

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2013**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2013

	<u>PAGE</u>
Table of Contents	1 - 3
Independent Auditor's Report	4 - 8
Required Supplementary Information:	
Management Discussion and Analysis	9-19
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	20-21
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet - Governmental Funds	23
Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Position	24
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	25-26
Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	27-28
Statement of Net Position - Proprietary Funds	29-30
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	31
Statement of Cash Flows - Proprietary Funds	32-33
Statement of Net Position - Fiduciary Fund - Pension Trust Fund	34

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2013

	<u>PAGE</u>
Notes to Basic Financial Statements	35-88
Required Supplementary Information:	
Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual	89-90
Other Supplementary Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	91
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	92
Statement of Changes in Net Position - Fiduciary Funds, Pension Trust Fund	93
Additional Schedules:	
Statement of Revenues and Other Financing Sources - Budget and Actual	94-95
Statement of Expenditure and Other Financing Uses - Budget and Actual	96-97
Single Audit Attachments:	
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2013	98
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	99-100

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2013

	<u>PAGE</u>
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	101-103
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2013	104-108
Status of Prior Year Findings for the Year Ended December 31, 2013	109
Plan for Corrective Action Taken in Regard to Audit Findings	110-111

**ROBERT ROSSI & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

ROBERT L. ROSSI, C.P.A.  
ROBERT T. ARVONIO, C.P.A.  
PETER D. ARVONIO, JR., C.P.A.  
ROBERT A. HANIS, C.P.A.

299 MAIN ST. 2<sup>ND</sup> FLR  
OLYPHANT, PA 18447-2326  
TEL. (570) 876-2300 - FAX (570) 876-5153  
Website: [www.rcco.net](http://www.rcco.net)

SALVATORE A. NOLE, JR., C.P.A.  
JOSEPH E. ROSSI, C.P.A.  
SEAN J. GRASSI, C.P.A.  
RALPH R. MORRIS, III, C.P.A.

INDEPENDENT AUDITORS' REPORT

April 20, 2015

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 31, 2013, 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 \$104,280,572 at March 31, 2013 and total revenues of \$23,262,420 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$723,560 at December 31, 2013 and total revenues of \$102,035 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 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 February 25, 2014 instead of December 31, 2013. 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.

#### **Basis for Adverse Opinion on Major Enterprise Fund of the Parking Authority of the City of Scranton and Qualified Opinion on Business Type Activities**

The financial statements referred to above do not include financial data for the City's legally separate component unit The Parking Authority of the City of Scranton. Accounting principles generally accepted in the United States of America require financial data for those component units to be reported with the financial data of the City's primary government as part of the reporting entity. Because of this departure from accounting principles generally accepted in the United States of America, the effects on assets, liabilities, net position, revenue, and expenses of The Parking Authority 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, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Adverse Opinion on Major Enterprise Fund of The Parking Authority of the City of Scranton and Qualified Opinion on Business Type Activities", the financial statements referred to above presents fairly in all material respects, the financial position of the business-type activities as of December 31, 2013 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Major Enterprise Fund of The Parking Authority of the City of Scranton and Qualified Opinion on Business Type Activities”, the financial statements referred to above do not present fairly the financial position of its major enterprise fund The Parking Authority of The City of Scranton as of December 31, 2013, and the respective financial changes in financial position and cash flows thereof for the year then ended in accordance 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, , general fund, special revenue fund OECD, and sewer authority as of December 31, 2013, 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, 2013 in the Government Wide Financial Statements in the amount of \$ 21,542,000 including interest to December 31, 2013. The liability is classified as long term at December 31, 2013 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.

As discussed in Note 14, Distressed Municipality Status, the City was declared a distressed municipality under the Financially Distressed Municipalities Act in 1992. 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. The City’s Act 47 Coordinator in conjunction with the City is currently in the process of revising its 2012 Recovery Plan.

## **Changes in Accounting Principle**

As discussed in Note 1, during the year the City of Scranton implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of these GASB Statements, as applicable. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 89 thru 90 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 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 and the schedule of expenditures of federal awards 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 April 20, 2015, 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.

Robert Rossi #10

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, 2013. 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 \$75,552 (*net position*).
- The government's total net position decreased by \$369,364.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$9,791,237, a decrease of \$2,075,450 in comparison with the prior year balance which was \$11,866,687. The largest decrease was in the General Fund of \$3,288,846.
- The City of Scranton continues to evaluate borrowing options resulting from the Supreme Court Ruling upholding back pay, apparatus and shift manning for the Fire and Police Unions. Debt service was incorporated into the 2015 budget to meet this requirement and the City of Scranton will see additional costs supporting this specific borrowing over the next few years.
- The City of Scranton, Pennsylvania currently does not have a bond rating from Standard and Poor's. The ratings agency on September 30, 2011 reduced the City's rating three notches from BBB- to BB- . In early October, the rating agency withdrew the rating decrease at the request of the city. A BB- rating is considered speculative and indicates significant ongoing uncertainties. The City intends to seek a rating in late 2016.

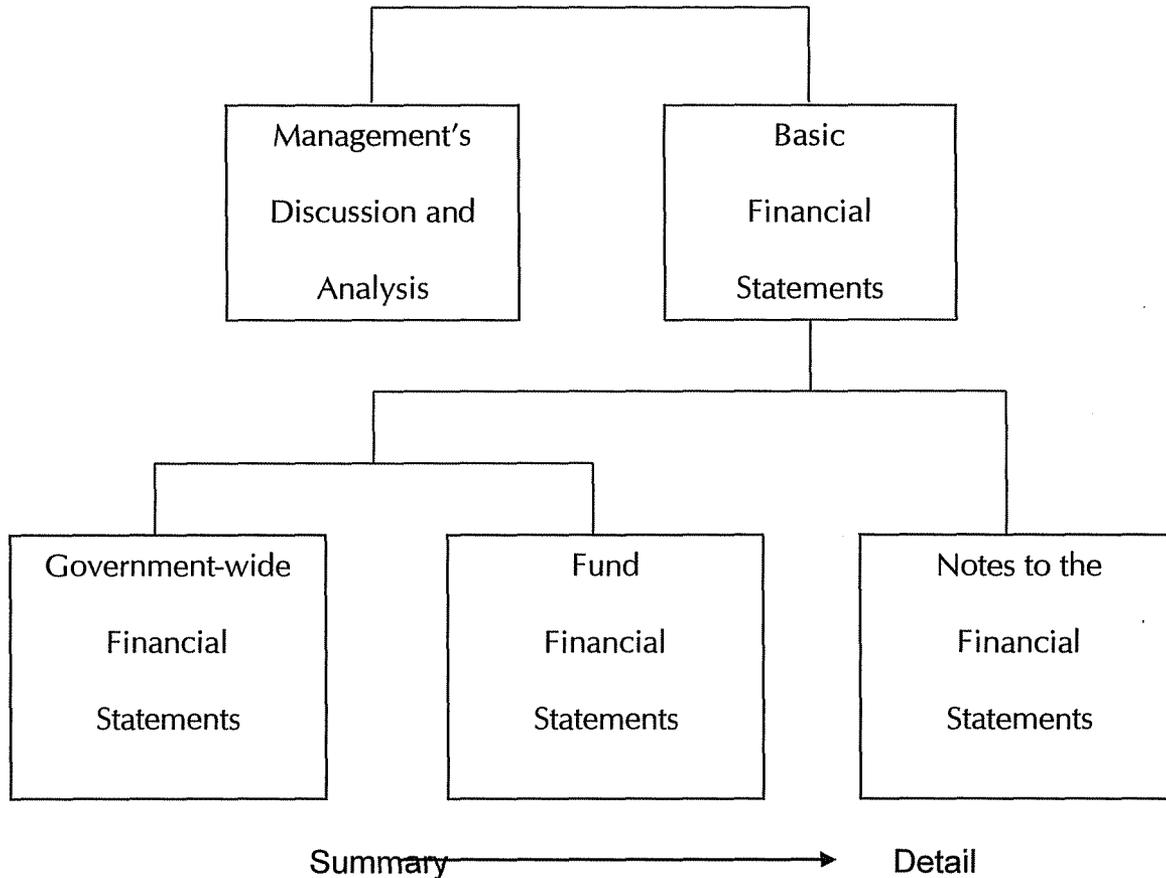
**Overview of the Financial Statements**

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 20 through 22) 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 23 through 34) 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 of \$13,164,942). An example of a cash outflow in a future year would be the payment of prior year earned sick pay (see Compensated Absences \$3,471,175). 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 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 20 through 22.

