.  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

January 10, 2013

To Honorable Members of City Council  
The City of Scranton, Pennsylvania

Compliance

We have audited the City of Scranton's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The City of Scranton's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Scranton's management. Our responsibility is to express an opinion on the City of Scranton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Scranton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Scranton's compliance with those requirements.

In our opinion, the City of Scranton complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011. The results of our auditing procedures also disclosed other instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Cost as items 2011-4.

### Internal Control Over Compliance

The management of the City of Scranton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Scranton's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

This report is intended for the information of the City of Scranton's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Robert A. Rossi in black ink, with a stylized flourish at the end.

CITY OF SCRANTON, PENNSYLVANIA  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

Section I – Auditor’s Result Section

- (1) A qualified opinion was expressed on the aggregate remaining fund information of the auditee. An unqualified opinion was expressed on the remaining Governmental-Activities, Business Activities, and each major fund.
- (2) The audit disclosed significant deficiencies two (2) of the deficiencies were not considered to be a material weakness on internal control of the financial statements.
- (3) The audit did not disclose any noncompliance which is material to the financial statements of the auditee, as required to be reported in accordance with Government Auditing Standards.
- (4) There were no significant deficiencies relating to the audit of the Major Federal Award Programs reported.
- (5) The Auditor’s Report expressed an unqualified opinion on the City’s compliance with requirements applicable to major programs.
- (6) The Audit disclosed one (1) finding that is required to be reported in accordance with Section 510(A) OMB Circular A-133.
- (7) Identification of major programs is as follows:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG/Entitlement Grants
14.253	CDBG-R/Entitlement Grants
14.257	Homeless Prevention & Rapid Rehousing
14.239	Home Investment Partnership Program
14.228	Neighborhood Stabilization Program

- (8) The dollar threshold used to distinguish Type A and Type B programs as described in Section 520(B) of OMB Circular A-133 was \$300,000.
- (9) The auditee did not qualify as a low-risk auditee under Section 530 of OMB Circular A-133.

CITY OF SCRANTON, PENNSYLVANIA  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Section II – Findings relating to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

2011-1 Segregation of Duties

Condition: There is no segregation of duties regarding the system for processing accounts payable. One person is responsible for matching invoices to purchase orders, enters invoices into the general ledger, processes the checks for payment, has access to the signature machine, and mails the checks to vendors. \$ 0

Effect: Because of the lack of segregation of duties the possibility of error and omissions to go undetected exist when one person has complete control over all these functions.

Recommendation: Procedures should be implemented whereby one person does not have complete control over these functions.

2011-2 Processing & Recording of Transactions for Current and Delinquent Receivables

Condition: Late in 2010, the City terminated its contract with Commonwealth Financial Services for the collection and recording of receivables of Delinquent Real Estate Taxes for calendar year 2008 and prior, Delinquent Refuse Fees for calendar year 2009 and prior and Current Refuse Fees for 2010. In 2011, the City attempted to record collections and maintain its receivable listing in an excel spreadsheet. The spreadsheet was not updated in a timely fashion, was not balanced to general ledger postings, and did not list any information as to when deposits were received. In late 2011, the City hired Northeast Revenue Service (NRS) to handle collections and recording of its receivables for 2009 calendar year and prior Delinquent Real Estate Tax. However, the City did not establish any reconciliation procedures between the City and NRS on a daily, weekly, monthly, quarterly, or an annual basis. In mid-2012, the City hired NRS to handle it collection and recording of its receivables for 2010 calendar year and prior Delinquent Refuse Fee. NRS will also process collections of Current Refuse Fees collected by the City and maintain the receivable listing.

Effect: Because receivables were not updated on a timely basis and lack of staffing in the Treasurer’s Office receivable information was not readily available for lien searches and sending out of statements.

Recommendation: With the new tax collector hired, the City needs to establish appropriate daily, weekly, monthly, quarterly, and annual reconciliation processes with NRS.

