

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2012**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

November 22, 2013

To 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Scranton as of and for the year ended December 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 \$95,687,707 at March 31, 2012 and total revenues of \$16,413,590 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$51,879,386 at December 31 2012 and total revenues of \$1,977,364 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$1,504,051 at December 31, 2012 and total revenues of \$3,234,309 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.

### **Basis for Qualified Opinion Aggregate Remaining Fund Information**

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, 2012 instead of December 31, 2012. 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

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion on Aggregate Remaining Fund Information" 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, 2012, 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.

### **Unmodified Opinions**

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, 2012, and the respective changes in financial position and, where applicable cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

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. In consideration of the City's execution of and compliance with the terms of the agreement, the Union's agreed to waive any claims arising from the City's noncompliance with the apparatus and shift manning issues, and health care in favor of the unions. As of the issuance of these financial statements, the City has not paid the Court Award pursuant to the agreement by June 30, 2013. The City has accrued back pay for the period January 1, 2003 through December 31, 2012 in the Government Wide Financial Statements in the amount of \$ 21,000,000. The liability is classified as long term at December 31, 2012 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.

### **Appointment of the Receivership Estate**

In September 2012, the Parking Authority of the City of Scranton was appointed a court ordered receivership estate. The receivership estate is a separate legal entity and is not included in the financial statements of the Authority. See Note 17. The Authority's Auditor's opinion on the basic financial statements is not affected by the appointment and subsequent transactions with the receivership estate.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 thru 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Scranton's basic financial statements. The introductory section, and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, on our consideration of The City of Scranton's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The City of Scranton's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Robert Ross" followed by a stylized monogram or initials "TCO".

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, 2012. 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 liabilities of the City exceeded its assets at the close of the fiscal year by \$444,916 (*net position*).
- The government's total net position decreased by \$14,912,679.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$11,866,687, an increase of \$10,322,658 in comparison with the prior year balance which was \$1,544,029. The largest increase was in the General Fund of \$8,777,736.
- 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, Pennsylvania currently does not have a bond rating from Standard and Poor's.

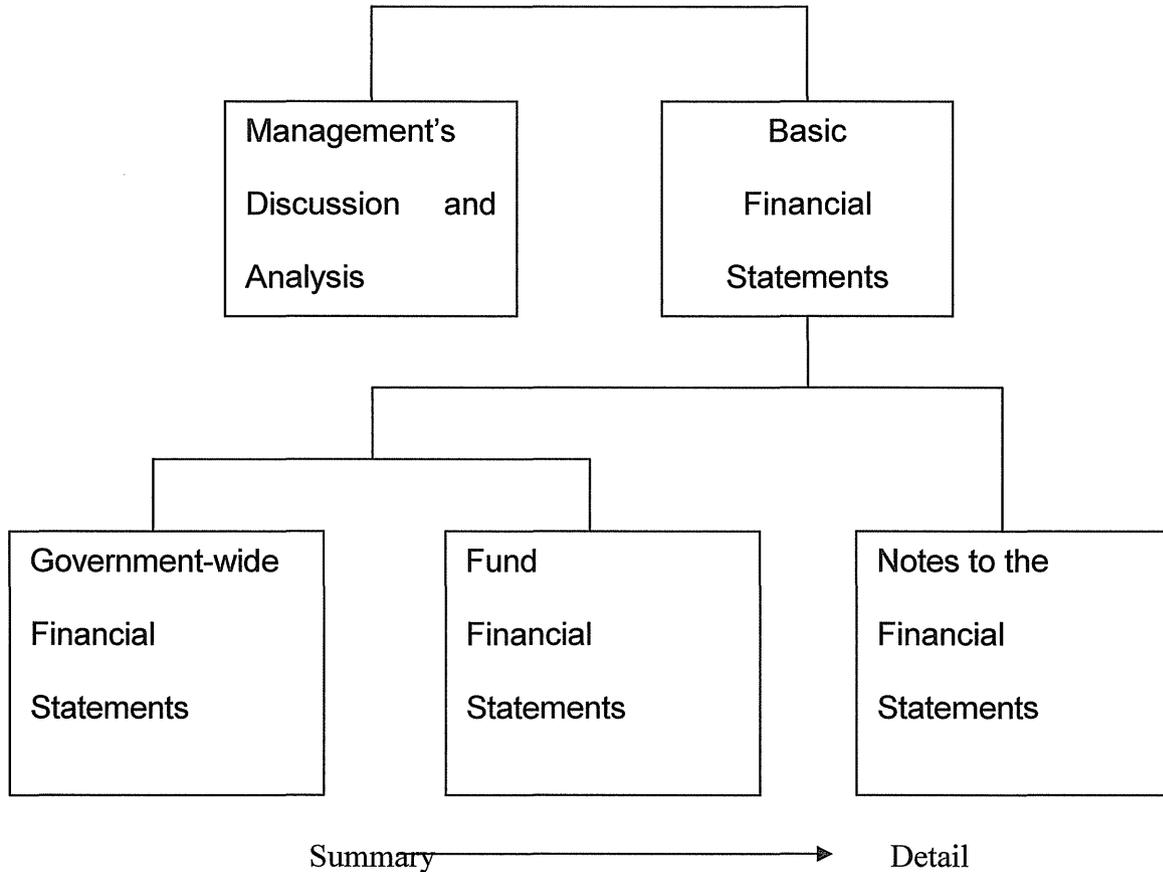
**Overview of the Financial Statements**

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*

Figure 1



**Basic Financial Statements**

The first two statements (pages 17 through 19) 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 20 through 31) 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.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**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.

The statement of net position 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 a future would be when a taxpayer pays a prior year tax or fee in the future (see Taxes and Fees Receivable \$13,968,432). An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$3,261,421). 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 17 through 19.

**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,

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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 32 through 82 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 83 and 84). A description of the schedules and reports can be found on pages 1 through 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 liabilities exceed its assets by \$444,916.

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 position, \$59,733,941. 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, \$37,150,519, is subject to external restrictions as to how they may be used. The remaining component of net assets is the unrestricted net position, which ended the year with a deficit of \$97,329,376. The governmental activities reported negative unrestricted net assets of \$111,185,625. The business type activities reported positive unrestricted net assets of \$13,856,249.

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		%
	2012	2011		2012	2011		2012	2011	
Current Assets	\$ 82,586,800	\$ 77,491,463	6.6%	\$ 11,613,175	\$ 13,721,056	-15.4%	\$ 94,199,975	\$ 91,212,519	3.3%
Restricted Assets	3,180,468	201,901	1475.3%	36,720,235	17,161,443	114.0%	39,900,703	17,363,344	129.8%
Capital Assets	94,577,980	93,538,103	1.1%	96,342,511	94,741,670	1.7%	190,920,491	188,279,773	1.4%
Deferred Charges	1,933,959	952,957	102.9%	2,893,481	2,069,292	39.8%	4,827,440	3,022,249	59.7%
<b>Total Assets</b>	<b>\$ 182,279,207</b>	<b>\$ 172,184,424</b>	<b>5.9%</b>	<b>\$ 147,569,402</b>	<b>\$ 127,693,461</b>	<b>15.6%</b>	<b>\$ 329,848,609</b>	<b>\$ 299,877,885</b>	<b>10.0%</b>
Current Liabilities	\$ 14,162,925	\$ 15,251,447	-7.1%	\$ 6,516,145	\$ 4,530,742	43.8%	\$ 20,679,070	\$ 19,782,189	4.5%
Non-Current Liabilities	200,573,040	175,103,859	14.5%	109,041,415	90,524,074	20.5%	309,614,455	265,627,933	16.6%
<b>Total Liabilities</b>	<b>\$ 214,735,965</b>	<b>\$ 190,355,306</b>	<b>12.8%</b>	<b>\$ 115,557,560</b>	<b>\$ 95,054,816</b>	<b>21.6%</b>	<b>\$ 330,293,525</b>	<b>\$ 285,410,122</b>	<b>15.7%</b>
Net Position:									
Invested in Capital									
assets net of related debt	\$ 75,394,313	\$ 71,756,825	5.1%	\$ (15,660,372)	\$ 193,623	-8188.1%	\$ 59,733,941	\$ 71,950,448	-17.0%
Restricted	3,334,554	2,242,650	48.7%	33,815,965	15,555,591	117.4%	37,150,519	17,798,241	108.7%
Unrestricted	(111,185,625)	(92,170,357)	20.6%	13,856,249	16,889,431	-18.0%	(97,329,376)	(75,280,926)	29.3%
<b>Total Net Position</b>	<b>\$ (32,456,758)</b>	<b>\$ (18,170,882)</b>	<b>78.6%</b>	<b>\$ 32,011,842</b>	<b>\$ 32,638,645</b>	<b>-1.9%</b>	<b>\$ (444,916)</b>	<b>\$ 14,467,763</b>	<b>-103.1%</b>

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

	Governmental Activities		%	Business-Type Activities		%	Total Primary Government		%
	2012	2011		2012	2011		2012	2011	
<b>Revenues</b>									
Program Revenue									
Fees, Fines & Charges for Services	\$ 8,191,570	\$ 6,371,740	28.6%	\$ 18,390,954	\$ 20,042,153	-8.2%	\$ 26,582,524	\$ 26,413,893	0.6%
Operating Grants & Contributions	19,256,196	15,869,204	21.3%	0	0	0.0%	19,256,196	15,869,204	21.3%
Capital Grants & Contributions	3,499,917	851,054	311.2%	0	0	0.0%	3,499,917	851,054	311.2%
General Revenue									
Property Taxes	15,319,421	12,335,440	24.2%	0	0	0.0%	15,319,421	12,335,440	24.2%
Act 511 Taxes	29,373,085	29,557,078	-0.6%	0	0	0.0%	29,373,085	29,557,078	-0.6%
Grants, Subsidies, and Contributions									
Not Restricted	236,816	0	100.0%	0	0	0.0%	236,816	0	100.0%
Cable TV Franchise Revenue	815,180	807,123	1.0%	0	0	0.0%	815,180	807,123	1.0%
Payment in Lieu of Taxes	205,280	210,427	-2.4%	0	0	0.0%	205,280	210,427	-2.4%
Investment Earnings	439,349	624,352	-29.6%	283,081	827,488	-65.8%	722,430	1,451,840	-50.2%
Donations	172,578	16,156	968.2%	0	0	0.0%	172,578	16,156	968.2%
Miscellaneous	63,089	41,224	53.0%	208,427	489,798	-57.4%	271,516	531,022	-48.9%
Rents and Concessions	7,360	7,360	0.0%	0	0	0.0%	7,360	7,360	0.0%
Interfund Transfers	(1,510,949)	0	100.0%	1,510,949	0	100.0%	0	0	0.0%
Intergovernmental Revenues	0	84,781	-100.0%	0	2,571,561	-100.0%	0	2,656,342	-100.0%
Transfers In Receivership Estate	0	0	0.0%	855,680	0	100.0%	855,680	0	100.0%
<b>Total Revenue &amp; Transfers</b>	<b>\$ 76,068,892</b>	<b>\$ 66,775,939</b>	<b>13.9%</b>	<b>\$ 21,249,091</b>	<b>\$ 23,931,000</b>	<b>-11.2%</b>	<b>\$ 97,317,983</b>	<b>\$ 90,706,939</b>	<b>7.3%</b>
<b>Expenses</b>									
General Government & Admin	\$ 12,395,468	\$ 10,075,016	23.0%	\$ 0	\$ 0	0.0%	\$ 12,395,468	\$ 10,075,016	23.0%
Public Safety	39,931,083	39,900,153	0.1%	0	0	0.0%	39,931,083	39,900,153	0.1%
Public Works	15,747,153	15,509,654	1.5%	0	0	0.0%	15,747,153	15,509,654	1.5%
Health & Welfare	1,928,027	1,645,534	17.2%	0	0	0.0%	1,928,027	1,645,534	17.2%
Community Development	12,120,224	9,596,102	26.3%	0	0	0.0%	12,120,224	9,596,102	26.3%
Cultural & Recreation	1,314,786	1,596,388	-17.6%	0	0	0.0%	1,314,786	1,596,388	-17.6%
Unallocated Depreciation	34,758	34,759	0.0%	0	0	0.0%	34,758	34,759	0.0%
Interest on Long Term Debt	4,588,383	4,893,816	-6.2%	0	0	0.0%	4,588,383	4,893,816	-6.2%
Provision for Uncollectible Accounts	140,000	0	0.0%	17,684	18,858	100.0%	157,684	18,858	100.0%
Long Term Court Awards	2,140,275	4,359,725	-50.9%	0	0	0.0%	2,140,275	4,359,725	-50.9%
Loss on Disposal of Fixed Assets	14,611	0	100.0%	0	0	0.0%	14,611	0	100.0%
Sewer Authority	0	0	0.0%	15,495,795	14,694,521	5.5%	15,495,795	14,694,521	5.5%
Municipal Parking Authority	0	0	0.0%	5,475,463	5,318,949	2.9%	5,475,463	5,318,949	2.9%
Transfer of Assets To The									
Receivership Estate	0	0	0.0%	886,952	0	100.0%	886,952	0	100.0%
<b>Total Expenses</b>	<b>\$ 90,354,768</b>	<b>\$ 87,611,147</b>	<b>3.1%</b>	<b>\$ 21,875,894</b>	<b>\$ 20,032,328</b>	<b>9.2%</b>	<b>\$ 111,343,710</b>	<b>\$ 107,643,475</b>	<b>3.4%</b>
Change in Net Position	\$ (14,285,876)	\$ (20,835,208)	-31.4%	\$ (626,803)	\$ 3,898,672	-116.1%	\$ (14,912,679)	\$ (16,936,536)	-11.9%
Net Position, Beginning of Year	(18,170,882)	2,664,326	-782.0%	32,638,645	28,739,973	13.6%	14,467,763	31,404,299	-53.9%
<b>Net Position, End of Year</b>	<b>\$ (32,456,758)</b>	<b>\$ (18,170,882)</b>	<b>78.6%</b>	<b>\$ 32,011,842</b>	<b>\$ 32,638,645</b>	<b>-1.9%</b>	<b>\$ (444,916)</b>	<b>\$ 14,467,763</b>	<b>-103.1%</b>

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental activities.** Governmental activities decreased the City's net position by \$14,285,876. This significant decrease can be directly attributed to the cost of Long Term Court Awards and cost associated with borrowing in 2012 along with decreases in revenues such as interfund transfers and investment earnings. The City's single greatest source of revenue is its Act 511 taxes. Act 511 taxes 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 Berkheimer Tax Administration. 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. However these taxes are collected by the Scranton Collector of Taxes.