**Fund Financial Statements**

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and Recreation Authority. The Sewer Authority is classified as a major fund. 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 35 through 88 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 89 and 90). 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 position is a useful indicator of a government's financial position. At the close of the current fiscal year, the City of Scranton's liabilities exceed its assets by \$75,552.

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, \$75,408,278. 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 Position, \$24,281,752, is subject to external restrictions as to how they may be used. The remaining component of Net Position is the unrestricted net position, which ended the year with a deficit of \$99,765,582. The governmental activities reported negative unrestricted Net Position of \$121,403,037. The business type activities reported positive unrestricted Net Position of \$21,637,455.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Governmental Activities		%	Business-Type Activities		%	Total Primary Government		%
	2013	2012		2013	2012		2013	2012	
Current Assets	\$ 65,671,053	\$ 82,586,800	-20.5%	\$ 20,162,328	\$ 11,613,175	73.6%	\$ 85,833,381	\$ 94,199,975	-8.9%
Restricted Assets	4,763,203	3,180,468	49.8%	23,316,657	36,720,235	-36.5%	28,079,860	39,900,703	-29.6%
Capital Assets	94,593,423	94,577,980	0.0%	59,759,798	96,342,511	-38.0%	154,353,221	190,920,491	-19.2%
Deferred Charges	0	1,933,959	-100.0%	1,041,789	2,893,481	-64.0%	1,041,789	4,827,440	-78.4%
<b>Total Assets</b>	<b>\$ 165,027,679</b>	<b>\$ 182,279,207</b>	<b>-9.5%</b>	<b>\$ 104,280,572</b>	<b>\$ 147,569,402</b>	<b>-29.3%</b>	<b>\$ 269,308,251</b>	<b>\$ 329,848,609</b>	<b>-18.4%</b>
Bond Insurance Cost	\$ 201,591	\$ 0	100.0%	\$ 0	\$ 0	0.0%	\$ 201,591	\$ 0	100.0%
<b>Total Deferred Outflow of Resources</b>	<b>\$ 201,591</b>	<b>\$ 0</b>	<b>100.0%</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0.0%</b>	<b>\$ 201,591</b>	<b>\$ 0</b>	<b>100.0%</b>
Current Liabilities	\$ 17,587,790	\$ 14,162,925	24.2%	\$ 5,265,553	\$ 6,516,145	-19.2%	\$ 22,853,343	\$ 20,679,070	10.5%
Non-Current Liabilities	164,050,424	200,573,040	-18.2%	57,951,520	109,041,415	-46.9%	222,001,944	309,614,455	-28.3%
<b>Total Liabilities</b>	<b>\$ 181,638,214</b>	<b>\$ 214,735,965</b>	<b>-15.4%</b>	<b>\$ 63,217,073</b>	<b>\$ 115,557,560</b>	<b>-45.3%</b>	<b>\$ 244,855,287</b>	<b>\$ 330,293,525</b>	<b>-25.9%</b>
Unearned Revenues	\$ 24,730,107	\$ 0	100.0%	\$ 0	\$ 0	0.0%	\$ 24,730,107	\$ 0	100.0%
<b>Total Deferred Outflow of Resources</b>	<b>\$ 24,730,107</b>	<b>\$ 0</b>	<b>100.0%</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0.0%</b>	<b>\$ 24,730,107</b>	<b>\$ 0</b>	<b>100.0%</b>
<b>Net Position:</b>									
Invested in Capital									
Assets Net of Related Debt	\$ 75,213,163	\$ 75,394,313	-0.2%	\$ 195,115	\$ (15,660,372)	-101.2%	\$ 75,408,278	\$ 59,733,941	26.2%
Restricted	5,050,823	3,334,554	51.5%	19,230,929	33,815,965	-43.1%	24,281,752	37,150,519	-34.6%
Unrestricted	(121,403,037)	(111,185,625)	9.2%	21,637,455	13,856,249	56.2%	(99,765,582)	(97,329,376)	2.5%
<b>Total Net Position</b>	<b>\$ (41,139,051)</b>	<b>\$ (32,456,758)</b>	<b>26.8%</b>	<b>\$ 41,063,499</b>	<b>\$ 32,011,842</b>	<b>28.3%</b>	<b>\$ (75,552)</b>	<b>\$ (444,916)</b>	<b>-83.0%</b>

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
<b>Revenues</b>									
Program Revenue									
Fees, Fines & Charges for Services	\$ 11,663,736	\$ 8,191,570	42.4%	\$ 23,262,420	\$ 18,390,954	26.5%	\$ 34,926,156	\$ 26,582,524	31.4%
Operating Grants & Contributions	17,202,096	19,256,196	-10.7%	0	0	0.0%	17,202,096	19,256,196	-10.7%
Capital Grants & Contributions	3,255,736	3,499,917	-7.0%	0	0	0.0%	3,255,736	3,499,917	-7.0%
<b>General Revenue</b>									
Property Taxes	17,245,813	15,319,421	12.6%	0	0	0.0%	17,245,813	15,319,421	12.6%
Act 511 Taxes	32,587,645	29,373,085	10.9%	0	0	0.0%	32,587,645	29,373,085	10.9%
<b>Grants, Subsidies, and Contributions</b>									
Not Restricted	0	236,816	100.0%	0	0	0.0%	0	236,816	100.0%
Cable TV Franchise Revenue	849,459	815,180	4.2%	0	0	0.0%	849,459	815,180	4.2%
Payment in Lieu of Taxes	211,663	205,280	3.1%	0	0	0.0%	211,663	205,280	3.1%
Investment Earnings	(260,478)	439,349	-159.3%	124,449	283,081	-56.0%	(136,029)	722,430	-118.8%
Donations	65,377	172,578	-62.1%	0	0	0.0%	65,377	172,578	-62.1%
Miscellaneous	29,746	63,089	-52.9%	362,068	208,427	73.7%	391,814	271,516	44.3%
Rents and Concessions	10,210	7,360	38.7%	0	0	0.0%	10,210	7,360	38.7%
Interfund Transfers	2,263	(1,510,949)	100.0%	(2,263)	1,510,949	100.0%	0	0	0.0%
Transfers in Receivership Estate	0	0	0.0%	0	855,680	100.0%	0	855,680	100.0%
<b>Total Revenue &amp; Transfers</b>	<b>\$ 82,863,266</b>	<b>\$ 76,068,892</b>	<b>8.9%</b>	<b>\$ 23,746,674</b>	<b>\$ 21,249,091</b>	<b>11.8%</b>	<b>\$ 106,609,940</b>	<b>\$ 97,317,983</b>	<b>9.5%</b>
<b>Expenses</b>									
General Government & Admin	\$ 9,884,225	\$ 12,395,468	-20.3%	\$ 0	\$ 0	0.0%	\$ 9,884,225	\$ 12,395,468	-20.3%
Public Safety	42,641,209	39,931,083	6.8%	0	0	0.0%	42,641,209	39,931,083	6.8%
Public Works	15,652,920	15,747,153	-0.6%	0	0	0.0%	15,652,920	15,747,153	-0.6%
Health & Welfare	2,085,524	1,928,027	8.2%	0	0	0.0%	2,085,524	1,928,027	8.2%
Community Development	8,706,387	12,120,224	-28.2%	0	0	0.0%	8,706,387	12,120,224	-28.2%
Cultural & Recreation	1,314,930	1,314,786	0.0%	0	0	0.0%	1,314,930	1,314,786	0.0%
Unallocated Depreciation	34,759	34,758	0.0%	0	0	0.0%	34,759	34,758	0.0%
Interest on Long Term Debt	5,850,163	4,588,383	27.5%	0	0	0.0%	5,850,163	4,588,383	27.5%
Provision for Uncollectible Accounts	560,000	140,000	0.0%	0	17,684	100.0%	560,000	157,684	100.0%
Long Term Court Awards	542,000	2,140,275	-74.7%	0	0	0.0%	542,000	2,140,275	-74.7%
Loss on Disposal of Fixed Assets	82,582	14,611	100.0%	728	0	0.0%	83,310	14,611	100.0%
Sewer Authority	0	0	0.0%	15,767,625	15,495,795	1.8%	15,767,625	15,495,795	1.8%
Municipal Parking Authority	0	0	0.0%	0	5,475,463	-100.0%	0	5,475,463	-100.0%
Transfer of Assets To The Receivership Estate	2,310,000	0	0.0%	0	886,952	100.0%	2,310,000	886,952	100.0%
<b>Total Expenses</b>	<b>\$ 89,664,699</b>	<b>\$ 90,354,768</b>	<b>-0.8%</b>	<b>\$ 15,768,353</b>	<b>\$ 21,875,894</b>	<b>-27.9%</b>	<b>\$ 103,123,052</b>	<b>\$ 111,343,710</b>	<b>-7.4%</b>
<b>Change in Net Position</b>	<b>\$ (6,801,433)</b>	<b>\$ (14,285,876)</b>	<b>-52.4%</b>	<b>\$ 7,978,321</b>	<b>\$ (626,803)</b>	<b>-1372.9%</b>	<b>\$ 1,176,888</b>	<b>\$ (14,912,679)</b>	<b>-107.9%</b>
Net Position, Beginning of Year	(32,456,758)	(18,170,882)	78.6%	32,011,842	32,638,645	-1.9%	(444,916)	14,467,763	-103.1%
Change in Accounting Principal Restatement in Net Position	(1,880,860)	0	100.0%	0	0	0.0%	(1,880,860)	0	100.0%
	0	0	0.0%	1,073,336	0	100.0%	1,073,336	0	100.0%
<b>Net Position, End of Year</b>	<b>\$ (41,139,051)</b>	<b>\$ (32,456,758)</b>	<b>26.8%</b>	<b>\$ 41,063,499</b>	<b>\$ 32,011,842</b>	<b>28.3%</b>	<b>\$ (75,552)</b>	<b>\$ (444,916)</b>	<b>-83.0%</b>