CITY OF SCRANTON, PENNSYLVANIA  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

2011-3      Daily Balancing and Retention of Information

**Condition:**            In 2011, the City Treasurer Office switched from three (3) part receipt books to two (2) part receipt books. As a result, the head cashier did not receive one of the three (3) receipts to balance daily receipts to. Also, due to illness, the City had various people working in the position of head cashier. As a result paper work was not being timely filed and with attempting to record transactions noted in 2011-2 above by various people, the daily batch of receipts did not always match adding machine tape of receipts. Also with the change of head cashiers the daily deposit process had numerous misposting that was not being completed in a timely fashion to allow the Controller's office to review the postings and correct as necessary before the deposit was picked up by the armored car service.

**Effect:**                Significant amount of time was needed to locate and sort supporting documentation and recording of outstanding receivables.

**Recommendation:**    The City should go back to the three (3) part receipt books and again start providing one of the receipt copies to the head cashier to balance daily depositing. The City will post for a permanent position of head cashier in June 2012. Daily procedures need to be communicated with the new head cashier and must be followed.

Section III – Findings and questioned cost for Federal Awards which shall include audit findings as defined in Section 510(A) of OMB Circular A – 133

Department of Housing and Urban Development  
Home Investment Partnership Program  
CFDA # 14.239

2011-4      Homebuyer Program and Housing Rehabilitation

**Condition:**            A homebuyer participated in both programs. The first assistance was provided as a down payment and closing cost and the second assistance was for rehabilitation of the home with HOME Program funding for \$ 11,075. HOME funds may not be used to assist a project previously assisted during the affordability except within one year of project completion.

**Effect:**                The homebuyer received more assistance than they were entitled to.

**Recommendation:**    The City should reimburse the HOME program for the unallowed cost with non-Federal funds.

Total Questioned Costs \$ 11,075

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2010

2010-1      Accounts Payable

The audit for the year ended December 31, 2010 noted that there is no segregation of duties regarding the system for processing accounts payable. One person is responsible for matching invoices to purchase orders, enters invoices into the general ledger, processes the checks for payment, has access to the signature machine, and mails the checks to vendors. This finding still exists at December 31, 2011.

2010-2      Recording of Revenues

The audit for the year ended December 31, 2010 noted that during the years ended December 31, 2009 and 2010, The City received grants from various sources. However, in recording either the revenue or the expenditures for these grants on the Office of Economic and Community Development's (OECD) books and records they recorded them as part of the Community Development Block Grant revenue and expenditures. The OECD books and records have been set up to record and track revenue and expenditures by the various programs that it has. However, a new chart of accounts was not added as new programs were added, until a new Director of Finance and Compliance was hired December 2010. This finding was corrected in 2011.

2010-3      Recording of Program Expenditures

The audit for the year ended December 31, 2010 noted that during the years ended December 31, 2009 and 2010; we noted that some program expenditures were not tracked to the appropriate program and general ledger account. They were all being recorded as CDBG expenditures. This finding was corrected in 2011.

2010-4      Recording of Year End Accounts Payables

The audit for the year ended December 31, 2010 noted that during the year ended December 31, 2010, the City Office and Economic & Community Development Offices (OECD) use a voucher to process request for payments. Voucher numbers are assigned and reset to zero at the beginning of each year. Testing of subsequent disbursements showed that accounts payable at year end were understated by approximately \$540,000. OECD uses quick books software and was keying invoices in by date of invoice or date invoice was to be paid. Quick books is a date

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2010

sensitive program and posts invoices based upon date entered into the system. Invoices that are for goods and services in a prior year need to be recorded with an invoice date of December 31 to reflect in the proper accounting period. This finding was corrected in 2011.

2010-5 Recording of Year End Accounts Receivable

The audit for the year ended December 31, 2010 noted that during the year ended December 31, 2010, as a result of finding number 2010 – 4 and recording of additional year end accounts payable, accounts receivable from grant programs were understated by approximately \$681,000. This finding was corrected in 2011.