Due to the implementation of Act 32, the Wage Tax as of January 1, 2012 is being 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 decreased the City's net assets by \$626,803. A portion of this decrease in 2012 can be attributed to the lack of Intergovernmental Revenues and the Parking Authority being placed in receivership in September 2012.

### **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 \$2,284,293 from the prior year. Total General Fund Revenue was \$58,476,689 for the year 2012 versus \$56,192,396 for the year 2011. The increase of General Fund Revenue is directly attributed to more revenue being received in taxes and refuse disposal fees. Additionally, the City of Scranton received more funds in Licensing and Permits in 2012.

The General Fund expenditures for the year 2012 increased by \$4,692,263. Total General Fund Expenditures were \$61,198,347 for 2012 versus \$ 56,506,084 for 2011. This can be attributed to the increase in general government and administration for bond cost incurred with the issuance of debt and settlement of public safety court ruling decision paid in 2012.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

At December 31, 2012, the Governmental Funds of the City of Scranton reported a combined fund balance of \$11,866,687 an increase of \$10,322,658 over last year. Mainly attributable to net other finances sources.

**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.

**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.

	Governmental Activities			%	Business-Type Activities			%	Total Primary Government			%
	2012	2011	Change		2012	2011	Change		2012	2011	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	138,562,412	19,883,270	596.9%	174,533,168	168,145,886	3.8%	313,095,580	188,029,156	66.5%			
Infrastructure	17,933,574	111,947,267	-84.0%	0	0	0.0%	17,933,574	111,947,267	-84.0%			
Furniture, Equip., & Vehicles	8,632,069	17,822,509	-51.6%	10,555,356	9,795,232	7.8%	19,187,425	27,617,741	-43.9%			
Construction in Progress	284,957	9,491,861	-97.0%	2,742,769	3,874,077	-29.2%	3,027,726	13,365,938	-341.5%			
Accumulated Depreciation	(74,320,538)	(69,092,310)	7.6%	(93,585,875)	(89,479,633)	4.6%	(167,906,413)	(158,571,943)	5.6%			
<b>Total</b>	<b>\$ 94,577,980</b>	<b>\$ 93,538,103</b>	<b>1.1%</b>	<b>\$ 96,342,511</b>	<b>\$ 94,432,655</b>	<b>2.0%</b>	<b>\$ 190,920,491</b>	<b>\$ 187,970,758</b>	<b>1.6%</b>			

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

**General Obligation and Revenue Bonds**

	Governmental Activities			%	Business-Type Activities			%	Total Primary Government			%
	2012	2011	Change		2012	2011	Change		2012	2011	Change	
Balance January 1, 2012	\$ 82,482,873	\$ 85,695,105	-3.7%	\$ 92,546,711	\$ 91,785,828	0.8%	\$ 175,029,584	\$ 177,480,933	-1.4%			
Debt Issued in 2012	22,606,864	0	0.0%	0	2,900,000	-100.0%	22,606,864	2,900,000	679.5%			
Accretion & Amortization	64,119	46,319	38.4%	0	0	0.0%	64,119	46,319	38.4%			
Less: Retirements	(5,764,677)	(3,258,551)	76.9%	(8,285,439)	(2,139,117)	287.3%	(14,050,116)	(5,397,668)	160.3%			
Balance December 31, 2012	<b>\$ 99,389,179</b>	<b>\$ 82,482,873</b>	<b>20.5%</b>	<b>\$ 84,261,272</b>	<b>\$ 92,546,711</b>	<b>-9.0%</b>	<b>\$ 183,650,451</b>	<b>\$ 175,029,584</b>	<b>4.9%</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.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**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, 2012 instead of December 31, 2012. This was also the case in 2004-2011, 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. Reductions to 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 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 an aggressive approach to current revenues. The adopted plan calls for 70.32% property tax increase from 2013 through 2015. The proposed 2014 budget calls for a 49.99% increase in real estate taxes. Additional revenue enhancements include increasing the current refuse fee, which will allow the City to receive an additional \$2.2 million, and increasing the rental registration fees, which will allow the City to receive an additional \$300,000.

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. The City has asked each department to reduce expenditures in its preparation of both the 2013 and 2014 Operating Budgets. Additionally, the Recovery Plan calls for health care savings. In 2013, the City's uniformed bargaining units began contributing towards the cost of health care. The City also participated in the Retiree Drug Subsidy program in 2012 and 2013, and has completed its application for the 2014 fiscal year. The

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

City recently awarded its pharmacy benefits manager plan, and will put dental coverage out to bid prior to the close of 2013.

In 2013, enhancements were made to the City of Scranton's on-street parking meters, allowing parkers to utilize credit cards at meters, as well as a pay-by-phone option. These enhancements, along with increases to meter rates and citations, will lead to increased parking meter revenue.

The City continues to experience major renovation projects in the downtown area. The former Community Medical Center (CMC) was purchased by Geisinger Health Systems in 2012. Renovations continue on the existing CMC hospital building. In addition, in late 2013, the University of Scranton began work on a new project, demolishing Leahy Hall in order to build a brand new, \$47.5 million physical therapy and rehabilitation center. These projects, as well as the implementation of a new third party inspection fee, has led in an increase in licensing and permits revenue. 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 Gina E. McAndrew, Esquire, Acting 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 POSITION  
 DECEMBER 31, 2012

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 11,957,069	\$ 7,628,012	\$ 19,585,081
Investments	15,194,427	0	15,194,427
Receivables:			
Taxes and Fees Receivable, Net	13,968,432	0	13,968,432
Accounts Receivable, Net	1,557,171	3,452,092	5,009,263
Accrued Interest	89,597	0	89,597
Loans Receivable	35,087,725	0	35,087,725
Other Receivables, Net	1,812,123	0	1,812,123
Due From Other Funds	1,999,090	0	1,999,090
Prepaid Assets	728,115	0	728,115
Other Assets	50,000	533,071	583,071
Property Held For Resale	143,051	0	143,051
Restricted Assets:			
Restricted Cash and Cash Equivalents	3,180,468	34,207,252	37,387,720
Restricted Investments	0	2,108,334	2,108,334
Restricted Accounts Receivable	0	18,520	18,520
Accounts Receivable - Assessments	0	386,129	386,129
Capital Assets:			
Land	3,485,506	2,097,093	5,582,599
Buildings	12,098,549	174,224,123	186,322,672
Improvements	8,632,069	309,045	8,941,114
Infrastructure	126,463,862	0	126,463,862
Vehicles, Furniture & Equipment	17,933,575	10,555,356	28,488,931
Construction In Progress	284,957	2,742,769	3,027,726
Accumulated Depreciation	(74,320,538)	(93,585,875)	(167,906,413)
Deferred Charges, Net	1,933,959	2,893,481	4,827,440
<b>TOTAL ASSETS</b>	<b>\$ 182,279,207</b>	<b>\$ 147,569,402</b>	<b>\$ 329,848,609</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET POSITION  
 DECEMBER 31, 2012

LIABILITIES	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Accounts Payable	\$ 4,223,836	\$ 792,306	\$ 5,016,142
Accrued Liabilities	2,019,025	148,317	2,167,342
Due to Other Funds	1,861,576	166,100	2,027,676
Current Liabilities Payable From Restricted Assets:			
Accrued Construction Cost	0	378,059	378,059
Revenue Bonds/ Notes Payable	0	2,415,000	2,415,000
Accrued Bond Interest Payable	1,199,423	1,146,274	2,345,697
Current Portion Of Long Term Debt			
Lease Payable	559,065	0	559,065
General Obligation Bonds Payable	4,085,000	0	4,085,000
Notes Payable	215,000	1,470,089	1,685,089
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	21,828,429	0	21,828,429
Deferred Revenues	38,559,539	0	38,559,539
Long-Term Debt Obligations	76,505,694	108,706,183	185,211,877
Deferred Loss On Early Retirement Of Debt	0	(325,581)	(325,581)
Capitalized Lease Debt	18,024,420	0	18,024,420
Long Term Court Awards Payable	21,000,000	0	21,000,000
Other Post Employment Benefits	21,393,537	0	21,393,537
Compensated Absences	3,261,421	660,813	3,922,234
<b>TOTAL LIABILITIES</b>	<b>\$ 214,735,965</b>	<b>\$ 115,557,560</b>	<b>\$ 330,293,525</b>
NET POSITION			
Investment in Capital Assets, Net of Related Debt	\$ 75,394,313	\$ (15,660,372)	\$ 59,733,941
Restricted for:			
Specific Properties & Uses	781,886	0	781,886
Debt Service	1,870,057	0	1,870,057
Capital Projects	682,611	0	682,611
Debt Service And Capital Expenditures	0	33,815,965	33,815,965
Unreserved - Undesignated	(111,185,625)	13,856,249	(97,329,376)
<b>TOTAL NET POSITION</b>	<b>\$ (32,456,758)</b>	<b>\$ 32,011,842</b>	<b>\$ (444,916)</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012

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	\$ 12,395,468	\$ 1,065,353	\$ 233,491	\$ 0	\$ (11,096,624)	\$ 0	\$ (11,096,624)
Public Safety	39,931,083	703,327	3,980,519	0	(35,247,237)	0	(35,247,237)
Public Works	15,747,153	4,731,932	1,936,335	3,491,293	(5,587,593)	0	(5,587,593)
Health & Welfare	1,928,027	0	1,928,583	0	556	0	556
Community Development	12,120,224	1,640,249	11,177,268	8,624	705,917	0	705,917
Culture and Recreation	1,314,786	50,709	0	0	(1,264,077)	0	(1,264,077)
Unallocated Depreciation	34,758	0	0	0	(34,758)	0	(34,758)
Interest on Long Term Debt	4,588,383	0	0	0	(4,588,383)	0	(4,588,383)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 88,059,882</b>	<b>\$ 8,191,570</b>	<b>\$ 19,256,196</b>	<b>\$ 3,499,917</b>	<b>\$ (57,112,199)</b>	<b>\$ 0</b>	<b>\$ (57,112,199)</b>
<b>Business-Type Activities</b>							
Sewer Authority	\$ 15,495,795	\$ 16,413,590	\$ 0	\$ 0	\$ 0	\$ 917,795	\$ 917,795
Municipal Parking Authority	5,475,463	1,977,364	0	0	0	(3,498,099)	(3,498,099)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 20,971,258</b>	<b>\$ 18,390,954</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (2,580,304)</b>	<b>\$ (2,580,304)</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 109,031,140</b>	<b>\$ 26,582,524</b>	<b>\$ 19,256,196</b>	<b>\$ 3,499,917</b>	<b>\$ (57,112,199)</b>	<b>\$ (2,580,304)</b>	<b>\$ (59,692,503)</b>
<b>General Revenues:</b>							
Property taxes, levied for general purposes					\$ 15,319,421	\$ 0	\$ 15,319,421
Act 511 Taxes					29,373,085	0	29,373,085
Grants, Subsidies, and contributions not restricted					236,816	0	236,816
Cable Television Franchise Revenue					815,180	0	815,180
Payments in Lieu of Taxes					205,280	0	205,280
Investment Earnings					439,349	283,081	722,430
Miscellaneous					63,089	208,427	271,516
Loss On Disposal Of Fixed Assets					(14,611)	0	(14,611)
Rents and Concessions					7,360	0	7,360
Donations					172,578	0	172,578
Provision for Uncollectible Accounts					(140,000)	(17,684)	(157,684)
Interfund Transfers					(1,510,949)	1,510,949	0
Transfer In Receivership Estate					0	855,680	855,680
Transfers Of Assets To The Receivership Estate					0	(886,952)	(886,952)
Long Term Court Awards					(2,140,275)	0	(2,140,275)
<b>Total General Revenues and Transfers</b>					<b>\$ 42,826,323</b>	<b>\$ 1,953,501</b>	<b>\$ 44,779,824</b>
<b>Change in Net Position</b>					<b>\$ (14,285,876)</b>	<b>\$ (626,803)</b>	<b>\$ (14,912,679)</b>
<b>Net Position, Beginning of Year</b>					<b>(18,170,882)</b>	<b>32,638,645</b>	<b>14,467,763</b>
<b>NET POSITION, END OF YEAR</b>					<b>\$ (32,456,758)</b>	<b>\$ 32,011,842</b>	<b>\$ (444,916)</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4,387,548	\$ 675,380	\$ 3,797,140	\$ 8,860,068
Taxes and Fees Receivable, Net	13,968,432	0	0	13,968,432
Accounts Receivable, Net	0	421,955	1,135,216	1,557,171
Loans Receivable	0	34,417,201	670,524	35,087,725
Other Receivables, Net	1,812,123	0	0	1,812,123
Due From Other Funds	579,976	556,498	685,023	1,821,497
Prepaid Assets	728,115	0	0	728,115
Other Assets	0	50,000	0	50,000
Restricted Assets:				
Restricted Cash and Cash Equivalents	0	0	3,069,480	3,069,480
Property Held for Resale	0	0	143,051	143,051
TOTAL ASSETS	\$ 21,476,194	\$ 36,121,034	\$ 9,500,434	\$ 67,097,662
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 2,526,688	\$ 341,925	\$ 1,239,584	\$ 4,108,197
Accrued Liabilities	2,012,843	6,182	0	2,019,025
Due to Other Funds	954,508	77,756	829,312	1,861,576
Deferred Revenues	8,314,898	35,577,075	3,350,204	47,242,177
TOTAL LIABILITIES	\$ 13,808,937	\$ 36,002,938	\$ 5,419,100	\$ 55,230,975
<b>FUND BALANCES</b>				
Nonspendable Property Held For Resale	\$ 0	\$ 0	\$ 143,051	\$ 143,051
Restricted for Debt Service	0	0	3,069,480	3,069,480
Restricted for Capital Projects	0	0	682,611	682,611
Restricted for Externally Imposed Restrictions	0	0	689,336	689,336
Unassigned	7,667,257	118,096	(503,144)	7,282,209
TOTAL FUND BALANCES	\$ 7,667,257	\$ 118,096	\$ 4,081,334	\$ 11,866,687
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,476,194	\$ 36,121,034	\$ 9,500,434	\$ 67,097,662