**Governmental activities.** Governmental activities decreased the City's net position by \$6,801,433. This significant decrease can be directly attributed to the cost of Long Term Court Awards, payment of guarantees to the Receivership Estate of The Parking Authority of The City of Scranton, and cost associated with borrowing in 2013 along with decreases in revenues such as miscellaneous revenues 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 40.5% 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 remit payments to the Berkheimer Tax Administrator. Due to the implementation of Act 32, the Wage Tax as of January 1, 2012 the taxes are being collected by Berkheimer. The local Act 32 Committee appointed Berkheimer as the collector of current and delinquent wage taxes for the City of Scranton. 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

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 through the Single Tax Office.

**Business-type activities:** Business-type activities increased the City's Net Position by \$7,978,321. A portion of this increase in 2013 can be attributed to an increase in Program Revenue.

**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 \$8,950,482 from the prior year. Total General Fund Revenue was \$67,427,171 for the year 2013 versus \$58,476,689 for the year 2012. The increase of General Fund Revenue was broad based and attributable to categories including taxes, fees and intergovernmental revenues.

The General Fund expenditures for the year 2013 increased by \$1,887,001. Total General Fund Expenditures were \$63,085,348 for 2013 versus \$61,198,347 for 2012. This can be attributed to the increase in general government and public safety costs.

At December 31, 2013, the Governmental Funds of the City of Scranton reported a combined fund balance of 9,791,237 a decrease of \$2,075,450 over last year.

**General Fund Highlights**

Revenues increased due a broad based increase not attributable to one line item.

Overall expenditures increased due to an increase in general administrative and public safety costs.

**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.

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
Land & Land Improvement	\$ 3,485,506	\$ 3,485,506	0.0%	\$ 130,029	\$ 2,097,093	-93.8%	\$ 3,615,535	\$ 5,582,599	-35.2%
Buildings & Building Improvements	20,798,427	20,730,618	0.3%	119,950,641	174,533,168	-31.3%	140,749,068	195,263,786	-27.9%
Infrastructure	131,730,492	126,463,862	4.2%	0	0	0	131,730,492	126,463,862	4.2%
Furniture, Equip., & Vehicles	18,553,787	17,933,575	3.5%	10,369,390	10,555,356	-1.8%	28,923,177	28,488,931	1.5%
Construction in Progress	335,054	284,957	17.6%	12,652,453	2,742,769	361.3%	12,987,507	3,027,726	76.7%
Accumulated Depreciation	(80,309,843)	(74,320,538)	8.1%	(83,342,715)	(93,585,875)	-10.9%	(163,652,558)	(167,906,413)	-2.6%
<b>Total</b>	<b>\$ 94,593,423</b>	<b>\$ 94,577,980</b>	<b>0.0%</b>	<b>\$ 59,759,798</b>	<b>\$ 96,342,511</b>	<b>-38.0%</b>	<b>\$ 154,353,221</b>	<b>\$ 190,920,491</b>	<b>-19.2%</b>

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**General Obligation and Revenue Bonds**

	Governmental Activities		%	Business-Type Activities		%	Total Primary Government		%
	2013	2012		2013	2012		2013	2012	
Balance January 1, 2013	\$ 99,389,179	\$ 82,482,873	20.5%	\$ 84,261,272	\$ 92,546,711	-9.0%	\$ 183,650,451	\$ 175,029,584	4.9%
Debt Issued in 2013	5,828,597	22,606,864	-74.2%	1,885,416	0	0.0%	7,714,013	22,606,864	-65.9%
Accretion & Amortization	27,832	64,119	-56.6%	0	0	0.0%	27,832	64,119	-56.6%
Less: Removal of Parking Authority Debt	0	0	0.0%	(24,294,463)	0		(24,294,463)	0	100.0%
Less: Retirements	(4,859,065)	(5,764,677)	-15.7%	(2,287,542)	(8,285,439)	-72.4%	(7,146,607)	(14,050,116)	-49.1%
Balance December 31, 2013	<u>\$ 100,386,543</u>	<u>\$ 99,389,179</u>	<u>1.0%</u>	<u>\$ 59,564,683</u>	<u>\$ 84,261,272</u>	<u>-29.3%</u>	<u>\$ 159,951,226</u>	<u>\$ 183,650,451</u>	<u>-12.9%</u>

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 with a "3" ranking by the Public Employee Retirement Commission, as severely distressed under Pennsylvania Act 205. As of the actuarial valuation report of 2013, the City maintained a fund score ratio of 23, with assets listed at \$43,762,000 and liabilities of \$194,041,288.

**Internal Service Workmen's Compensation**

The City of Scranton determined its workers' compensation actuarial liability as of February 25, 2014. The City maintains a self-funded program subject to approval by the Commonwealth of Pennsylvania's Department of Labor and Industry annually.

**Distressed Municipality Status**

Since 1992, the City has been declared a distressed municipality by the Pennsylvania Department of Community and Economic Development under the provisions of Act 47. The City continues to develop initiatives in conjunction with the mandates and recommendations of the Recovery Plan to address the issues which sustain the distressed declaration. With the adoption of the 2015 Budget, the City of Scranton is seeking to achieve a level of fiscal stability to improve the overall financial condition of the City. Expenditures were projected with clarity and offset with realizable revenue forecasting. The stability of the budgeting process will position the City of Scranton access the capital markets to fund the back pay of fire and police personnel.

With the introduction on February 26, 2015, the City of Scranton introduced a revised Recovery Plan replacing the Plan adopted by the City on August 24, 2012. The revised Plan is a requirement of the adoption of House Bill 1773 and its subsequent signature into law on October 31, 2014. The Bill revised Act 47, the Municipalities Financial Recovery Act, which was adopted in the 1980's to provide assistance to struggling communities.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The provisions of House Bill 1773 are as follows:

Act 47 was established in 1987 to provide the Commonwealth, largely through the Governor's office, greater oversight over financially troubled municipalities. Under Act 47 (currently and after the amendments go into effect), if a municipality is found to be in financial distress the Commonwealth is authorized to pursue a series of escalating steps to address the municipality's financial problems, ranging from a coordinator to a receiver selected by the Governor. At each level of state oversight, municipalities are required to adopt or abide by recovery plans to address their respective financial distress. No Act 47 plan may unilaterally alter the rights of bondholders.

The primary changes to Act 47 include the following:

- Termination Date: The amendments establish a maximum 5 year exit strategy. While the amendment does not stop a municipality from returning to Act 47, its intent is to move municipalities more quickly through an Act 47 rehabilitation. This change will impact municipalities, such as Pittsburgh, which is presently under Act 47 oversight. The amendment will require all current Act 47 municipalities to exit Act 47 oversight within 5 years from the date of their most recently enacted recovery plan.
- Early Intervention Program: With the goal of preventing municipalities from experiencing significant financial distress, the Commonwealth will establish an early intervention program to provide resources to municipalities to manage potential financial distress. This early intervention program may provide financial support to municipalities through grants (subject to partial matching by the municipality) to develop plans for fiscal stability.
- Ability to Raise Certain Taxes: The amendment will allow a municipality under certain circumstances to petition to triple the applicable local services tax. However, the amendments exempt Pittsburgh from this potential opportunity.
- Disincorporation: While it is unlikely to be a common occurrence, the amendments outline a process for disincorporation of "nonviable municipalities." For purposes of the disincorporation provisions, the definition of municipality excludes any city of the first class – which only includes Philadelphia. The process of disincorporation involves both state court and gubernatorial oversight. Upon disincorporation, the municipality is established as an unincorporated services district and the municipality's assets (including bondholder collateral) would vest in the Commonwealth and be held in trust for the residents, property owners and other parties in interest. While the amendments appear to preserve bondholder rights to collateral and payments of debt obligations, bondholders involved with a municipality that may incorporate must be vigilant in preserving their rights to both their collateral and future debt service payments.