2010-6 Debit Balances in Accounts Payable Aging Reports

The audit for the year ended December 31, 2010 noted that during the year ended December 31, 2010, as stated in finding 2010 – 4, Quick books is a date sensitive program. The account payable aging reports that were provided for audit contained debit balances instead of the typical credit balance for some vendors. Upon investigation it was discovered that some February 2011 checks paying 2011 invoices were processed with a date of December 2010. In another instance, a check was processed but the invoice was not properly recorded in the system. This finding was corrected in 2011.

2010-7 Improper Recording of Reimbursements and Expenditures

The audit for the year ended December 31, 2010 noted that during the year ended December 31, 2010, we noted that transfers from one bank account to reimburse another bank account for expenditures made from that account were incorrectly being recorded as program revenue, and as program expenditures on the OECD books. This finding was corrected in 2011.

2010-8 Paying of Expenditures Wrong Bank Account

The audit for the year ended December 31, 2010 noted that during the years ended December 31, 2009 and 2010, The OECD stopped paying the Home Investment Partnership Program and other grant programs payroll out of their respective bank accounts. The funds were being drawn down under the appropriate program. However, the expenditures were being

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2010

paid out of CDBG funds. These funds were not reimbursed to the CDBG bank account until 2011. This finding was corrected in 2011.

2010-9 Administrative Expenses

The audit for the year ended December 31, 2010 noted that the OECD was using Federal Funds to reimburse the City's General Fund for one-half of the Director of Licenses, Inspections, and Permits. The expenditures are not supported by appropriate time sheets and other documentation supporting an allowable cost. The amount of questioned cost is to be reduced from the City's subsequent CDBG allocation.

2010-10 Payment of Construction Damages

The audit for the year ended December 31, 2010 noted that the OECD had reimbursed the Scranton Redevelopment Authority for damage that it had caused to a roof during construction of a parking garage. Payments for losses that could have been insured are an unallowed reimbursable Federal Program cost. The amount of questioned cost is to be reduced from the City's subsequent CDBG allocation.

2010-11 Quarterly Reporting Requirements

The audit for the year ended December 31, 2010 noted that The OECD Office is required to file quarterly reports of expenditures incurred on the accrual basis of accounting. The OECD was reporting expenditures on a cash basis and not for the quarter they were incurred for. This finding was corrected in 2011.

CITY OF SCRANTON, PENNSYLVANIA  
PLAN FOR CORRECTIVE ACTION TAKEN IN REGARD  
TO AUDIT FINDINGS

2011-1 Accounts Payable

Recommendations: Procedures should be implemented whereby one person does not have complete control over these functions.

Response: We agree with the finding of the independent auditor and will take steps to implement procedures to address this issue.

2011 - 2 Processing & Recording of Transactions for Current and Delinquent Receivables

Recommendation: With the new tax collector hired, the City needs to establish appropriate daily, weekly, monthly, quarterly, and annual reconciliation processes with Northeast Revenue Service

Response: We agree with the finding of the independent auditor and will take steps to implement procedures to address this issue.

2011 - 3 Daily Balancing and Retention of Information

Recommendation: The City should go back to the three (3) part receipt books and again start providing one of the receipt copies to the head cashier to balance daily depositing. The City will post for a permanent position of head cashier in June 2012. Daily procedures need to be communicated with the new head cashier and must be followed.

Response: We agree with the finding of the independent auditor and will take steps to implement procedures to address this issue.

2011 - 4 Homebuyer Program and Housing Rehabilitation

Recommendation: The City should reimburse the HOME program for the unallowed cost with non-Federal funds.

Response: We agree with the finding of the independent auditor and will be requesting that the money be deducted from the HOME Program 2013 Action Plan.

  
Ryan McGowan  
Business Administrator