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET POSITION  
DECEMBER 31, 2012

Total Fund Balance - Total Governmental Funds	\$	11,866,687
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 \$ 168,898,518 accumulated depreciation is \$ 74,320,538.		94,577,980
Governmental funds report the effects of bond issuance cost when the debt is first issued, whereas these amounts are deferred and amortized.		1,933,959
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.		4,577,003
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.		3,435,111
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	\$	3,097,001
Investments		15,194,427
Accrued Interest		89,597
Due From Other Funds		177,593
Restricted Cash & Cash Equivalents		110,988
Accounts Payable		(115,639)
Workers' Compensation Claims Payable		<u>(21,828,429)</u>
Decrease In Net Assets		(3,274,462)
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.		670,524
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	\$	(78,335,694)
General obligation notes payable		(1,470,000)
Governmental notes payable		(1,000,000)
Accrued interest payable		(1,199,423)
Capitalized Lease payable		(18,583,485)
Long Term Court Awards Payable		(21,000,000)
Compensated absences		(3,261,421)
Termination & Post Employment Benefits		<u>(21,393,537)</u>
Increase in Long Term Liabilities		<u>(146,243,560)</u>
Net Position of Governmental Activities	\$	<u>(32,456,758)</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, 2012

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>				
Taxes	\$ 45,387,307	\$ 0	\$ 0	\$ 45,387,307
Intergovernmental	4,363,525	7,166,011	9,454,268	20,983,804
Departmental Earnings	1,763,833	0	53,648	1,817,481
Refuse Disposal Fee	4,006,787	0	0	4,006,787
Licenses and Permits	1,564,394	0	0	1,564,394
Cable Television Franchise Revenue	815,180	0	0	815,180
Payments in Lieu of Taxes	205,280	0	0	205,280
Investment Income	2,032	877	7,431	10,340
User Fee	50,709	0	0	50,709
Other Revenues	145,063	0	1,198,515	1,343,578
Rents and Concessions	0	0	7,360	7,360
Donations	172,579	0	0	172,579
Program Income	0	924,352	0	924,352
<b>Total Revenues</b>	<b>\$ 58,476,689</b>	<b>\$ 8,091,240</b>	<b>\$ 10,721,222</b>	<b>\$ 77,289,151</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	\$ 15,566,580	\$ 0	\$ 311,371	\$ 15,877,951
Public Safety	34,446,571	0	0	34,446,571
Public Works	10,092,350	0	3,491,293	13,583,643
Health and Welfare	0	0	1,928,027	1,928,027
Community Development	599,863	8,064,345	3,215,535	11,879,743
Culture and Recreation	492,983	0	0	492,983
Debt Service				
Debt Service-Principal	0	0	5,684,214	5,684,214
Debt Service-Interest	0	0	3,894,127	3,894,127
Capital Outlay	0	0	10,916	10,916
<b>Total Expenditures</b>	<b>\$ 61,198,347</b>	<b>\$ 8,064,345</b>	<b>\$ 18,535,483</b>	<b>\$ 87,798,175</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (2,721,658)</b>	<b>\$ 26,895</b>	<b>\$ (7,814,261)</b>	<b>\$ (10,509,024)</b>

"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, 2012

	<u>GENERAL</u>	<u>OECD</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Other Financing Sources (Uses):				
Unfunded Debt Borrowing	\$ 21,070,000	\$ 0	\$ 0	\$ 21,070,000
Proceeds From Tax Anticipation Note	17,750,000	0	0	17,750,000
Operating Transfers In	1,475,590	0	10,817,430	12,293,020
Operating Transfers Out	(12,318,827)	0	(1,485,142)	(13,803,969)
Bond Premium Fees	(463,136)	0	0	(463,136)
DCED Act 47 Loan	2,000,000	0	0	2,000,000
Contingency	(96,313)	0	0	(96,313)
Repayment of Tax Anticipation Note	<u>(17,917,920)</u>	<u>0</u>	<u>0</u>	<u>(17,917,920)</u>
Net Other Financing Sources (Uses)	<u>\$ 11,499,394</u>	<u>\$ 0</u>	<u>\$ 9,332,288</u>	<u>\$ 20,831,682</u>
Excess of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	<u>\$ 8,777,736</u>	<u>\$ 26,895</u>	<u>\$ 1,518,027</u>	<u>\$ 10,322,658</u>
Fund Balances (Deficit), Beginning of Year	<u>(1,110,479)</u>	<u>91,201</u>	<u>2,563,307</u>	<u>1,544,029</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,667,257</u>	<u>\$ 118,096</u>	<u>\$ 4,081,334</u>	<u>\$ 11,866,687</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, 2012

Net Changes in Fund Balances - Total Governmental Funds \$ 10,322,658

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	\$	6,785,578	
Loss On Disposal Of Fixed Assets		(14,611)	
Depreciation		<u>(5,731,090)</u>	1,039,877

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. (545,752)

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. 580,943

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	\$	429,009	
Elimination of expenditure on general fund and revenue on internal service fund		3,090,912	
Recording on expenditures on internal service fund in governmental activities		<u>(3,454,998)</u>	64,923

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. (217,196)

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. (149,434)

"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, 2012

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. (7,136,193)

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:

Proceeds Relative To Long Term Debt	\$	(23,070,000)	
Bond Discount, Net of Amortization		981,002	
Repayment of General Bond Principal		2,545,000	
Repayment of Governmental Note Payable		2,609,753	
Repayment of Capitalized Lease Principal		609,924	
Bond Issuance Cost, Net of Amortization		<u>399,017</u>	(15,925,304)

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. (180,123)

Long-Term Court Awards represents accrual for back pay awards for the period January 1, 2003 to December 31, 2012 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. (2,140,275)

Change in Net Position of Governmental Activities \$ (14,285,876)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2012

	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	\$ 7,625,703	\$ 0	\$ 2,309	\$ 7,628,012	\$ 3,097,001
Investments	0	0	0	0	15,194,427
Accounts Receivable, Net	3,452,092	0	0	3,452,092	0
Accrued Interest	0	0	0	0	89,597
Due From Other Funds	0	0	0	0	177,593
Other Current Assets	533,071	0	0	533,071	0
Restricted Assets:					
Restricted Cash and Cash Equivalents	30,754,852	3,452,400	0	34,207,252	110,988
Restricted Investments	2,108,334	0	0	2,108,334	0
Restricted Accrued Interest Receivable	18,520	0	0	18,520	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	117,648,718	56,575,405	0	174,224,123	0
Equipment	9,792,472	762,884	0	10,555,356	0
Construction In Progress	2,739,394	3,375	0	2,742,769	0
Accumulated Depreciation	(80,599,677)	(12,986,198)	0	(93,585,875)	0
Deferred Charges, Net	1,098,070	1,795,411	0	2,893,481	0
TOTAL ASSETS	<u>\$ 95,687,707</u>	<u>\$ 51,879,386</u>	<u>\$ 2,309</u>	<u>\$ 147,569,402</u>	<u>\$ 18,669,606</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2012

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR		
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
<b>LIABILITIES</b>					
Current Portion Of Long Term Debt	\$ 904,767	\$ 565,322	\$ 0	\$ 1,470,089	\$ 0
Accounts Payable	718,826	73,480	0	792,306	115,639
Accrued Liabilities	148,317	0	0	148,317	0
Due to Other Funds	0	166,100	0	166,100	0
Current Liabilities Payable From Restricted Assets:					
Revenue Bonds & Notes Payable	1,385,000	1,030,000	0	2,415,000	0
Accrued Construction Cost	378,059	0	0	378,059	0
Accrued Revenue Bond Interest Payable	732,014	414,260	0	1,146,274	0
Noncurrent Liabilities:					
Workers' Compensation Claims Payable	0	0	0	0	21,828,429
Long-Term Debt Obligations	57,677,042	51,029,141	0	108,706,183	0
Deferred Loss On Early Retirement Of Debt	0	(325,581)	0	(325,581)	0
Accrued Compensated Absences	660,813	0	0	660,813	0
<b>TOTAL LIABILITIES</b>	<b>\$ 62,604,838</b>	<b>\$ 52,952,722</b>	<b>\$ 0</b>	<b>\$ 115,557,560</b>	<b>\$ 21,944,068</b>
<b>NET POSITION</b>					
Investment in Capital Assets, Net of Related Debt	\$ (10,255,873)	\$ (5,404,499)	\$ 0	\$ (15,660,372)	\$ 0
Restricted for:					
Debt Service, Capital Expenditure, and Long Term Liabilities	30,386,633	3,429,332	0	33,815,965	(3,274,462)
Unrestricted	12,952,109	901,831	2,309	13,856,249	0
<b>TOTAL NET POSITION</b>	<b>\$ 33,082,869</b>	<b>\$ (1,073,336)</b>	<b>\$ 2,309</b>	<b>\$ 32,011,842</b>	<b>\$ (3,274,462)</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 16,413,590	\$ 1,977,364	\$ 0	\$ 18,390,954	\$ 3,090,912
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,410,848
Salaries, Wages, and Fringe Benefits	6,391,718	293,685	0	6,685,403	0
Insurance	489,638	165,344	0	654,982	0
Depreciation	2,723,717	1,382,494	0	4,106,211	0
Other	5,099,393	861,617	60	5,961,070	44,150
Total Operating Expenses	\$ 14,704,466	\$ 2,703,140	\$ 60	\$ 17,407,666	\$ 3,454,998
Income (Loss) from Operations	\$ 1,709,124	\$ (725,776)	\$ (60)	\$ 983,288	\$ (364,086)
Non Operating Revenues (Expenses):					
Investment Income	\$ 84,205	\$ 198,936	\$ 0	\$ 283,141	\$ 429,009
Interest Expense	(734,990)	(2,704,924)	0	(3,439,914)	0
Bond Discount	0	(11,723)	0	(11,723)	0
Other Revenues	220,150	0	0	220,150	0
Provision for Uncollectible Accounts	0	(17,684)	0	(17,684)	0
Transfer In Receivership Estate	0	855,680	0	855,680	0
Transfer In City of Scranton	0	1,510,949	0	1,510,949	0
Amortization of Deferred Charges	(56,339)	(67,399)	0	(123,738)	0
Total Non operating Revenues (Expenses)	\$ (486,974)	\$ (236,165)	\$ 0	\$ (723,139)	\$ 429,009
Transfers Of Assets To The Receivership Estate	\$ 0	\$ (886,952)	\$ 0	\$ (886,952)	\$ 0
Net Transfers Of Assets To The Receivership Estate	\$ 0	\$ (886,952)	\$ 0	\$ (886,952)	\$ 0
Change in Net Position	\$ 1,222,150	\$ (1,848,893)	\$ (60)	\$ (626,803)	\$ 64,923
Net Position at Beginning of Year	31,860,719	775,557	2,369	32,638,645	(3,339,385)
NET POSITION AT END OF YEAR	\$ 33,082,869	\$ (1,073,336)	\$ 2,309	\$ 32,011,842	\$ (3,274,462)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		ACTIVITIES- INTERNAL SERVICE FUNDS
Cash Flows From Operating Activities:					
Cash Received from Customers	\$ 16,753,787	\$ 2,152,886	\$ 0	\$ 18,906,673	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	3,090,912
Cash Payments to Vendors	(5,834,135)	(1,185,076)	(60)	(7,019,271)	(3,116,600)
Cash Payments to Employees	(6,498,305)	0	0	(6,498,305)	0
Net Cash Provided by (Used In) Operating Activities	\$ 4,421,347	\$ 967,810	\$ (60)	\$ 5,389,097	\$ (25,688)
Cash Flows From Non Capital Financing Activities:					
Other Revenue Received	\$ 220,150	\$ 0	\$ 0	\$ 220,150	\$ 0
Net Cash Provided by Non Capital Financing Activities	\$ 220,150	\$ 0	\$ 0	\$ 220,150	\$ 0
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (3,814,744)	\$ (242,946)	\$ 0	\$ (4,057,690)	\$ 0
Proceeds from Issuance of Debt	28,523,330	0	0	28,523,330	0
Interest Paid on Bonds	(1,835,384)	(2,008,141)	0	(3,843,525)	0
Retirement of Bonds	(8,175,943)	(409,496)	0	(8,585,439)	0
Net cash transfers from receivership estate	0	855,680	0	855,680	0
Net cash transfers to receivership estate	0	(886,952)	0	(886,952)	0
Payment Line of Credit	0	(166,216)	0	(166,216)	0
Net Cash Provided by (Used in) Capital and Related Financing Activities	\$ 14,697,259	\$ (2,858,071)	\$ 0	\$ 11,839,188	\$ 0
Cash Flow From Investing Activities:					
Sale of Investments	\$ 0	\$ 3,862,822	\$ 0	\$ 3,862,822	\$ 5,231,740
Purchase Of Investments	(500,000)	0	0	(500,000)	(8,320,083)
Advance From Other Funds	0	0	0	0	5,000,000
Interest on Cash and Investments	116,688	105,615	0	222,303	473,580
Net Cash Provided By (Used In) Investing Activities	\$ (383,312)	\$ 3,968,437	\$ 0	\$ 3,585,125	\$ 2,385,237
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 18,955,444	\$ 2,078,176	\$ (60)	\$ 21,033,560	\$ 2,359,549
Cash and Cash Equivalents, Beginning of Year	19,425,111	1,374,224	2,369	20,801,704	848,440
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 38,380,555	\$ 3,452,400	\$ 2,309	\$ 41,835,264	\$ 3,207,989