The revised Recovery Plan and its provisions outlined below is designed to restore long term fiscal stability, budgetary predictability, and the repair of the City's creditworthiness. The new Recovery Plan provides the fiscal framework for the City's governing bodies to follow through 2020.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following mandates are provisions of the 2015 Recovery Plan:

- The City of Scranton will petition the Lackawanna County Court of Common Pleas to increase the Local Services Tax from \$52 per year to \$156 per year. The increased revenue from the tax is included in the City of Scranton 2015 budget;
- The City of Scranton will apply for grant funding to undertake the feasibility and analysis of the creation of a Municipal Solid Waste Collection Authority and, separately, a Storm Water Management Authority;
- The City will continue to pursue the monetization of Scranton Parking Authority assets and the on-street parking franchise;
- The City will continue to pursue discussions with the Scranton Sewer Authority regarding a monetization of Authority assets to reduce the City's unfunded pension liabilities;
- The City of Scranton will review the divestiture of other non-essential assets not directly related to the provision of services;
- The City of Scranton will continue to work with its financial advisors and consultants to develop a strategy to restore its credit rating and refinance a portion of its \$132.9 million in general obligation and lease rental debt obligations;
- The Recovery Coordinator will prepare an analysis on the impact of the implementation of a payroll preparation tax. The tax would replace the Business Privilege and Mercantile taxes;
- The City will continue its review of health care and related programs to reduce the rate of increase in employee health care costs;
- Representatives of the City of Scranton and Scranton Housing Authority will meet to determine levels of financial assistance in addition to the in lieu of payments provided by the Authority;
- The City of Scranton will continue to use its real estate taxing authority to eliminate operating deficits projected to occur through 2020 if the implementation of the Plan's comprehensive mandates are not authorized;
- The City of Scranton will undertake an analysis of the status of properties presently exempt from taxation;
- With the reductions of staff over the past five years, The City will seek greater efficiencies in departmental task execution by a review and evaluation of work assignments;
- The City of Scranton will review pension plan changes for employees not represented by a collective bargaining unit or applicable law;
- The City will continue to review for utilization the provisions of Act 205, the Municipal Pension Plan Funding Standard and recovery Act;
- The City of Scranton will appoint a commission to review the ability to implement shared services programs;
- The City of Scranton will continue to pursue the implementation of the provisions of a Land Bank, as authorized by Act 153 of 2012.

Other initiatives of the City of Scranton are designed to achieve greater cost savings and efficiencies, as well as revenue production. Those initiatives include;

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

- The City of Scranton is completing a restructuring the fee schedule of the Department of Licenses and Permits
- The life, disability, and dental insurance coverage were subject to a request for proposal and will be awarded in 2015;
- Changes were recently made to the Retiree Prescription program;
- 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. Further enhancements to the program include a mobile payment application. 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. The Lackawanna College recently purchased the former Adams Plaza Complex. These projects have had an impact on 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 foster residential demand in downtown residences.

**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 the Office of Business Administration, 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, 2013

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 9,064,345	\$ 14,474,276	\$ 23,538,621
Investments	17,630,492	0	17,630,492
Receivables:			
Taxes and Fees Receivable, Net	13,164,942	0	13,164,942
Accounts Receivable, Net	3,853,171	5,229,313	9,082,484
Accrued Interest	73,290	0	73,290
Loans Receivable	18,400,807	0	18,400,807
Other Receivables, Net	843,941	0	843,941
Due From Other Funds	1,541,130	0	1,541,130
Prepaid Assets	1,000,000	0	1,000,000
Other Assets	0	458,739	458,739
Property Held For Resale	98,935	0	98,935
Restricted Assets:			
Restricted Cash and Cash Equivalents	4,763,203	2,769,526	7,532,729
Restricted Investments	0	20,136,408	20,136,408
Restricted Accounts Receivable	0	24,594	24,594
Accounts Receivable - Assessments	0	386,129	386,129
Capital Assets:			
Land	3,485,506	130,029	3,615,535
Buildings	12,098,549	119,950,641	132,049,190
Improvements	8,699,878	0	8,699,878
Infrastructure	131,730,492	0	131,730,492
Vehicles, Furniture & Equipment	18,553,787	10,369,390	28,923,177
Construction In Progress	335,054	12,652,453	12,987,507
Accumulated Depreciation	<u>(80,309,843)</u>	<u>(83,342,715)</u>	<u>(163,652,558)</u>
TOTAL ASSETS	<u>\$ 165,027,679</u>	<u>\$ 103,238,783</u>	<u>\$ 268,266,462</u>
DEFERRED OUTFLOW OF RESOURCES			
Bond Insurance Cost	<u>\$ 201,591</u>	<u>\$ 1,041,789</u>	<u>\$ 1,243,380</u>
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>\$ 201,591</u>	<u>\$ 1,041,789</u>	<u>\$ 1,243,380</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET POSITION  
 DECEMBER 31, 2013

LIABILITIES	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Accounts Payable	\$ 5,250,692	\$ 479,981	\$ 5,730,673
Accrued Liabilities	3,094,530	161,730	3,256,260
Due to Other Funds	3,560,329	0	3,560,329
Current Liabilities Payable From Restricted Assets:			
Accrued Construction Cost	0	1,571,868	1,571,868
Revenue Bonds/ Notes Payable	0	1,405,000	1,405,000
General Obligation Bonds Payable	4,205,000	0	4,205,000
Accrued Bond Interest Payable	0	722,731	722,731
Current Portion Of Long Term Debt			
Lease Payable	588,906	0	588,906
Notes Payable	555,000	924,243	1,479,243
Current Portion Refuse Trade Debt	333,333	0	333,333
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	19,631,799	0	19,631,799
Long-Term Debt Obligations	77,268,790	57,235,441	134,504,231
Capitalized Lease Debt	17,435,514	0	17,435,514
Long Term Court Awards Payable	21,542,000	0	21,542,000
Other Post Employment Benefits	24,701,146	0	24,701,146
Compensated Absences	3,471,175	716,079	4,187,254
<b>TOTAL LIABILITIES</b>	<b>\$ 181,638,214</b>	<b>\$ 63,217,073</b>	<b>\$ 244,855,287</b>
DEFERRED INFLOW OF RESOURCES			
Unearned Grant Revenues	\$ 42,598	\$ 0	\$ 42,598
Unearned Revenues	24,687,509	0	24,687,509
<b>TOTAL DEFERRED INFLOW OF RESOURCES</b>	<b>\$ 24,730,107</b>	<b>\$ 0</b>	<b>\$ 24,730,107</b>
NET POSITION			
Investment in Capital Assets, Net of Related Debt	\$ 75,213,163	\$ 195,115	\$ 75,408,278
Restricted for:			
Debt Service	4,368,203	0	4,368,203
Capital Projects	682,620	0	682,620
Debt Service And Capital Expenditures	0	19,230,929	19,230,929
Unreserved - Undesignated	(121,403,037)	21,637,455	(99,765,582)
<b>TOTAL NET POSITION</b>	<b>\$ (41,139,051)</b>	<b>\$ 41,063,499</b>	<b>\$ (75,552)</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