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<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	\$ 1,709,124	\$ (725,776)	\$ (60)	\$ 983,288	\$ (364,086)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used In) Operating Activities					
Depreciation	2,723,717	1,382,494	0	4,106,211	0
Change in Assets and Liabilities:					
(Increase) Decrease in:					
Accounts Receivable	340,198	194,148	0	534,346	0
Due From Other Funds	0	0	0	0	(177,593)
Other Assets	(168,434)	13,826	0	(154,608)	0
Increase (Decrease):					
Accounts Payable	(68,928)	(14,116)	0	(83,044)	(120,628)
Accrued Liabilities	(110,246)	(48,866)	0	(159,112)	0
Accrued Compensated Absences	(4,084)	0	0	(4,084)	0
Due To Other Funds	0	166,100	0	166,100	0
Accrued Workers' Compensation Claims Payable	0	0	0	0	636,619
 Net Cash Provided by (Used In) Operating Activities	 <u>\$ 4,421,347</u>	 <u>\$ 967,810</u>	 <u>\$ (60)</u>	 <u>\$ 5,389,097</u>	 <u>\$ (25,688)</u>
Reconciliation of Total Cash and Cash Equivalents					
Current Assets - Cash and Cash Equivalents	\$ 7,625,703	\$ 0	\$ 2,309	\$ 7,628,012	\$ 3,097,001
Restricted Assets - Cash and Cash Equivalents	<u>30,754,852</u>	<u>3,452,400</u>	<u>0</u>	<u>34,207,252</u>	<u>110,988</u>
 TOTAL CASH AND CASH EQUIVALENTS	 <u>\$38,380,555</u>	 <u>\$ 3,452,400</u>	 <u>\$ 2,309</u>	 <u>\$ 41,835,264</u>	 <u>\$ 3,207,989</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET POSITION  
PENSION TRUST FUND  
DECEMBER 31, 2012

ASSETS		
Cash and Short - Term Investments		\$ 251,782
Receivables:		
Members' Contributions	\$ 24,493	
Due from General fund	<u>28,586</u>	
Total Receivables		53,079
Investments		<u>45,843,601</u>
<b>TOTAL ASSETS</b>		<b><u>\$46,148,462</u></b>
LIABILITIES & NET ASSETS		
Liabilities		
Accrued Administrative Expenses	<u>\$ 8,901</u>	
<b>TOTAL LIABILITIES</b>		<b><u>\$ 8,901</u></b>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>		<b><u>\$46,139,561</u></b>

"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, 2012.

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 loans with Pennsylvania Infrastructure Investment Authority (Pennvest). 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, 2011 to March 31, 2012.

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 Scranton Parking Authority, the Parking Authority was placed into receivership by the Court of Common Pleas of Lackawanna County in September 2012.

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 Position 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, 2012, upon which the 2012 levy was based, was approximately \$395 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, 2012 was 96.701 mills on the assessed value of land and 21.030 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 \$2,010,000 at March 31, 2012. 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 \$3.4 million dollars.

The Parking Authority provided 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, 2012.

**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 Position.

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 Position. 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 Position 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 Position—consists of Net Position 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 Position—all other Net Position 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, 2012 aggregate liability for unused vacation and sick pay is \$3,261,421.

Note 2           Cash and Cash Equivalents and Investments

Pennsylvania Statues 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 statues 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 statues. 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, 2012, \$52,281,197 of the government's bank balance of \$54,894,998 was exposed to custodial credit risk as follows:

Secured by FDIC Insurance up to \$250,000 per Bank	\$ 2,613,801
Uninsured and collateral held by pledging banks' trust department not in the city's name	<u>52,281,197</u>
Total	<u>\$ 54,894,998</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2012, 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	\$ 851,461	\$ 801,905	A 1	5.84
Domestic	\$ 1,040,750	\$ 1,021,867	A 2	3.67
Domestic	\$ 1,171,637	\$ 1,073,220	A 3	4.02
Domestic	\$ 484,054	\$ 448,800	A A 2	2.73
Domestic	\$ 120,288	\$ 107,214	A a 2	5.37
Domestic	\$ 262,163	\$ 277,883	A a 3	0.79
Domestic	\$ 118,147	\$ 100,000	A A 3	6.12
Johnson & Johnson 3.80%	\$ 1,012,880	\$ 1,045,440	A a a	0.56
Johnson & Johnson NTS 5.55%	\$ 120,648	\$ 100,000	A A A	0.37
Domestic	\$ 502,665	\$ 508,875	B a a 1	0.16
Governmental Securities:				
U. S. Treasury Notes	\$ 2,043,680	\$ 2,099,656	A a a	0.75
Federal Agency Notes (4)	\$ 1,377,447	\$ 1,347,500	A A A	5.89
FFCBank (6)	\$ 2,078,035	\$ 2,031,005	A A A	5.09
FFCredit (4)	\$ 1,306,437	\$ 1,198,042	A A A	6.34
Mutual Funds				
U.S. Agency Equity Funds	\$ 2,704,135	\$ 2,712,800	N / A	
Total Internal Service Fund	<u>\$ 15,194,427</u>	<u>\$ 14,874,207</u>		4.62
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 15,194,427</u>	<u>\$ 14,874,207</u>		4.62
<b>BUSINESS TYPE ACTIVITIES</b>				
Sewer Authority				
Corporate Obligations:				
Domestic (1)	\$ 1,607,279	\$ 1,607,279	A A +	2.75
Governmental Securities:				
U.S. Government Obligations (1)	501,055	501,055	A A +	1.08
Total Sewer Authority	<u>\$ 2,108,334</u>	<u>\$ 2,108,334</u>		
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<u>\$ 2,108,334</u>	<u>\$ 2,108,334</u>		
<b>TOTAL INVESTMENTS</b>	<u>\$ 17,302,761</u>	<u>\$ 16,982,541</u>		
Fiduciary Funds				
Pension Trust Fund				
Mutual Funds				
Equity Funds	\$ 22,977,660	\$ 22,977,660	N / A	N/A
Cash and Cash Equivalents	251,782	251,782	N / A	N/A
Fixed Income	22,865,941	22,865,941	A A	N/A
Total Pension Trust Fund	<u>\$ 46,095,383</u>	<u>\$ 46,095,383</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, 2012:

Current Real Estate Taxes	\$ 415,085
Delinquent Real Estate Taxes	8,123,822
Act 511 Taxes:	
Earned Income	4,566,188
Local Service Tax	380,078
Business Priviledge/Mercantile	32,605
Delinquent Refuse Disposal Fee	<u>7,176,002</u>
Total	\$ 20,693,780
Less:	
Allowance for Uncollectible Taxes & Fees	<u>(6,725,348)</u>
Net	<u>\$ 13,968,432</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 \$3,000,000 delinquent real estate taxes and \$2,800,000 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, 2012 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund		
OECD	\$            77,756	\$            63,361
Special Cities	336,057	684,968
Capital Projects	63	0
Parking Authority	166,100	0
Pension Fund	0	28,586
Insurance fund		177,593
Special Cities		
General Fund	684,968	336,057
Capital Projects	0	55
OECD		
Redevelopment Authority	493,137	0
General Fund	63,361	77,756
Redevelopment Authority		
OECD	0	493,137
Capital Projects Fund		
Special Cities	55	0
General Fund	0	63
Pension		
General Fund	28,586	0
Insurance Fund		
General Fund	177,593	0
Parking Authority		
General Fund	0	166,100
	<u>\$            2,027,676</u>	<u>\$            2,027,676</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance at January 1, 2012	Additions	Disposals	Balance at December 31, 2012
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 3,485,506	\$ 0	\$ 0	\$ 3,485,506
Construction in Progress	9,491,861	3,500,107	(12,707,011)	284,957
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 12,977,367</b>	<b>\$ 3,500,107</b>	<b>\$ (12,707,011)</b>	<b>\$ 3,770,463</b>
Capital assets being depreciated				
Building	\$ 11,997,815	\$ 100,734	\$ 0	\$ 12,098,549
Land & Building Improvements	7,885,455	746,614	0	8,632,069
Infrastructure	111,947,266	14,516,596	0	126,463,862
Vehicles, Furniture & Equipment	17,822,510	621,388	(510,323)	17,933,575
<b>Total Capital Assets being Depreciated</b>	<b>\$ 149,653,046</b>	<b>\$ 15,985,332</b>	<b>\$ (510,323)</b>	<b>\$ 165,128,055</b>
<b>Totals at Historical Cost</b>	<b>\$ 162,630,413</b>	<b>\$ 19,485,439</b>	<b>\$ (13,217,334)</b>	<b>\$ 168,898,518</b>
Less: Accumulated Depreciation				
Building	\$ (4,175,403)	\$ (246,065)	\$ 0	\$ (4,421,468)
Land & Building Improvements	(3,892,964)	(663,714)	0	(4,556,678)
Infrastructure	(49,311,716)	(3,702,873)	0	(53,014,589)
Vehicles, Furniture & Equipment	(11,712,227)	(1,118,438)	502,862	(12,327,803)
<b>Total Accumulated Depreciation</b>	<b>\$ (69,092,310)</b>	<b>\$ (5,731,090)</b>	<b>\$ 502,862</b>	<b>\$ (74,320,538)</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 93,538,103</b>	<b>\$ 13,754,349</b>	<b>\$ (12,714,472)</b>	<b>\$ 94,577,980</b>
<b>Business - Type Activities:</b>				
Capital assets not being depreciated				
Land	\$ 2,097,093	\$ 0	\$ 0	\$ 2,097,093
Construction in Progress	3,874,077	640,562	(1,771,870)	2,742,769
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 5,971,170</b>	<b>\$ 640,562</b>	<b>\$ (1,771,870)</b>	<b>\$ 4,839,862</b>
Capital assets being depreciated				
Land Improvements	\$ 309,045	\$ 0	\$ 0	\$ 309,045
Building & Building Improvements	168,145,886	6,078,237	0	174,224,123
Equipment	9,795,232	760,124	0	10,555,356
<b>Total Capital Assets being Depreciated</b>	<b>\$ 178,250,163</b>	<b>\$ 6,838,361</b>	<b>\$ 0</b>	<b>\$ 185,088,524</b>
<b>Totals at Historical Cost</b>	<b>\$ 184,221,333</b>	<b>\$ 7,478,923</b>	<b>\$ (1,771,870)</b>	<b>\$ 189,928,386</b>
Less: Accumulated Depreciation				
Land Improvements	\$ (11,407,463)	\$ (217)	\$ 0	\$ (11,407,680)
Building & Building Improvements	(70,377,855)	(3,679,540)	0	(74,057,395)
Equipment	(7,694,345)	(426,455)	0	(8,120,800)
<b>Total Accumulated Depreciation</b>	<b>\$ (89,479,663)</b>	<b>\$ (4,106,212)</b>	<b>\$ 0</b>	<b>\$ (93,585,875)</b>
<b>Business - Type Capital Assets, Net</b>	<b>\$ 94,741,670</b>	<b>\$ 3,372,711</b>	<b>\$ (1,771,870)</b>	<b>\$ 96,342,511</b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets (Continued)

Depreciation Expense was charged to Governmental activities as follows:	
General	\$ 168,653
Public Safety	536,559
Public Works	4,219,938
Parks & Recreation	770,327
Community Development	855
Unallocated	<u>34,758</u>
Total Depreciation Expense	<u>\$ 5,731,090</u>

Governmental Activities:

Construction-in-progress of \$284,957 consists of expenditures relating to improvements to various city roads and bridges.

Business Type Activities:

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, 2012, the County did not invoice the Sewer Authority. Total construction in progress for this project at March 31, 2012 amounted to \$918,849.

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, 2012:

	Balance 01/01/12	Increases	Decreases	Balance 12/31/12
<b>BUSINESS-TYPE ACTIVITIES</b>				
Sewer Authority				
Line of Credit	\$ 0	\$ 0	\$ 0	\$ 0
Parking Authority				
Line of Credit	<u>166,216</u>	<u>0</u>	<u>166,216</u>	<u>0</u>
	<u>\$ 166,216</u>	<u>\$ 0</u>	<u>\$ 166,216</u>	<u>\$ 0</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 6 Short-Term Debt (Continued)

Sewer Authority

Line of Credit: In November 2010, the 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, 2012). 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, 2012, nor was there any activity for the year ended March 31, 2012.

On February 14, 2012, 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 31, 2012, and will be renewable at the option of the Bank. There was no activity for the year ended March 31, 2012 and there were no borrowings outstanding at March 31, 2012.

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, 2012).

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, 2012:

	Balance 01/01/12	Additions	(Amortization) Accretion	Retirements	Balance 12/31/12	Due With In One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligations Bonds:						
Emmaus General Authority Series 2002	\$ 5,760,000	\$ 0	\$ 0	\$ 255,000	\$ 5,505,000	\$ 260,000
Series A of 2003	1,515,000	0	0	490,000	1,025,000	505,000
Series B of 2003	29,860,000	0	0	815,000	29,045,000	845,000
Series C of 2003	15,430,000	0	0	395,000	15,035,000	410,000
Series D of 2003	9,380,000	0	0	590,000	8,790,000	620,000
Series A of 2012	0	9,850,000	0	0	9,850,000	770,000
Series C of 2012	0	9,750,000	0	0	9,750,000	675,000
(Amortization) / Accretion	(265,289)	(463,136)	64,119	0	(664,306)	0
Total General Obligation Bonds	\$ 61,679,711	\$ 19,136,864	\$ 64,119	\$ 2,545,000	\$ 78,335,694	\$ 4,085,000
General Obligations Notes:						
Series B of 2012	\$ 0	\$ 1,470,000	\$ 0	\$ 0	\$ 1,470,000	\$ 115,000
Total General Obligation Notes	\$ 0	\$ 1,470,000	\$ 0	\$ 0	\$ 1,470,000	\$ 115,000
Lease Obligations Payable						
2007 Capitalized Lease Vehicles	\$ 80,463	\$ 0	\$ 0	\$ 80,463	\$ 0	\$ 0
2006 Capitalized Lease Equipment Energy System	1,132,946	0	0	89,461	1,043,485	94,065
2004 Capitalized Lease Buildings	2,430,000	0	0	385,000	2,045,000	430,000
2006 Capitalized Lease Buildings	9,660,000	0	0	50,000	9,610,000	30,000
2008 Capitalized Lease Buildings	5,890,000	0	0	5,000	5,885,000	5,000
Total Lease Obligations Payable	\$ 19,193,409	\$ 0	\$ 0	\$ 609,924	\$ 18,583,485	\$ 559,065
Notes Payable:						
Note Payable	\$ 1,560,399	\$ 0	\$ 0	\$ 1,560,399	\$ 0	\$ 0
DCED Act 47 Loan	0	2,000,000	0	1,000,000	1,000,000	100,000
	\$ 1,560,399	\$ 2,000,000	\$ 0	\$ 2,560,399	\$ 1,000,000	\$ 100,000
Redevelopment Authority:						
Note Payable	\$ 49,354	\$ 0	\$ 0	\$ 49,354	\$ 0	\$ 0
Total Redevelopment Authority	\$ 49,354	\$ 0	\$ 0	\$ 49,354	\$ 0	\$ 0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 82,482,873</b>	<b>\$ 22,606,864</b>	<b>\$ 64,119</b>	<b>\$ 5,764,677</b>	<b>\$ 99,389,179</b>	<b>\$ 4,859,065</b>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Revenue Bonds:						
Major Enterprise Fund:						
Parking Authority						
2004 Series	\$ 14,480,000	\$ 0	\$ 0	\$ 220,000	\$ 14,260,000	\$ 235,000
2006 Series	4,170,000	0	0	305,000	3,865,000	305,000
2007 Series	31,695,000	0	0	370,000	31,325,000	390,000
Sewer Authority						
2007 Series	16,685,000	0	0	45,000	16,640,000	30,000
2011 Series A	0	21,340,000	0	0	21,340,000	920,000
2011 Series B	0	8,135,000	0	205,000	7,930,000	435,000
Total Revenue Bonds	\$ 67,030,000	\$ 29,475,000	\$ 0	\$ 1,145,000	\$ 95,360,000	\$ 2,315,000

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

	Balance 01/01/12	Additions	(Amortization) Accretion	Retirements	Balance 12/31/12	Due With In One Year
Notes Payable:						
Major Enterprise Fund:						
Sewer Authority						
Equipment Note Payable	\$ 7,033,969	\$ 0	\$ 0	\$ 7,033,969	\$ 0	\$ 0
2000 Series Pennvest	3,171,240	0	0	226,077	2,945,163	233,058
2002 Series Pennvest	3,258,648	0	0	204,852	3,053,796	210,607
2003 Series Pennvest	1,771,251	0	0	106,536	1,664,715	109,529
2004 Series Pennvest	2,930,646	0	0	155,835	2,774,811	148,250
2007 Series Pennvest	3,816,998	0	0	198,674	3,618,324	203,323
Parking Authority						
2009 Loan Payable	633,959	0	0	68,637	565,322	565,322
2011 Revenue Note Payable	<u>2,900,000</u>	<u>0</u>	<u>0</u>	<u>290,859</u>	<u>2,609,141</u>	<u>100,000</u>
	<u>\$ 25,516,711</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,285,439</u>	<u>\$ 17,231,272</u>	<u>\$ 1,570,089</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 92,546,711</u>	<u>\$ 29,475,000</u>	<u>\$ 0</u>	<u>\$ 9,430,439</u>	<u>\$ 112,591,272</u>	<u>\$ 3,885,089</u>
TOTAL LONG-TERM DEBT	<u>\$ 175,029,584</u>	<u>\$ 52,081,864</u>	<u>\$ 64,119</u>	<u>\$ 15,195,116</u>	<u>\$ 211,980,451</u>	<u>\$ 8,744,154</u>

Parking Authority:

For the year ended December 31, 2012, \$845,000 of the \$1,254,496 principal payments were made directly by the City of Scranton, and the net amount of \$409,496 is reflected as paid in the statement of cash flows.

A summary of long-term debt outstanding at December 31, 2012 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, 2012 is 2.468%.

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%.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

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 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%.

General Obligation Bonds, Series A 2012

On October 23, 2012, the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 53 Section 8111(a) issued \$9,850,000 of 8.5% General Obligation Bonds, Series A of 2012 to fund a portion of the City's working capital deficit and pay the cost and expenses related to issuing the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2022.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Mandatory Redemption:

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 are subject to mandatory redemption prior to maturity, in part, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to date fixed for redemption, on September 1 of each year following years in the indicated principal amounts as drawn by lot by the Paying Agent.

Extraordinary 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.

General Obligation Bonds, Series C 2012

On December 12, 2012, the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 53 Section 8111(a) issued \$9,750,000 of 7.5% General Obligation Bonds, Series C of 2012 to fund a portion of the City's working capital deficit and pay the cost and expenses related to issuing the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2022.

Mandatory Redemption:

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 are subject to mandatory redemption prior to maturity, in part, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to date fixed for redemption, on September 1 of each year following years in the indicated principal amounts as drawn by lot by the Paying Agent.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

Extraordinary 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.

General Obligation Notes, Series B 2012

On October 23, 2012, the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 53 Section 8111(a) issued \$1,470,000 of 8.5% General Obligation Notes, Series B of 2012 to refund a portion of the City's General Obligation Notes, Series A of 2003 (the "Refunded 2003A Notes"); refund a portion of the City's General Obligation Notes, Series B of 2003 (the "Refunded 2003B Notes"); refund a portion of the City's Federally Taxable General Obligation Pension Funding Notes, Series C of 2003 (the "Refunded 2003C Notes"); refund a portion of the City's Federally Taxable General Obligation Notes, Series D of 2003 (the "Refunded 2003D Notes", and together with the Refunded 2003A Notes, Refunded 2003B Notes, and the Refunded 2003C Notes, the "Refunded Notes"); the payment of the costs and expenses of issuing the 2012 Notes. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2022. The Notes are not subject to redemption at the option of the City prior to maturity.

Mandatory Redemption:

The Notes are subject to mandatory redemption from required sinking fund amortization and extraordinary Mandatory Redemption. The Notes are subject to mandatory redemption prior to maturity, in part, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to date fixed for redemption, on September 1 of each year following years in the indicated principal amounts as drawn by lot by the Paying Agent.

Extraordinary Redemption:

The Notes 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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

amended. The Notes are General obligations of the City, secured by a pledge of its full faith, credit, and taxing powers.

Governmental Notes Payable

On September 12, 2012, the City of Scranton borrowed \$2,000,000 non-interest bearing loan under the Municipalities Financial Recovery Program from the Commonwealth of Pennsylvania acting through the Department of Community and Economic Development. The loan requires a payment of \$1,000,000 within 30 days of the receipt of the 2012 unfunded debt settlement and thereafter \$50,000 semiannual payments on May 31 and November 30 of each year with a maturity of November 2022.

Redevelopment Authority

Note Payable: the Authority had a note payable with Fidelity Deposit and Discount Bank, dated November 1998, maturing in August of 2012. The note carried 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 was secured by the assignment of the repayments on seven loans held by the City of Scranton related to certain grant programs. The note was payable in monthly installments of \$3,500, including principal and interest, and an annual principal installment of \$84,000. There was no outstanding balance at December 31, 2012. Interest payments in 2012 totaled \$480.

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 matured in January 2012. 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 of the loan at December 31, 2012 was \$0. Interest payments in 2012 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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

Bank from its financial statements for the year ended December 31, 2010. 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, 2010.

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.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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.

In August 2012, the bond trustee for the 2004, 2006, and 2007 Series Revenue Bonds was changed from Bank of New York Mellon to Wells Fargo Bank, N.A.

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.

The Authority failed to make payments on the loan after August 2012, and in October 2013 a judgment was ordered against the Authority for the full amount of principal and interest due. The full amount of the \$565,322 balance is deemed current at December 31, 2012, see Note 1.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

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%.

The trustee, Landmark Community Bank, instituted action against the Authority and other related parties over the loan in 2012 and litigation is still ongoing. See Note 13.

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, 2012 was \$0. This loan was paid off with proceeds from the Series B of 2011 borrowing.

Sewer Authority 2000 Series (PENNVEST Loan):

The balance outstanding at March 31, 2012 amounted to \$2,945,163. 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2012 amounted to \$3,053,796. 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, 2012 amounted to \$1,664,715. 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, 2012 was \$2,774,811. 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, 2012 was \$3,618,324. 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.

Sewer Authority 2012 Series (PENNVEST loan):

In March 2012, the Authority closed on a Pennvest loan in the amount of \$11,256,361. The proceeds will be utilized primarily for Wastewater Treatment Plant Improvements. The loan is secured by the gross revenues of the Authority. Interest only is payable on advances for thirty-six (36) months at a rate of 1%. Interest is 1.51% thereafter, when monthly principal and interest payments are due for another 204 months. The Authority had not drawn on the loan as of March 31, 2012, therefore there is no outstanding balance at March 31, 2012.

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

2011 Revenue Bonds Payable Series A of 2011:

On June 10, 2011, the Authority issued \$ 21,340,000 of Series A of 2011 Sewer Revenue Bonds. The proceeds from this issue will primarily be used to fund various capital improvement projects.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

Optional Redemption:

The Series A of 2011 Bonds maturing on or after December 1, 2022 are subject to optional 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 dates fixed for redemption.

Mandatory Redemption:

The Series A of 2011 Bonds maturing on or after 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 redemption dates fixed for redemption, on December 1 of the years per the Bond documents.

2011 Revenue Bonds Payable Series B of 2011:

On June 10, 2011, the Authority issued \$8,135,000 of Series B of 2011 Federally Taxable Sewer Revenue Bonds. The proceeds from this issue will primarily be used to currently refund the Authority's outstanding \$8,000,000 loan from First National Community Bank dated April 2007.

Optional Redemption:

The 2011 Series B of 2011 Bonds maturing on or after December 1, 2025 are subject to optional 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, at a redemption price equal to 100% of the principal amount, together with accrued interest to the dates fixed for redemption.

Mandatory Redemption:

The Series B of 2011 Bonds maturing on or after 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 redemption dates fixed for redemption, on December 1 of the years per the Bond documents.

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 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, 2012 was \$2,045,000. 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

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, 2012 was \$9,610,000. Interest is payable on May 1st and November 1st 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, 2012 was \$5,885,000.