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
Governmental Activities							
General Government							
and Administration	\$ 9,865,279	\$ 1,560,275	\$ 0	\$ 0	\$ (8,305,004)	\$ 0	\$ (8,305,004)
Public Safety	42,641,209	1,350,697	5,044,367	0	(36,246,145)	0	(36,246,145)
Public Works	15,652,920	4,270,134	1,538,385	3,250,779	(6,593,622)	0	(6,593,622)
Health & Welfare	2,085,524	1,093,284	993,707	0	1,467	0	1,467
Community Development	8,706,387	3,336,451	9,625,637	4,957	4,260,658	0	4,260,658
Culture and Recreation	1,314,930	52,895	0	0	(1,262,035)	0	(1,262,035)
Other Expenditure	18,946	0	0	0	(18,946)	0	(18,946)
Unallocated Depreciation	34,759	0	0	0	(34,759)	0	(34,759)
Interest on Long Term Debt	5,850,163	0	0	0	(5,850,163)	0	(5,850,163)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 86,170,117	\$ 11,663,736	\$ 17,202,096	\$ 3,255,736	\$ (54,048,549)	\$ 0	\$ (54,048,549)
Business-Type Activities							
Sewer Authority	\$ 15,767,625	\$ 23,262,420	\$ 0	\$ 0	\$ 0	\$ 7,494,795	\$ 7,494,795
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 15,767,625	\$ 23,262,420	\$ 0	\$ 0	\$ 0	\$ 7,494,795	\$ 7,494,795
TOTAL GOVERNMENT	\$ 101,937,742	\$ 34,926,156	\$ 17,202,096	\$ 3,255,736	\$ (54,048,549)	\$ 7,494,795	\$ (46,553,754)
General Revenues:							
Property taxes, levied for general purposes					\$ 17,245,813	\$ 0	\$ 17,245,813
Act 511 Taxes					32,587,645	0	32,587,645
Cable Television Franchise Revenue					849,459	0	849,459
Payments in Lieu of Taxes					211,663	0	211,663
Investment Earnings					(260,478)	124,449	(136,029)
Miscellaneous					29,746	362,068	391,814
Loss On Disposal Of Fixed Assets					(82,582)	(728)	(83,310)
Rents and Concessions					10,210	0	10,210
Donations					65,377	0	65,377
Provision for Uncollectible Accounts					(560,000)	0	(560,000)
Interfund Transfers					2,263	(2,263)	0
Payment of Guarantees To The Receivership Estate					(2,310,000)	0	(2,310,000)
Long Term Court Awards					(542,000)	0	(542,000)
Total General Revenues and Transfers					\$ 47,247,116	\$ 483,526	\$ 47,730,642
Change in Net Position					\$ (6,801,433)	\$ 7,978,321	\$ 1,176,888
Net Position, Beginning of Year As Restated					(34,337,618)	33,085,178	(1,252,440)
NET POSITION, END OF YEAR					\$ (41,139,051)	\$ 41,063,499	\$ (75,552)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	<u>GENERAL</u>	<u>OECD</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,521,071	\$ 1,309,202	\$ 4,411,186	\$ 8,241,459
Taxes and Fees Receivable, Net	13,164,942	0	0	13,164,942
Accounts Receivable, Net	0	2,259,606	1,593,565	3,853,171
Loans Receivable	0	18,300,807	100,000	18,400,807
Other Receivables, Net	843,941	0	0	843,941
Due From Other Funds	885,594	497,774	86,653	1,470,021
Prepaid Assets	1,000,000	0	0	1,000,000
Restricted Assets:				
Restricted Cash and Cash Equivalents	0	0	4,368,203	4,368,203
Property Held for Resale	0	0	98,935	98,935
<b>TOTAL ASSETS</b>	<b><u>\$ 18,415,548</u></b>	<b><u>\$ 22,367,389</u></b>	<b><u>\$ 10,658,542</u></b>	<b><u>\$ 51,441,479</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 3,378,938	\$ 603,166	\$ 1,104,329	\$ 5,086,433
Accrued Liabilities	1,506,605	4,084	0	1,510,689
Due to Other Funds	2,322,810	44,884	1,192,635	3,560,329
<b>TOTAL LIABILITIES</b>	<b><u>\$ 7,208,353</u></b>	<b><u>\$ 652,134</u></b>	<b><u>\$ 2,296,964</u></b>	<b><u>\$ 10,157,451</u></b>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unearned Grant Revenues	\$ 0	\$ 0	\$ 42,598	\$ 42,598
Unearned Revenues Loan Receivable	0	0	100,000	100,000
Unearned Revenues	6,828,784	21,639,496	2,881,913	31,350,193
<b>TOTAL DEFERRED INFLOW OF RESOURCES</b>	<b><u>\$ 6,828,784</u></b>	<b><u>\$ 21,639,496</u></b>	<b><u>\$ 3,024,511</u></b>	<b><u>\$ 31,492,791</u></b>
<b>FUND BALANCES</b>				
Nonspendable Property Held For Resale	\$ 0	\$ 0	\$ 98,935	\$ 98,935
Restricted for Debt Service	0	0	4,368,203	4,368,203
Restricted for Capital Projects	0	0	682,620	682,620
Restricted for Externally Imposed Restrictions	0	0	520,356	520,356
Unassigned	4,378,411	75,759	(333,047)	4,121,123
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 4,378,411</u></b>	<b><u>\$ 75,759</u></b>	<b><u>\$ 5,337,067</u></b>	<b><u>\$ 9,791,237</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 18,415,548</u></b>	<b><u>\$ 22,367,389</u></b>	<b><u>\$ 10,658,542</u></b>	<b><u>\$ 51,441,479</u></b>

"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, 2013

Total Fund Balance - Total Governmental Funds	\$	9,791,237
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 \$ 174,903,266 accumulated depreciation is \$ 80,309,843.		94,593,423
Governmental funds report the effects of bond insurance cost when the debt is first issued, whereas these amounts are deferred and amortized.		201,591
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.		3,939,993
Refuse fee receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.		2,722,691
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 position is as follows:		
Cash and cash equivalents	\$	822,886
Investments		17,630,492
Accrued Interest		73,290
Due From Other Funds		71,109
Restricted Cash & Cash Equivalents		395,000
Accounts Payable		(164,259)
Workers' Compensation Claims Payable		<u>(19,631,799)</u>
Decrease In Net Assets		(803,281)
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.		100,000
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	\$	(74,278,526)
General obligation notes payable		(6,265,000)
Governmental notes payable		(900,000)
Accrued interest payable		(1,583,841)
Capitalized Lease payable		(18,024,420)
Long Term Court Awards Payable		(21,542,000)
Long Term Refuse Trade Debt		(918,597)
Compensated Absences		(3,471,175)
Other Post Employment Benefits		<u>(24,701,146)</u>
Increase in Long Term Liabilities		<u>(151,684,705)</u>
Net Position of Governmental Activities	\$	<u>(41,139,051)</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, 2013

	<u>GENERAL</u>	<u>OECD</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>Revenues:</b>				
Taxes	\$ 50,857,253	\$ 0	\$ 0	\$ 50,857,253
Intergovernmental	5,049,367	8,695,926	5,881,734	19,627,027
Departmental Earnings	2,390,311	0	60,948	2,451,259
Refuse Disposal Fee	4,911,231	0	0	4,911,231
Licenses and Permits	2,998,677	0	0	2,998,677
Cable Television Franchise Revenue	849,459	0	0	849,459
Payments in Lieu of Taxes	211,663	0	0	211,663
Investment Income	4,695	457	8,831	13,983
User Fee	52,895	0	0	52,895
Other Revenues	29,743	0	1,579,430	1,609,173
Rents and Concessions	6,500	0	3,710	10,210
Donations	65,377	0	0	65,377
Program Income	0	837,211	0	837,211
	<u>0</u>	<u>837,211</u>	<u>0</u>	<u>837,211</u>
<b>Total Revenues</b>	<b>\$ 67,427,171</b>	<b>\$ 9,533,594</b>	<b>\$ 7,534,653</b>	<b>\$ 84,495,418</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	\$ 11,935,497	\$ 0	\$ 213,133	\$ 12,148,630
Public Safety	40,087,104	0	0	40,087,104
Public Works	9,855,675	0	3,250,779	13,106,454
Health and Welfare	0	0	2,085,524	2,085,524
Community Development	638,114	9,575,931	455,026	10,669,071
Culture and Recreation	568,958	0	0	568,958
Debt Service				
Debt Service-Principal	0	0	4,859,065	4,859,065
Debt Service-Interest	0	0	5,164,630	5,164,630
Capital Outlay	0	0	1,058	1,058
	<u>0</u>	<u>0</u>	<u>1,058</u>	<u>1,058</u>
<b>Total Expenditures</b>	<b>\$ 63,085,348</b>	<b>\$ 9,575,931</b>	<b>\$ 16,029,215</b>	<b>\$ 88,690,494</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 4,341,823</b>	<b>\$ (42,337)</b>	<b>\$ (8,494,562)</b>	<b>\$ (4,195,076)</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, 2013