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, 2012 is .27%.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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, 2012 are as follows:

Year Ending December	Governmental Activities City General Obligation Bonds			Year Ending December	Governmental Activities City General Obligation Notes		
	31, Principal	Interest	Total		31, Principal	Interest	Total
2013	\$ 4,085,000	\$ 3,955,807	\$ 8,040,807	2013	\$ 115,000	\$ 107,596	\$ 222,596
2014	4,205,000	4,057,252	8,262,252	2014	105,000	115,175	220,175
2015	3,895,000	3,833,439	7,728,439	2015	115,000	106,250	221,250
2016	4,400,000	3,612,653	8,012,653	2016	125,000	96,475	221,475
2017	4,430,000	3,351,504	7,781,504	2017	135,000	85,850	220,850
2018 - 2022	27,985,000	12,309,246	40,294,246	2018 - 2022	875,000	235,875	1,110,875
2023 - 2027	16,070,000	5,556,044	21,626,044	2023 - 2027	0	0	0
2028 - 2032	12,765,000	1,934,001	14,699,001	2028 - 2032	0	0	0
2033 - 2037	1,165,000	65,240	1,230,240	2033 - 2037	0	0	0
	<u>\$ 79,000,000</u>	<u>\$ 38,675,186</u>	<u>\$ 117,675,186</u>		<u>\$ 1,470,000</u>	<u>\$ 747,221</u>	<u>\$ 2,217,221</u>

Year Ending December	Governmental Activities City Notes Payable		
	31, Principal	Interest	Total
2013	\$ 100,000	\$ 0	\$ 100,000
2014	100,000	0	100,000
2015	100,000	0	100,000
2016	100,000	0	100,000
2017	100,000	0	100,000
2018 - 2022	500,000	0	500,000
2023 - 2027	0	0	0
2028 - 2032	0	0	0
2033 - 2037	0	0	0
	<u>\$ 1,000,000</u>	<u>\$ 0</u>	<u>\$ 1,000,000</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
2013	\$ 1,595,322	\$ 2,600,343	\$ 4,195,665	2013	\$ 2,289,767	\$ 2,527,389	\$ 4,817,156
2014	1,065,000	2,557,686	3,622,686	2014	2,329,243	2,482,947	4,812,190
2015	1,105,000	2,510,842	3,615,842	2015	2,218,488	2,425,534	4,644,022
2016	1,145,000	2,460,987	3,605,987	2016	1,826,996	2,376,622	4,203,618
2017	1,290,000	2,408,971	3,698,971	2017	1,860,976	2,339,413	4,200,389
2018 - 2022	7,255,000	11,100,487	18,355,487	2018 - 2022	10,290,379	10,676,381	20,966,760
2023 - 2027	8,679,141	9,156,791	17,835,932	2023 - 2027	11,820,641	8,465,372	20,286,013
2028 - 2032	9,850,000	6,839,970	16,689,970	2028 - 2032	6,785,319	5,781,506	12,566,825
2033 - 2037	12,785,000	3,844,882	16,629,882	2033 - 2037	20,545,000	2,243,950	22,788,950
2038 - 2041	7,855,000	461,344	8,316,344	2038 - 2041	0	0	0
	<u>\$ 52,624,463</u>	<u>\$ 43,942,303</u>	<u>\$ 96,566,766</u>		<u>\$ 59,966,809</u>	<u>\$ 39,319,114</u>	<u>\$ 99,285,923</u>

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

Year Ending December 31,	Principal	Interest	Total
2013	\$ 559,065	\$ 772,879	\$ 1,331,944
2014	588,906	740,244	1,329,150
2015	1,163,996	705,713	1,869,709
2016	949,348	639,095	1,588,443
2017	1,234,975	583,873	1,818,848
2018 - 2022	5,722,195	1,896,099	7,618,294
2023 - 2027	8,365,000	282,002	8,647,002
TOTAL	<u>\$ 18,583,485</u>	<u>\$ 5,619,905</u>	<u>\$ 24,203,390</u>

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

The cost of the assets are \$ 5,659,519

The accumulated depreciation expense through December 31, 2012 is (1,522,167)

The net book value of the capitalized leased building and vehicles is \$ 4,137,352

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

The breakdown of interest expense as of December 31, 2012 is as follows:

	Interest Expense Charged To <u>Expense</u>	Interest Expense <u>Capitalized</u>
City of Scranton	\$ 5,254,332	\$ 0
Sewer Authority of the City of Scranton	734,990	1,561,349
Parking Authority of the City of Scranton	2,704,924	0
Redevelopment Authority of the City of Scranton	<u>480</u>	<u>0</u>
	<u>\$ 8,694,726</u>	<u>\$ 1,561,349</u>

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, 2012, the City's self-insured retention limits are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance Retention (SIR) (All Claims Up To)</u>	<u>Excess Coverage Policy (From SIR Up To)</u>
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 \$21,828,429 at December 31, 2012 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, 2012. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2012 is calculated as follows:

Claims and Costs Paid	\$2,774,229
Increase in Actuarial	
Discounted Loss Reserve	<u>636,619</u>
Worker's Compensation Claims	<u>\$3,410,848</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-12	\$ 21,191,810	\$ 3,410,848	\$ 2,774,229	\$ 21,828,429
31-Dec-11	\$ 20,574,157	\$ 3,513,888	\$ 2,896,235	\$ 21,191,810

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2012 were as follows:

Operating Transfers

	In	Out
General Fund		
Debt Service Fund	\$ 0	\$ 10,807,878
Liquid Fuels Fund	1,475,590	0
Scranton Parking Authority	0	1,510,949
Special Cities		
Capital Projects Fund	0	9,552
Capital Projects		
Special Cities	9,552	0
Debt Service		
General Fund	10,807,878	0
Scranton Parking Authority		
General Fund	1,510,949	0
Liquid Fuels		
General Fund	<u>0</u>	<u>1,475,590</u>
	<u>\$ 13,803,969</u>	<u>\$ 13,803,969</u>

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 2012.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Contributions, based on the MMO, in 2012 consisted of the following:

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
City/Commonwealth Employees	\$ 1,570,426 <u>306,416</u>	\$ 1,854,942 <u>284,877</u>	\$ 818,603 <u>41,149</u>	\$ 4,243,971 <u>632,442</u>
Total	<u>\$ 1,876,842</u>	<u>\$ 2,139,819</u>	<u>\$ 859,752</u>	<u>\$ 4,876,413</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 \$270,938 in 2012.

The Parking Authority sponsors a money purchase pension plan covering all eligible employees. Pension expense was \$28,845 for the year ended December 31, 2012.

After the authority was appointed an Receivership Estate in September 2012, no additional contributions were made to pension plans. The Plan is still active, but most participants have withdrawn or moved funds to other retirement accounts.

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 \$402 per month for the year ended March 31, 2012 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2012 amounted to \$347,003.

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, 2012, employer contributions totaled \$23,960 and employee contributions totaled \$7,526.

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 2012 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 August 31, 2013 and February 28, 2043.

Annual termination benefits of \$495,000 have been projected to increase at an annual rate of 8.5% for 2013 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	\$ 7,784,743
Payment benefits made during the year	(495,008)
Change in net present value of benefits	<u>739,215</u>
End of year present value	<u>\$ 8,028,950</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	\$ 16,043,044
Interest on Net OPEB Obligation	258,904
Adjustment to Annual Required Contribution	<u>(381,106)</u>
Annual OPEB Cost (Expense)	\$ 15,920,842
Interest On Employer Contributions	(191,477)
Contributions Made	<u>(8,837,379)</u>
Increase in Net OPEB Obligation	\$ 6,891,986
Net OPEB Obligation - Beginning of Year	<u>6,472,601</u>
Net OPEB Obligation - End of Year	<u>\$ 13,364,587</u>

Fiscal Year Ending	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation or (Asset)
12/31/11	\$ 15,661,938	58.67%	\$ 6,472,601
12/31/12	\$ 15,920,842	56.71%	\$ 13,364,587

Schedule of Funding Process

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	Ratio of UAL to Payroll
01/01/11	\$ 0	\$ 225,539,050	\$ 225,539,050	0.00%	\$ 24,963,173	903.49%
01/01/12	\$ 0	\$ 227,990,268	\$ 227,990,268	0.00%	\$ 25,481,647	894.72%

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 \$603,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$23,800,000 of tax revenues on behalf of the City in 2012.

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 paid the settlements of \$1,859,725 out of the additional 2012 unfunded debt borrowing noted in Note 7.

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 \$21,000,000 and will pay the damages out of the 2014 Sale / Leaseback borrowing noted in Note 14 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

Parking Authority:

The Authority is a defendant in various lawsuits wherein substantial amounts are claimed. In the opinion of the Company's legal counsel, these suits are without substantial merit and should not result in judgments which in the aggregate would have a material adverse effect on the Company's financial statements. The various litigation suits are described below.

The Teamsters Local Union 229 filed a grievance against the Authority for the lay-off of twelve (12) union employees seeking back pay and benefits. The legal counsel of the Authority believes the arbitrator will reach a verdict favoring the Authority based on a similar outcome from a prior suit stemming from the lay-off of an employee coming from the appointment of a receiver. The matter is pending arbitration in the Commonwealth Court of Pennsylvania as of the date of this report.

Landmark Community Bank filed a suit against the Authority and the City of Scranton over repayment of the 2011 Revenue Note. The loan agreement details repayment of debt exclusively from the funds earned from managing the parking meters of the City of Scranton pursuant to a "cooperation agreement," between the Authority and the City of Scranton, which was cancellable and has since been cancelled. The City of Scranton now runs the On-Street Parking Program and does not pay the Authority management fees, since September 2012. The revenue source to pay the 2011 Revenue Note no longer exists to the Authority, and therefore it is the position of the Authority and its counsel that the debt should belong to the City of Scranton. The matter is still under litigation, but until such matters have been resolved, the balance of the 2011 Revenue Note is still reflected in the Statement of Net Position in the current and long term bonds and notes payable, as well as accrued interest through December 31, 2012 in the accrued revenue bond interest. See Note 7.

Pennstar Bank filed a suit against the Authority late in 2012. The Authority stopped making payments on the term loan (see Note 7). The last payment made was in August 2012. The Authority has agreed to the entry of a stipulated judgment against it. The outstanding principal at December 31, 2012 is reflected in the current and long term debt lines in the Statement of Net Position, as well as accrued interest through December 31, 2012 in the accounts payable line.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

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.

- 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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 14 Distressed Municipality Status (Continued)

- 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. Some of the above items were not able to be implemented in 2012 or 2013 due to various reasons.

Note 15 Current Real Estate Taxes Collected at December 31, 2012

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	92,566,182	302,696,703	395,262,885
Millage Rates	9.6701%	2.1030%	
Total Original Taxes Levied	8,951,242	6,365,712	\$15,316,954
Add: Additions			80,605
Less: Abatements			(95,243)
Real Estate Taxes To be Collected At Face			<u>\$15,302,316</u>
Add: Penalties Collected			95,137
Total Before Deductions			\$15,397,453
Less: Discounts Taken			(241,244)
Less: Home Vouchers			(8,292)
Less: KOZ Credits			(159,473)
Less: Delinquent Taxes Returned			(1,791,301)
Less: Other Miscellaneous			(50,457)
<b>TOTAL REAL ESTATE TAXES COLLECTED</b>			<u><u>\$13,146,686</u></u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 16      Subsequent Events

Pursuant to ASC 855, subsequent events were evaluated through November 22, 2013, which is the date the financial statements were available to be issued.

Redevelopment Authority:

In 2006, the Authority condemned properties along the 500 block of Lackawanna Avenue in Scranton, Pennsylvania for a redevelopment project. Several property owners challenged the condemnations and in 2011 the condemnation actions related to these property owners were terminated. In 2012, the affected property owners filed a petition in court seeking reimbursement of legal expenses and cost incurred as a result of the condemnation. In March 2013, the Authority entered into an agreement with the affected property owners to reimburse legal expenses and cost in the amount of \$134,567. The Authority has accrued this amount as a liability as of December 31, 2012.

Note 17      Scranton Parking Authorities

In September 2012, the Authority was appointed a receiver for the Receivership Estate of the Parking Authority of the City of Scranton. The receiver was assigned to perform duties and determine how to best use, operate, manage, control, rent and lease the Receivership Estate. The Receivership Estate includes all garages and related property including past and future warranties, rights, and funds. The receiver operates, cares for, preserves and maintains the Receivership Estate in a manner necessary to preserve its overall value. All risks and obligations incurred are at the risk of the Receivership Estate and not the personal risk of the receiver. The receiver took over the estate on September 11, 2012. Operating revenues and expenses of the Authority are recorded in the statement of activities through the date of the appointment of the receiver. Subsequent operating activities are reported by the receivership estate. The bonds, related assets, and capital assets remain the property of the Authority and such activity is reported for the entire year.

Following the appointment of the receiver, the Receivership estate contracted into a management agreement in September 2012 with Central parking System. Central Parking System was hired to manage and operate the commercial parking garages and lots owned by the Receivership Estate. The management agreement covers single year periods beginning September 11, 2012. The agreements are automatically renewed unless cancelled sixty days prior to the term. The newly appointed manager provides budgets, consulting advice, records collections and disbursements, operation of parking facilities, and record retention. Services not included in the management agreement that are still the responsibility of the receiver are structural repairs and maintenance to parking facilities and all other capital expenditures, payment of real estate taxes of the Receivership Estate property, debt service payments, extended insurance coverage's, and receivership fees and related professional fees. Central Parking Systems provides the receiver with monthly reports of receipts and disbursements and also transfers net cash amounts to the Receivership Estate.



CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 17      Scranton Parking Authorities (Continued)

With the appointment of the receiver and Central Parking Systems, employees of the Authority were terminated in September 2012. Operating expenses for the Authority ceased on September 11, 2012. Cash transferred to the receivership estate amounted to \$866,952 at September 11, 2012. From September 12, 2012 through December 31, 2012, the receivership estate transferred cash totaling \$855,680 back to the Authority for payment of certain operating debts and bond payments including principal and interest. Debts paid were determined by the receiver based on obligation to keep the Authority operating, as per the court ordered agreement.

The Authority entered into a management agreement with the City of Scranton. This agreement required that ten percent of meter, citation, and ticket revenues be paid to the Authority in exchange for the responsibility to conduct the daily activity of the On-Street Parking Program. The City is also required to reimburse the Authority for expenses incurred by the On-Street Parking Program. Expenses reimbursed for the year ending December 31, 2012, amounted to \$221,819. Management fees received for the year ending December 31, 2012 were \$78,873. The Authority also received flat utility fees totaling \$2,275 for the year ending December 31, 2012. At December 31, 2012, the authority owes the City \$166,100 for excess received for the On-Street Program and is reflected in current liabilities.

The On-Street Parking Program was facilitated under the management agreement by the Authority through September 11, 2012. Once the receiver was appointed, the City of Scranton took over the program and the agreement was null. The City of Scranton paid an excess of \$166,100 to the Authority for the On-Street Parking Program in 2012, which was later used toward debt service. The Authority received additional funds in 2012 from the City of Scranton for payment of interest on debt service in the amount of \$1,510,949. and are reported as non-operating revenue.

The Authority has significant annual debt service payments and limited ability to increase operating revenues, creating substantial projected cash flow deficiencies. Based on historical shortfalls of the Authority, the annual projected deficit is approximately between \$1,500,000 and \$2,000,000, primarily due to the large debt service requirements on the revenue bonds and notes. The Authority will have to rely on the guarantee of the City of Scranton to provide the funds needed for the Authority's debt service payments. The Lease Agreements, 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 payments, such payments are payable from the tax and other general revenues of the City of Scranton. The Authority has no taxing power. Due to the current financial status of the City of Scranton, the method and timing of receiving the funds is uncertain.

During 2012, funds were transferred by the City totaling \$ 1,510,949 to cover debt service requirements. The City of Scranton has budgeted \$1,900,000 for 2013 Authority debt service payments. As of the date of this report, \$1,666,278 has already been paid for 2013 debt service, with a December payment remaining on the 2007 Series. Legal counsel has informed the Authority that the trustee and bond insurers are evaluating the current financial situation of the Authority.

**SUPPLEMENTARY INFORMATION**

CITY OF SCRANTON, PENNSYLVANIA  
 GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$ 47,228,446	\$ 47,228,446	\$ 45,387,307	\$ (1,841,139)
Intergovernmental	2,910,000	2,910,000	4,363,525	1,453,525
Departmental Earnings	2,990,200	2,990,200	1,763,833	(1,226,367)
Refuse Disposal Fees	5,100,000	5,100,000	4,006,787	(1,093,213)
Licenses and Permits	2,681,230	2,681,230	1,564,394	(1,116,836)
Cable Television Franchise Revenue	975,000	975,000	815,180	(159,820)
Payments in Lieu of Taxes	183,250	183,250	205,280	22,030
Interest Income	10,000	10,000	2,032	(7,968)
User Fees	61,000	61,000	50,709	(10,291)
Other Revenues	55,025	55,025	145,063	90,038
Donations	1,000	1,000	172,579	171,579
Rents and Concessions	28,000	28,000	0	(28,000)
Total Revenues	<u>\$ 62,223,151</u>	<u>\$ 62,223,151</u>	<u>\$ 58,476,689</u>	<u>\$ (3,746,462)</u>
Expenditures				
General Government	\$ 13,695,448	\$ 13,717,448	\$ 15,566,580	\$ (1,849,132)
Public Safety	33,794,361	33,970,361	34,446,571	(476,210)
Public Works	11,499,800	11,499,800	10,092,350	1,407,450
Community Development	614,525	614,526	599,863	14,663
Culture and Recreation	597,451	597,451	492,983	104,468
Total Expenditures	<u>\$ 60,201,585</u>	<u>\$ 60,399,586</u>	<u>\$ 61,198,347</u>	<u>\$ (798,761)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 2,021,566</u>	<u>\$ 1,823,565</u>	<u>\$ (2,721,658)</u>	<u>\$ (4,545,223)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Financing Sources (Uses)				
Proceeds from Tax Anticipation				
Notes	\$ 14,500,000	\$ 14,500,000	\$ 17,750,000	\$ 3,250,000
Unfunded Debt Borrowing	6,700,500	6,700,500	21,070,000	14,369,500
Operating Transfers In	1,907,472	1,907,472	1,475,590	(431,882)
Operating Transfers Out	(7,939,538)	(9,441,537)	(12,318,827)	(2,877,290)
DCED Act 47 Loan	0	0	2,000,000	2,000,000
Bond Premium Cost	0	0	(463,136)	(463,136)
Contingency	(2,000,000)	(300,000)	(96,313)	203,687
Payments of Tax Anticipation				
Notes	(15,190,000)	(15,190,000)	(17,917,920)	(2,727,920)
Net Other Financing Sources (Uses)	<u>\$ (2,021,566)</u>	<u>\$ (1,823,565)</u>	<u>\$ 11,499,394</u>	<u>\$ 13,322,959</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 0	\$ 0	\$ 8,777,736	\$ 8,777,736
Fund Deficit, Beginning of Year	<u>(1,110,479)</u>	<u>(1,110,479)</u>	<u>(1,110,479)</u>	<u>0</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (1,110,479)</u>	<u>\$ (1,110,479)</u>	<u>\$ 7,667,257</u>	<u>\$ 8,777,736</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2012

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 170,966	\$ 708,146	\$ 690,476	\$ 2,227,552	\$ 0	\$ 3,797,140
Accounts Receivable, Net	16	0	0	1,135,200	0	1,135,216
Loans Receivable	0	0	670,524	0	0	670,524
Due From Other Funds	0	55	0	684,968	0	685,023
Restricted Assets:						
Restricted Cash and Cash Equivalents	0	0	0	0	3,069,480	3,069,480
Property Held for Resale	0	0	143,051	0	0	143,051
<b>TOTAL ASSETS</b>	<b><u>\$ 170,982</u></b>	<b><u>\$ 708,201</u></b>	<b><u>\$ 1,504,051</u></b>	<b><u>\$ 4,047,720</u></b>	<b><u>\$ 3,069,480</u></b>	<b><u>\$ 9,500,434</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 0	\$ 25,527	\$ 134,567	\$ 1,079,490	\$ 0	\$ 1,239,584
Due to Other Funds	0	63	493,137	336,112	0	829,312
Deferred Revenues	0	0	718,086	2,632,118	0	3,350,204
<b>TOTAL LIABILITIES</b>	<b><u>\$ 0</u></b>	<b><u>\$ 25,590</u></b>	<b><u>\$ 1,345,790</u></b>	<b><u>\$ 4,047,720</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 5,419,100</u></b>
<b>FUND BALANCES</b>						
Restricted for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,069,480	\$ 3,069,480
Restricted for Capital Projects	0	682,611	0	0	0	682,611
Restricted for Externally Imposed						
Regulations	0	0	689,336	0	0	689,336
Nonspendable Property Held For Resale	0	0	143,051	0	0	143,051
Unreserved - Undesignated	170,982	0	(674,126)	0	0	(503,144)
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 170,982</u></b>	<b><u>\$ 682,611</u></b>	<b><u>\$ 158,261</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 3,069,480</u></b>	<b><u>\$ 4,081,334</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 170,982</u></b>	<b><u>\$ 708,201</u></b>	<b><u>\$ 1,504,051</u></b>	<b><u>\$ 4,047,720</u></b>	<b><u>\$ 3,069,480</u></b>	<b><u>\$ 9,500,434</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, 2012

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>Revenues:</b>						
Intergovernmental	\$ 1,557,598	\$ 0	\$ 3,212,248	\$ 4,684,422	\$ 0	\$ 9,454,268
Departmental Earnings	0	0	0	53,648	0	53,648
Interest Income	207	0	362	1,552	5,310	7,431
Other Revenues	0	183	14,339	1,183,993	0	1,198,515
Rents and Concessions	0	0	7,360	0	0	7,360
<b>Total Revenues</b>	<b>\$ 1,557,805</b>	<b>\$ 183</b>	<b>\$ 3,234,309</b>	<b>\$ 5,923,615</b>	<b>\$ 5,310</b>	<b>\$ 10,721,222</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	\$ 0	\$ 60	\$ 1,080	\$ 310,147	\$ 84	\$ 311,371
Public Works	0	0	0	3,491,293	0	3,491,293
Health and Welfare	0	0	0	1,928,027	0	1,928,027
Community Development	0	0	3,030,939	184,596	0	3,215,535
<b>Debt Service</b>						
Debt Service-Principal	0	0	49,354	0	5,634,860	5,684,214
Debt Service-Interest	0	0	477	0	3,893,650	3,894,127
Capital Outlay	0	10,916	0	0	0	10,916
<b>Total Expenditures</b>	<b>\$ 0</b>	<b>\$ 10,976</b>	<b>\$ 3,081,850</b>	<b>\$ 5,914,063</b>	<b>\$ 9,528,594</b>	<b>\$ 18,535,483</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 1,557,805</b>	<b>\$ (10,793)</b>	<b>\$ 152,459</b>	<b>\$ 9,552</b>	<b>\$ (9,523,284)</b>	<b>\$ (7,814,261)</b>
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In	\$ 0	\$ 9,552	\$ 0	\$ 0	\$ 10,807,878	\$ 10,817,430
Operating Transfers Out	(1,475,590)	0	0	(9,552)	0	(1,485,142)
<b>Net Other Financing Sources (Uses)</b>	<b>\$ (1,475,590)</b>	<b>\$ 9,552</b>	<b>\$ 0</b>	<b>\$ (9,552)</b>	<b>\$ 10,807,878</b>	<b>\$ 9,332,288</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses</b>	<b>\$ 82,215</b>	<b>\$ (1,241)</b>	<b>\$ 152,459</b>	<b>\$ 0</b>	<b>\$ 1,284,594</b>	<b>\$ 1,518,027</b>
<b>Fund Balances, Beginning 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>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 170,982</b>	<b>\$ 682,611</b>	<b>\$ 158,261</b>	<b>\$ 0</b>	<b>\$ 3,069,480</b>	<b>\$ 4,081,334</b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PENSION TRUST FUND  
YEAR ENDED DECEMBER 31, 2012

Additions:

Contributions

Employee	\$ 632,442	
Employer	1,322,289	
Commonwealth State Aid	<u>2,921,682</u>	
Total Contributions		\$ 4,876,413

Investment Income:

Investment Return (Depreciation)	\$ 7,074,548	
Interest Income	<u>1,341</u>	
Total Investment Income	\$ 7,075,889	
Less Investment Expenses	<u>(199,689)</u>	
Net Investment Earnings		<u>6,876,200</u>

TOTAL ADDITIONS \$ 11,752,613

DEDUCTIONS

Benefit Payments	\$12,776,915	
Refund of Members' Contributions	59,085	
Administrative Expenses	<u>187,070</u>	
Total Deductions		<u>13,023,070</u>

CHANGE IN NET POSITION \$ (1,270,457)

NET POSITION HELD IN TRUST FOR PENSION BENEFITS:

Beginning of Year		<u>47,410,018</u>
END OF YEAR		<u>\$ 46,139,561</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, 2012

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes				
Act 511:				
Wage	\$21,900,000	\$21,900,000	\$ 21,257,130	\$ (642,870)
Delinquent Wage Tax	800,000	800,000	396,312	(403,688)
Real Estate Transfer	4,364,827	4,364,827	4,226,466	(138,361)
Mercantile	1,224,065	1,224,065	1,045,286	(178,779)
Business Privilege	536,375	536,375	703,923	167,548
Local Service Tax	1,734,840	1,734,840	1,553,565	(181,275)
Delinquent Mercantile	60,000	60,000	31,805	(28,195)
Delinquent Business Privilege	125,000	125,000	47,364	(77,636)
Total Act 511	<u>\$30,745,107</u>	<u>\$30,745,107</u>	<u>\$ 29,261,851</u>	<u>\$ (1,483,256)</u>
Current Real Estate	\$13,970,013	\$13,970,013	\$ 13,146,686	\$ (823,327)
Delinquent Real Estate	1,900,000	1,900,000	2,718,487	818,487
Public Utility	58,826	58,826	59,965	1,139
Parking Tax	500,000	500,000	149,049	(350,951)
Penalties & Interest	54,500	54,500	51,269	(3,231)
Total Taxes	<u>\$47,228,446</u>	<u>\$47,228,446</u>	<u>\$ 45,387,307</u>	<u>\$ (1,841,139)</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,710,000	\$ 2,710,000	\$ 2,921,682	\$ 211,682
DCED Act 47 Grant	0	0	250,000	250,000
OECD Reimbursement Demolition Program	200,000	200,000	4,269	(195,731)
Fire Safety Grant	0	0	1,058,837	1,058,837
FEMA Emergency Grants	0	0	128,737	128,737
Total Intergovernmental	<u>\$ 2,910,000</u>	<u>\$ 2,910,000</u>	<u>\$ 4,363,525</u>	<u>\$ 1,453,525</u>
Departmental Earnings				
Parking Meters	\$ 1,400,000	\$ 1,400,000	\$ 917,904	\$ (482,096)
Fines and Forfeits	1,169,200	1,169,200	688,332	(480,868)
Pave Cuts	203,000	203,000	144,202	(58,798)
Report Copies Fire & Police	85,000	85,000	145	(84,855)
Alarm Fees	100,000	100,000	14,850	(85,150)
Zoning	33,000	33,000	(1,600)	(34,600)
Total Departmental Earnings	<u>\$ 2,990,200</u>	<u>\$ 2,990,200</u>	<u>\$ 1,763,833</u>	<u>\$ (1,226,367)</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, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP BASIS	FINAL BUDGET POSITIVE (NEGATIVE)
Other Revenues				
Refuse Disposal Fees	\$ 5,100,000	\$ 5,100,000	\$ 4,006,787	\$ (1,093,213)
Licenses and Permits	2,681,230	2,681,230	1,564,394	(1,116,836)
Cable Television Franchise Revenue	975,000	975,000	815,180	(159,820)
Payments in Lieu of Taxes	183,250	183,250	205,280	22,030
Interest Income	10,000	10,000	2,032	(7,968)
User Fees	61,000	61,000	50,709	(10,291)
Other Revenues	55,025	55,025	145,063	90,038
Donations	1,000	1,000	172,579	171,579
Rents and Concessions	28,000	28,000	0	(28,000)
Total Other Revenues	<u>\$ 9,094,505</u>	<u>\$ 9,094,505</u>	<u>\$ 6,962,024</u>	<u>\$ (2,132,481)</u>
Total Revenues	<u>\$62,223,151</u>	<u>\$62,223,151</u>	<u>\$ 58,476,689</u>	<u>\$ (3,746,462)</u>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$14,500,000	\$14,500,000	\$ 17,750,000	\$ 3,250,000
Unfunded Debt Borrowing	6,700,500	6,700,500	21,070,000	14,369,500
DCED Act 47 Loan	0	0	2,000,000	2,000,000
Operating Transfers in from:				
Liquid Fuels Fund	1,607,472	1,607,472	1,475,590	(131,882)
Other Funds	300,000	300,000	0	(300,000)
Total Other Financing Sources	<u>\$23,107,972</u>	<u>\$23,107,972</u>	<u>\$ 42,295,590</u>	<u>\$ 19,187,618</u>
Total Revenues and Other Financing Sources	<u>\$85,331,123</u>	<u>\$85,331,123</u>	<u>\$100,772,279</u>	<u>\$ 15,441,156</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, 2012