	<u>GENERAL</u>	<u>OECD</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Other Financing Sources (Uses):				
Proceeds From Tax Anticipation Note	\$ 12,000,000	\$ 0	\$ 0	\$ 12,000,000
Proceeds 2013 Bond Issue	4,910,000	0	0	4,910,000
Sale of Property	0	0	(41,916)	(41,916)
Operating Transfers In	1,525,411	0	11,316,292	12,841,703
Payments on Guarantee of Parking Authority	(2,310,000)	0	0	(2,310,000)
Operating Transfers Out	(11,315,359)	0	(1,524,081)	(12,839,440)
Bond Premium Fees	(187,808)	0	0	(187,808)
Contingency	(215)	0	0	(215)
Unencumbered Expenses	(18,731)	0	0	(18,731)
Repayment of Tax Anticipation Note	(12,233,967)	0	0	(12,233,967)
Net Other Financing Sources (Uses)	<u>\$ (7,630,669)</u>	<u>\$ 0</u>	<u>\$ 9,750,295</u>	<u>\$ 2,119,626</u>
Excess of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ (3,288,846)	\$ (42,337)	\$ 1,255,733	\$ (2,075,450)
Fund Balances (Deficit), Beginning of Year	<u>7,667,257</u>	<u>118,096</u>	<u>4,081,334</u>	<u>11,866,687</u>
FUND BALANCES, END OF YEAR	<u>\$ 4,378,411</u>	<u>\$ 75,759</u>	<u>\$ 5,337,067</u>	<u>\$ 9,791,237</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, 2013

Net Changes in Fund Balances - Total Governmental Funds \$ (2,075,450)

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	\$ 6,048,684	
Loss on Disposal of Fixed Assets	(40,666)	
Depreciation	<u>(5,992,575)</u>	15,443

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. (637,010)

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. (712,420)

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	\$ (274,461)	
Elimination of expenditure on general fund and revenue on internal service fund	2,643,281	
Recording on expenditures on internal service fund in governmental activities	<u>102,361</u>	2,471,181

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. (570,525)

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. (209,754)

"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, 2013

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

(3,307,609)

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 insurance cost and discounts 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 position. The effect of these transactions in the statement of activities is shown below:

Proceeds Relative To Long Term Debt	\$	(4,910,000)	
Bond Discount, Net of Amortization		(27,832)	
Long Term Refuse Trade Debt		(918,597)	
Repayment of General Bond Principal		4,085,000	
Repayment of Governmental Note Payable		215,000	
Repayment of Capitalized Lease Principal		559,065	
Bond Insurance Cost, Net of Amortization		<u>148,492</u>	(848,872)

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.

(384,417)

Long-Term Court Awards represents accrual for back pay awards for the period January 1, 2003 to December 31, 2013 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.

(542,000)

Change in Net Position of Governmental Activities

\$ (6,801,433)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS	NON-MAJOR	TOTAL	
ASSETS	SEWER AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Cash and Cash Equivalents	\$ 14,474,276	\$ 0	\$ 14,474,276	\$ 822,886
Investments	0	0	0	17,630,492
Accounts Receivable, Net	5,229,313	0	5,229,313	0
Accrued Interest	0	0	0	73,290
Due From Other Funds	0	0	0	71,109
Other Current Assets	458,739	0	458,739	0
Restricted Assets:				
Restricted Cash and Cash Equivalents	2,769,526	0	2,769,526	395,000
Restricted Investments	20,136,408	0	20,136,408	0
Restricted Accrued Interest Receivable	24,594	0	24,594	0
Accounts Receivable - Assessments	386,129	0	386,129	0
Capital Assets:				
Land	130,029	0	130,029	0
Buildings and Improvements	119,950,641	0	119,950,641	0
Equipment	10,369,390	0	10,369,390	0
Construction In Progress	12,652,453	0	12,652,453	0
Accumulated Depreciation	(83,342,715)	0	(83,342,715)	0
Deferred Charges, Net	1,041,789	0	1,041,789	0
<b>TOTAL ASSETS</b>	<b>\$ 104,280,572</b>	<b>\$ 0</b>	<b>\$ 104,280,572</b>	<b>\$ 18,992,777</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS	NON-MAJOR MUNICIPAL RECREATION AUTHORITY	TOTAL	
LIABILITIES	SEWER AUTHORITY			
Current Portion Of Long Term Debt	\$ 924,243	\$ 0	\$ 924,243	\$ 0
Accounts Payable	479,981	0	479,981	164,259
Accrued Liabilities	161,730	0	161,730	0
Current Liabilities Payable From Restricted Assets:				
Revenue Bonds & Notes Payable	1,405,000	0	1,405,000	0
Accrued Construction Cost	1,571,868	0	1,571,868	0
Accrued Revenue Bond Interest Payable	722,731	0	722,731	0
Noncurrent Liabilities:				
Workers' Compensation Claims Payable	0	0	0	19,631,799
Long-Term Debt Obligations	57,235,441	0	57,235,441	0
Accrued Compensated Absences	716,079	0	716,079	0
<b>TOTAL LIABILITIES</b>	<b>\$ 63,217,073</b>	<b>\$ 0</b>	<b>\$ 63,217,073</b>	<b>\$ 19,796,058</b>
NET POSITION				
Investment in Capital Assets, Net of Related Debt	\$ 195,115	\$ 0	\$ 195,115	\$ 0
Restricted for:				
Debt Service, Capital Expenditure, and Long Term Liabilities	19,230,929	0	19,230,929	(803,281)
Unrestricted	21,637,455	0	21,637,455	0
<b>TOTAL NET POSITION</b>	<b>\$ 41,063,499</b>	<b>\$ 0</b>	<b>\$ 41,063,499</b>	<b>\$ (803,281)</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, 2013

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>SEWER AUTHORITY</u>	<u>MUNICIPAL RECREATION AUTHORITY</u>	<u>TOTAL</u>	
Operating Revenues	\$ 23,262,420	\$ 0	\$ 23,262,420	\$ 2,643,281
Operating Expenses:				
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ (158,589)
Salaries, Wages, and Fringe Benefits	6,560,101	0	6,560,101	0
Insurance	241,354	0	241,354	0
Depreciation	2,828,911	0	2,828,911	0
Other	5,343,269	46	5,343,315	56,228
Total Operating Expenses	\$ 14,973,635	\$ 46	\$ 14,973,681	\$ (102,361)
Income (Loss) from Operations	\$ 8,288,785	\$ (46)	\$ 8,288,739	\$ 2,745,642
Non Operating Revenues (Expenses):				
Investment Income	\$ 124,495	\$ 0	\$ 124,495	\$ (274,461)
Interest Expense	(729,611)	0	(729,611)	0
Loss on Sale of Assets	(728)	0	(728)	0
Other Revenues	362,068	0	362,068	0
Amortization of Deferred Charges	(64,379)	0	(64,379)	0
Total Non Operating Revenues (Expenses)	\$ (308,155)	\$ 0	\$ (308,155)	\$ (274,461)
Transfers To General Fund	\$ 0	\$ (2,263)	\$ (2,263)	\$ 0
Net Transfers To General Fund	\$ 0	\$ (2,263)	\$ (2,263)	\$ 0
Change in Net Position	\$ 7,980,630	\$ (2,309)	\$ 7,978,321	\$ 2,471,181
Net Position at Beginning of Year, as restated	33,082,869	2,309	33,085,178	(3,274,462)
NET POSITION AT END OF YEAR	\$ 41,063,499	\$ 0	\$ 41,063,499	\$ (803,281)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL RECREATION AUTHORITY	TOTAL	
Cash Flows From Operating Activities:				
Cash Received from Customers	\$ 21,542,510	\$ 0	\$ 21,542,510	\$ 0
Cash Received from Other Funds for Services	0	0	0	2,643,281
Cash Payments to Vendors	(5,422,884)	(46)	(5,422,930)	(1,939,165)
Cash Payments to Employees	<u>(6,481,461)</u>	<u>0</u>	<u>(6,481,461)</u>	<u>0</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ 9,638,165</u>	<u>\$ (46)</u>	<u>\$ 9,638,119</u>	<u>\$ 704,116</u>
Cash Flows From Non Capital Financing Activities:				
Other Revenue Received	<u>\$ 362,068</u>	<u>\$ 0</u>	<u>\$ 362,068</u>	<u>\$ 0</u>
Net Cash Provided by Non Capital Financing Activities	<u>\$ 362,068</u>	<u>\$ 0</u>	<u>\$ 362,068</u>	<u>\$ 0</u>
Cash Flows From Capital and Related Financing Activities:				
Acquisition of Capital Assets	\$ (10,512,580)	\$ 0	\$ (10,512,580)	\$ 0
Proceeds from Issuance of Debt	1,885,416	0	1,885,416	0
Interest Paid on Bonds	(2,531,839)	0	(2,531,839)	0
Retirement of Bonds	(2,287,542)	0	(2,287,542)	0
Loss From Sale of Assets	<u>728</u>	<u>0</u>	<u>728</u>	<u>0</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>\$ (13,445,817)</u>	<u>\$ 0</u>	<u>\$ (13,445,817)</u>	<u>\$ 0</u>
Cash Flow From Investing Activities:				
Sale of Investments	\$ 12,724,444	\$ 0	\$ 12,724,444	\$ 7,025,558
Purchase Of Investments	(2,196,748)	0	(2,196,748)	(10,028,959)
Advance From (To) Other Funds	0	(2,263)	(2,263)	0
Interest on Cash and Investments	<u>118,420</u>	<u>0</u>	<u>118,420</u>	<u>420,170</u>
Net Cash Provided by (Used in) Investing Activities	<u>\$ 10,646,116</u>	<u>\$ (2,263)</u>	<u>\$ 10,643,853</u>	<u>\$ (2,583,231)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 7,200,532	\$ (2,309)	\$ 7,198,223	\$ (1,879,115)
Cash and Cash Equivalents, Beginning of Year	<u>10,043,270</u>	<u>2,309</u>	<u>10,045,579</u>	<u>3,097,001</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 17,243,802</u>	<u>\$ 0</u>	<u>\$ 17,243,802</u>	<u>\$ 1,217,886</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>SEWER AUTHORITY</u>	<u>MUNICIPAL RECREATION AUTHORITY</u>	<u>TOTAL</u>	
Reconciliation of Income from Operations to Net Cash Provided by (Used In) Operating Activities:				
Income (Loss) from Operations	\$ 8,288,785	\$ (46)	\$ 8,288,739	\$ 2,745,642
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used In) Operating Activities				
Depreciation	2,828,911	0	2,828,911	0
Change in Assets and Liabilities:				
(Increase) Decrease in:				
Accounts Receivable	(1,719,910)	0	(1,719,910)	0
Due From Other Funds	0	0	0	106,484
Other Assets	418,285	0	418,285	0
Increase (Decrease):				
Accounts Payable	(238,844)	0	(238,844)	48,620
Accrued Liabilities	5,672	0	5,672	0
Accrued Compensated Absences	55,266	0	55,266	0
Accrued Workers' Compensation Claims Payable	0	0	0	(2,196,630)
Net Cash Provided by (Used In) Operating Activities	<u>\$ 9,638,165</u>	<u>\$ (46)</u>	<u>\$ 9,638,119</u>	<u>\$ 704,116</u>
Reconciliation of Total Cash and Cash Equivalents				
Current Assets - Cash and Cash Equivalents	\$ 14,474,276	\$ 0	\$ 14,474,276	\$ 822,886
Restricted Assets - Cash and Cash Equivalents	<u>2,769,526</u>	<u>0</u>	<u>2,769,526</u>	<u>395,000</u>
 TOTAL CASH AND CASH EQUIVALENTS	 <u>\$ 17,243,802</u>	 <u>\$ 0</u>	 <u>\$ 17,243,802</u>	 <u>\$ 1,217,886</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET POSITION  
PENSION TRUST FUND  
DECEMBER 31, 2013