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
General Government				
Salaries and Wages	\$ 1,587,949	\$ 1,587,949	\$ 1,581,053	\$ 6,896
Employee Benefits	4,966,880	4,968,880	3,828,396	1,140,484
Workers' Compensation Claims	3,500,000	3,477,031	3,090,912	386,119
General Insurance	1,003,379	1,040,983	1,114,753	(73,770)
Office Supplies and Expense	141,733	155,057	147,365	7,692
Professional Fees	746,572	704,307	782,889	(78,582)
Telephone	75,000	98,938	98,938	0
Equipment	63,000	61,024	60,761	263
Travel	500	0	0	0
Other	1,800	2,730	1,563,165	(1,560,435)
Boards and Commissions	115,300	115,300	92,414	22,886
Utilities	726,000	726,000	428,851	297,149
Grants and Contributions	5,100	5,100	50	5,050
Court Awards & Settlements	200,000	200,000	2,202,884	(2,002,884)
Parking Authority Ticket Issuers	562,235	574,149	574,149	0
<b>Total General Government</b>	<b>\$13,695,448</b>	<b>\$13,717,448</b>	<b>\$15,566,580</b>	<b>\$ (1,849,132)</b>
Public Safety				
Salaries and Wages	\$18,367,740	\$18,367,740	\$19,210,432	\$ (842,692)
Employee Benefits	15,077,859	15,253,859	14,879,907	373,952
Supplies	67,691	65,628	40,743	24,885
Equipment	222,510	227,364	272,631	(45,267)
Training	36,811	38,622	38,374	248
Travel	5,000	5,000	1,588	3,412
Professional Fees	16,750	12,148	2,896	9,252
<b>Total Public Safety</b>	<b>\$33,794,361</b>	<b>\$33,970,361</b>	<b>\$34,446,571</b>	<b>\$ (476,210)</b>
Public Works				
Salaries and Wages	\$ 4,058,759	\$ 4,058,759	\$ 3,736,221	\$ 322,538
Employee Benefits	2,073,844	2,073,844	2,000,188	73,656
Supplies	484,782	481,393	147,425	333,968
Professional Fees	168,055	168,865	97,064	71,801
Equipment	1,354,792	1,389,827	1,192,237	197,590
Electric	445,000	445,000	299,002	145,998
Landfill Fees	1,502,450	1,502,450	1,381,470	120,980
Salt	331,000	281,000	159,471	121,529
Flood Protection	140,173	138,838	193,299	(54,461)
Street Lighting	940,945	959,824	885,973	73,851
<b>Total Public Works</b>	<b>\$11,499,800</b>	<b>\$11,499,800</b>	<b>\$10,092,350</b>	<b>\$ 1,407,450</b>

"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, 2012

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 553,339	\$ 553,339	\$ 549,604	\$ 3,735
Employee Benefits	12,833	13,526	12,538	988
Supplies	48,353	47,661	37,721	9,940
Total Community Development	<u>\$ 614,525</u>	<u>\$ 614,526</u>	<u>\$ 599,863</u>	<u>\$ 14,663</u>
Culture and Recreation				
Salaries and Wages	\$ 424,431	\$ 424,431	\$ 404,337	\$ 20,094
Employee Benefits	2,370	2,370	2,765	(395)
Supplies	142,324	142,324	69,739	72,585
Programs	28,326	28,326	16,142	12,184
Total Culture and Recreation	<u>\$ 597,451</u>	<u>\$ 597,451</u>	<u>\$ 492,983</u>	<u>\$ 104,468</u>
Total Expenditures	<u>\$60,201,585</u>	<u>\$60,399,586</u>	<u>\$61,198,347</u>	<u>\$ (798,761)</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$15,190,000	\$15,190,000	\$17,917,920	\$ (2,727,920)
Bond Issuance Premium	0	0	463,136	(463,136)
Contingency	2,000,000	300,000	96,313	203,687
Operating Transfers Out to:				
Debt Service Fund	7,939,538	9,441,537	12,318,827	(2,877,290)
Total Other Financing Uses	<u>\$25,129,538</u>	<u>\$24,931,537</u>	<u>\$30,796,196</u>	<u>\$ (5,864,659)</u>
Total Expenditures and Other Financing Uses	<u><u>\$85,331,123</u></u>	<u><u>\$85,331,123</u></u>	<u><u>\$91,994,543</u></u>	<u><u>\$ (6,663,420)</u></u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	RECEIVED IN 2012 FROM COMM OF PA	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
CDBG - Entitlement Grant Cluster				
Community Development Block Grants/Entitlement Grants	14.218			\$ 4,616,381
Community Development Block Grants/ARRA Entitlement Grant Recovery Program	14.253			<u>104,254</u>
TOTAL CDBG - ENTITLEMENT GRANT CLUSTER				4,720,635
Emergency Shelter Grants Program	14.231			105,007
Homeless Prevention & Rapid Re-Housing (HPRP) (Recovery Act Funded)	14.257			277,485
Economic Development Initiative-Special Project	14.251			132,794
Home Investment Partnerships Program	14.239			<u>529,315</u>
Total U.S. Department of Housing and Urban Development				<u>\$ 5,765,236</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed through the PA Department of Community & Economic Development				
Neighborhood Stabilization Program	14.228			
Incurred 2011 Received 2012			\$ 11,535	
Incurred 2012 Received 2012			102,911	\$ 103,214
Incurred 2012 Received 2013			<u>0</u>	<u>713</u>
Total PA Department of Community & Economic Development			<u>\$ 114,446</u>	<u>\$ 103,927</u>
Total U.S. Department of Housing and Urban Development				<u>\$ 5,869,163</u>
U.S. Department of Energy				
Energy Efficiency Conservation Block Recovery	81.128			<u>\$ 584,024</u>
Total U.S. Department of Energy				<u>\$ 584,024</u>
U.S. DEPARTMENT OF JUSTICE:				
Recovery Act Edward Byrne Memorial Justice Assistance Grant Program	16.804			\$ 108,153
Justice Grant Assistance Program	16.580			<u>21,649</u>
Total U.S. Department of Justice				<u>\$ 129,802</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the Pennsylvania Department of Transportation				
Highway Planning and Construction				
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 Received 2012			\$ 3,425	
Incurred 2012 Received 2012			2,479,093	2,479,093
Incurred 2012 Received 2013			<u>0</u>	<u>1,009,264</u>
Total U.S. Department of Transportation			<u>\$ 2,482,518</u>	<u>\$ 3,488,357</u>
Environmental Protection Agency				
Brownfield Assessment & cleanup Cooperative Agreements Recovery Act	66.818			<u>\$ 18,830</u>
Total Environmental Protection Agency				<u>\$ 18,830</u>
Department of Homeland Security				
Staffing for Adequate Fire and Emergency Response Hiring Program	97.083			<u>\$ 1,058,837</u>
Total Department of Homeland Security				<u>\$ 1,058,837</u>
Passed through the Pennsylvania Emergency Agency				
Disaster Grants Public Assist (Presidentially Declared)	97.036			
Incurred 2011 Paid 2012			\$ 129,914	
Incurred 2012 Paid 2012			61,335	\$ 61,335
Incurred 2012 Paid 2013			<u>0</u>	<u>67,402</u>
Total Pennsylvania Emergency Agency			<u>\$ 191,249</u>	<u>\$ 128,737</u>
Total Department of Homeland Security				<u>\$ 1,187,574</u>
U.S. General Service Administration				
Passed through the Pennsylvania Department of General Services				
Donation of Federal Surplus Property Program	39.003			<u>\$ 44,390</u>
Total U.S. General Service Administration				<u>\$ 44,390</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 11,322,140</u>

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

"See accompanying independent auditors' report."

ROBERT ROSSI & CO.  
CERTIFIED PUBLIC ACCOUNTANTS

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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**

November 22, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The City of Scranton and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise The City of Scranton's basic financial statements and have issued our report thereon dated November 22, 2013.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2012-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies 2012-01 and 2012-02.

### **Compliance and Other Matters**

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

### **The City of Scranton's Response to Findings**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Robert Rossi" followed by a stylized monogram or initials "RW".

ROBERT ROSSI & CO.  
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

November 22, 2013

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

We have audited The City of Scranton's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The City of Scranton's major federal programs for the year ended December 31, 2012. The City of Scranton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of The City of Scranton's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of The City of Scranton's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, The City of Scranton, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, 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 costs as items 2012-4. Our opinion on each major federal program is not modified with respect to these matters.

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

### ***Report on Internal Control Over Compliance***

Management of The City of Scranton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The City of Scranton's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 and correct, 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 that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robert Rossi CFO

CITY OF SCRANTON, PENNSYLVANIA  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

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
14.239	Home Investment Partnership Program
81.128	Energy Efficiency Conservation Bulk Recovery
20.205	Highway Planning and Construction
97.083	Staffing for Adequate Fire and Emergency Response Hiring 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 \$339,664.
- (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, 2012

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

2012 - 1	Segregation of Duties	<p>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.</p> <p>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.</p> <p>Recommendation: Procedures should be implemented whereby one person does not have complete control over these functions.</p>	\$ 0
2012 - 2	Segregation of Duties	<p>Condition: The budget for 2012 decreased the Business Office Staff from four (4) individuals to two (2) individuals. The decrease in staffing required the remaining two (2) individuals to process and record transactions along with approving transactions.</p> <p>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 functions.</p> <p>Recommendation: Procedures should be implemented whereby one person does not have complete control over these functions.</p>	0
2012 - 3	Processing & Recording of Transactions for Current and Delinquent Receivables	<p>Condition: 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 its 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.</p> <p>Effect: The possibility for differences to exist between NRS records and City records and not corrected in a timely fashion.</p>	0

CITY OF SCRANTON, PENNSYLVANIA  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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 Homeland Security

Staffing for Adequate Fire and Emergency Response Hiring Program (SAFER)

CFDA # 97.083

2012 - 4

Reporting

Condition: Recipients of any SAFER grant awarded on or after October 1, 2009, are required to submit a semi-annual Federal Financial Report (FFR, SF-425). The FFR, to be submitted using the online e-Grant system, will be due semi-annually based on the calendar year beginning with the period after the award is made, Grant recipients will be required to submit a FFR throughout the entire period of performance of the grant. Reporting periods and due dates are January 1 to June 30 due July 30 and July 1 to December 31 due January 30.

0

Effect: The grant was initially awarded with an effective start date of August 21, 2012. In August 2012, the grant effective start date was changed to June 30, 2012. Thus causing a semi-annual report for the period ended June 30, 2012 required to be filed. The semi-annual reports provided to us for testing both included cash receipts through March 2013. The report for June 30, 2012 should not have any cash receipts reported and the December 31, 2012 should have only reported receipts through December 31, 2012.

Recommendation: Semi-annual reports should be properly prepared, timely filed, and a hard copy of such filing should be retained.

Total Questioned Costs

\$ 0

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012

2011 - 4 Homebuyer Program and Housing Rehabilitation

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. The City has requested that the money be deducted from the HOME Program 2013 action plan.

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

2012 - 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.

2012 - 2          Segregation of Duties

Recommendation:      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 the two positions were rebudgeted in 2013 to address this issue.

2012 - 3          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.

2012 - 4          Reporting

Recommendation:      Semi-annual reports should be properly prepared, timely filed, and a hard copy of such filing should be retained.

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

  
\_\_\_\_\_  
Gina E. McAndrew  
Business Administrator