ASSETS		
Cash and Short - Term Investments		\$ 4,292,466
Receivables:		
Members' Contributions	\$ 25,880	
Due from General fund	<u>2,185,299</u>	
Total Receivables		2,211,179
Investments		<u>42,621,538</u>
<b>TOTAL ASSETS</b>		<b><u>\$49,125,183</u></b>
LIABILITIES & NET ASSETS		
Liabilities		
Accrued Administrative Expenses	<u>\$ 62,314</u>	
<b>TOTAL LIABILITIES</b>		<b><u>\$ 62,314</u></b>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>		<b><u>\$49,062,869</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, 2013.

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, 2012 to March 31, 2013.

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. An audit of The Parking Authority of the City of Scranton was not completed for the year ended December 31, 2013 and no financial statements have been prepared or included in the City's report for the year ended December 31, 2013 as part of its reporting entity. The City communicated their concerns to the receiver/trustee/bond insurers relative to the language in the bond documents requiring an audit of the Authority's operation. The parties did not seek to authorize the completion of an audit.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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.

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 is classified as a major fund. 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 unearned revenue on its government-wide and fund financial balance sheet. Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned 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 unearned 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, 2013, upon which the 2013 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, 2013 was 117.975 mills on the assessed value of land and 25.656 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 \$2,410,000 at March 31, 2013. 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 \$3.74 million dollars.

**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 unearned 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 unearned 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 Useful Life</u>
Building and Building Improvements	
Sewer treatment plant	40 years
Land improvements	10 years
Operating equipment	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)

	<u>Redevelopment Authority Useful Life</u>	<u>Governmental Funds</u>
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 Insurance 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

Net Position: Net position represents the difference between assets and deferred outflow of resources and deferred inflows of resources, and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position invested in capital assets, net of related debt excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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:

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

- 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 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, 2013 aggregate liability for unused vacation and sick pay is \$3,471,175.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities were implemented during the current year. These statements incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. The Statement of Net Position now reports the following components: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, when applicable.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle - Restatement of Net Position: Beginning Net Position of the City in its Governmental Activities was restated to account for the implementation of GASB Statement No. 65. This change in accounting principle requires bond issuance and financing costs to be expensed in the year which they were incurred. As a result, the remaining unamortized bond issuance and financing costs were written off as of January 1, 2013 and deferred costs in the City's financial statement were restated by \$1,880,860. Beginning Net Position was restated from \$(32,456,758) to \$(34,337,618) at January 1, 2013.

Restatement of Net Position: As discussed above in Note 1, the financial statements do not include The Parking Authority of the City of Scranton. As a result, the City's Business Type Activities were restated by \$ 1,073,336 from \$ 32,011,842 to \$ 33,085,178.

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, 2013, \$25,996,095 of the government's bank balance of \$30,747,066 was exposed to custodial credit risk as follows:

Secured by FDIC Insurance up to \$250,000 per Bank	\$ 4,750,971
Uninsured and collateral held by pledging banks' trust department not in the city's name	<u>25,996,095</u>
Total	<u>\$ 30,747,066</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2013, 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 CD'S (2)	\$ 806,369	\$ 806,836		
Domestic (6)	1,291,887	1,306,055	A1	4.07
Domestic (5)	1,233,353	1,272,173	A2	3.45
Domestic (6)	1,644,028	1,642,771	A3	5.79
Domestic (2)	373,180	400,500	Aa1	6.68
Domestic (3)	587,569	556,014	Aa2	2.61
Domestic (1)	111,694	100,000	Aa3	5.13
Domestic (1)	114,143	100,000	Aaa	3.62
Domestic (1)	131,185	124,520	Baa1	2.10
FDDB CDARS	1,700,000	1,700,000		0.39
Governmental Securities:				
Federal Farm Credit (11)	2,435,162	2,447,119	Aaa	6.39
Federal Home Loan Bank (6)	1,187,001	1,246,500	Aaa	5.96
Federal Home Loan Mtg Corp (3)	978,270	997,500	Aaa	4.11
Federal Home Loan Bank	1,993,760	2,005,700	Aaa	3.47
Federal National Mtg Association (2)	501,765	500,000	Aaa	2.74
Mutual Funds				
Bond Index Signal Fund	659,903	665,404		
U.S. Agency Equity Funds	1,881,223	1,936,027	N/A	
Total Internal Service Fund	<u>\$ 17,630,492</u>	<u>\$ 17,807,119</u>		
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 17,630,492</u>	<u>\$ 17,807,119</u>		
<b>BUSINESS TYPE ACTIVITIES</b>				
Sewer Authority				
Other Investments:				
Money Market Funds	\$ 18,527,368	\$ 18,527,368		
Governmental Securities:				
U.S. Government Obligations (1)	1,609,040	1,609,040		
Total Sewer Authority	<u>\$ 20,136,408</u>	<u>\$ 20,136,408</u>		
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<u>\$ 20,136,408</u>	<u>\$ 20,136,408</u>		
<b>TOTAL INVESTMENTS</b>	<u>\$ 37,766,900</u>	<u>\$ 37,943,527</u>		

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2      Cash and Cash Equivalents and Investments (Continued)

Fiduciary Funds				
Pension Trust Fund				
Mutual Funds				
Cash and Cash Equivalents	\$ 4,292,466	\$ 22,977,660	N / A	N/A
Equity Mutual Funds	17,118,046	17,118,046	N / A	N/A
Bond Mutual Funds	16,328,764	251,782	A	N/A
Bond Mutual Funds	<u>9,174,728</u>	<u>22,865,941</u>	BB	N/A
Total Pension Trust Fund	<u>\$46,914,004</u>	<u>\$63,213,429</u>		

- ( 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 separately 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 3      Taxes and Fees Receivable

Taxes and fees receivable in the General Fund consist of the following at December 31, 2013:

Current Real Estate Taxes	\$ 577,269
Delinquent Real Estate Taxes	8,127,810
Act 511 Taxes:	
Earned Income	4,852,121
Local Service Tax	401,738
Business Privilege/Mercantile	59,048
Delinquent Refuse Disposal Fee	<u>6,058,888</u>
Total	\$ 20,076,874
Less:	
Allowance for Uncollectible Taxes & Fees	<u>(6,911,932)</u>
Net	<u>\$ 13,164,942</u>

Of the above, the receivables not expected to be collected within one year are \$3,000,000 delinquent real estate taxes and \$2,200,000 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, 2013 is as follows:

	Due From Other Funds	Due To Other Funds
General Fund		
OECD	\$ 24,633	\$ 0
Special Cities	694,861	66,402
Parking Authority	166,100	0
Pension Fund	0	2,185,299
Insurance fund	0	71,109
Special Cities		
General Fund	66,402	694,861
OECD	20,251	0
OECD		
Redevelopment Authority	497,774	0
General Fund	0	24,633
Special Cities	0	20,251
Redevelopment Authority		
OECD	0	497,774
Pension		
General Fund	2,185,299	0
Insurance Fund		
General Fund	71,109	0
Parking Authority		
General Fund	0	166,100
	<u>\$ 3,726,429</u>	<u>\$ 3,726,429</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5      Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 3,485,506	\$ 0	\$ 0	\$ 3,485,506
Construction in Progress	<u>284,957</u>	<u>74,415</u>	<u>(24,318)</u>	<u>335,054</u>
Total Capital Assets Not Being Depreciated	<u>\$ 3,770,463</u>	<u>\$ 74,415</u>	<u>\$ (24,318)</u>	<u>\$ 3,820,560</u>
Capital assets being depreciated				
Building	\$ 12,098,549	\$ 0	\$ 0	\$ 12,098,549
Land & Building Improvements	8,632,069	67,809	0	8,699,878
Infrastructure	126,463,862	5,266,630	0	131,730,492
Vehicles, Furniture & Equipment	<u>17,933,575</u>	<u>639,830</u>	<u>(19,618)</u>	<u>18,553,787</u>
Total Capital Assets being Depreciated	<u>\$ 165,128,055</u>	<u>\$ 5,974,269</u>	<u>\$ (19,618)</u>	<u>\$ 171,082,706</u>
Totals at Historical Cost	<u>\$ 168,898,518</u>	<u>\$ 6,048,684</u>	<u>\$ (43,936)</u>	<u>\$ 174,903,266</u>
Less: Accumulated Depreciation				
Building	\$ (4,421,468)	\$ (247,051)	\$ 0	\$ (4,668,519)
Land & Building Improvements	(4,556,678)	(620,355)	0	(5,177,033)
Infrastructure	(53,014,589)	(4,069,534)	0	(57,084,123)
Vehicles, Furniture & Equipment	<u>(12,327,803)</u>	<u>(1,055,635)</u>	<u>3,270</u>	<u>(13,380,168)</u>
Total Accumulated Depreciation	<u>\$ (74,320,538)</u>	<u>\$ (5,992,575)</u>	<u>\$ 3,270</u>	<u>\$ (80,309,843)</u>
Governmental Activities Capital Assets, Net	<u>\$ 94,577,980</u>	<u>\$ 56,109</u>	<u>\$ (40,666)</u>	<u>\$ 94,593,423</u>
<b>Business - Type Activities:</b>				
Capital assets not being depreciated				
Land	\$ 130,029	\$ 0	\$ 0	\$ 130,029
Construction in Progress	<u>2,739,394</u>	<u>9,913,059</u>	<u>0</u>	<u>12,652,453</u>
Total Capital Assets Not Being Depreciated	<u>\$ 2,869,423</u>	<u>\$ 9,913,059</u>	<u>\$ 0</u>	<u>\$ 12,782,482</u>
Capital assets being depreciated				
Land Improvements	\$ 0	\$ 0	\$ 0	\$ 0
Building & Building Improvements	117,648,718	2,814,913	(512,990)	119,950,641
Equipment	<u>9,792,472</u>	<u>761,428</u>	<u>(184,510)</u>	<u>10,369,390</u>
Total Capital Assets being Depreciated	<u>\$ 127,441,190</u>	<u>\$ 3,576,341</u>	<u>\$ (697,500)</u>	<u>\$ 130,320,031</u>
Totals at Historical Cost	<u>\$ 130,310,613</u>	<u>\$ 13,489,400</u>	<u>\$ (697,500)</u>	<u>\$ 143,102,513</u>
Less: Accumulated Depreciation				
Land Improvements	\$ 0	\$ 0	\$ 0	\$ 0
Building & Building Improvements	(72,901,924)	(2,375,009)	0	(75,276,933)
Equipment	<u>(7,697,753)</u>	<u>(453,902)</u>	<u>85,873</u>	<u>(8,065,782)</u>
Total Accumulated Depreciation	<u>\$ (80,599,677)</u>	<u>\$ (2,828,911)</u>	<u>\$ 85,873</u>	<u>\$ (83,342,715)</u>
Business - Type Capital Assets, Net	<u>\$ 49,710,936</u>	<u>\$ 10,660,489</u>	<u>\$ (611,627)</u>	<u>\$ 59,759,798</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 Capital Assets (Continued)

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 143,367
Public Safety	585,177
Public Works	4,511,173
Parks & Recreation	718,099
Unallocated	<u>34,759</u>
Total Depreciation Expense	<u>\$ 5,992,575</u>

Governmental Activities:

Construction-in-progress of \$335,054 consists of expenditures relating to improvements to various city roads and bridges.

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, 2013:

	Balance 01/01/13	Increases	Decreases	Balance 12/31/13
<b>BUSINESS-TYPE ACTIVITIES</b>				
Sewer Authority				
Line of Credit	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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, 2013). 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, 2013, nor was there any activity for the year ended March 31, 2013.

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%. (4% at March 31, 2013). 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, 2013, and will be renewable at the option of the Bank. There was no activity for the year ended March 31, 2013 and there were no borrowings outstanding at March 31, 2013.

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, 2013:

	Balance 01/01/13	Additions	(Amortization) Accretion	Retirements	Balance 12/31/13	Due With In One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligations Bonds:						
Emmaus General Authority Series 2002	\$ 5,505,000	\$ 0	\$ 0	\$ 260,000	\$ 5,245,000	\$ 270,000
Series A of 2003	1,025,000	0	0	505,000	520,000	520,000
Series B of 2003	29,045,000	0	0	845,000	28,200,000	880,000
Series C of 2003	15,035,000	0	0	410,000	14,625,000	430,000
Series D of 2003	8,790,000	0	0	620,000	8,170,000	645,000
Series A of 2012	9,850,000	0	0	770,000	9,080,000	710,000
Series C of 2012	9,750,000	0	0	675,000	9,075,000	750,000
(Amortization) / Accretion	(664,306)	(187,808)	215,640	0	(636,474)	0
Total General Obligation Bonds	\$ 78,335,694	\$ (187,808)	\$ 215,640	\$ 4,085,000	\$ 74,278,526	\$ 4,205,000
General Obligations Notes:						
Series B of 2012	\$ 1,470,000	\$ 0	\$ 0	\$ 115,000	\$ 1,355,000	\$ 105,000
Series A of 2013	0	4,910,000	0	0	4,910,000	350,000
Total General Obligation Notes	\$ 1,470,000	\$ 4,910,000	\$ 0	\$ 115,000	\$ 6,265,000	\$ 455,000
Lease Obligations Payable						
2006 Capitalized Lease Equipment Energy System	\$ 1,043,485	\$ 0	\$ 0	\$ 94,065	\$ 949,420	\$ 98,906
2004 Capitalized Lease Buildings	2,045,000	0	0	430,000	1,615,000	480,000
2006 Capitalized Lease Buildings	9,610,000	0	0	30,000	9,580,000	5,000
2008 Capitalized Lease Buildings	5,885,000	0	0	5,000	5,880,000	5,000
Total Lease Obligations Payable	\$ 18,583,485	\$ 0	\$ 0	\$ 559,065	\$ 18,024,420	\$ 588,906
Notes Payable:						
DCED Act 47 Loan	\$ 1,000,000	\$ 0	\$ 0	\$ 100,000	\$ 900,000	\$ 100,000
Total Notes Payable	\$ 1,000,000	\$ 0	\$ 0	\$ 100,000	\$ 900,000	\$ 100,000
Long Term Trade Debt						
Non Interest Bearing Refuse Trade Debt	\$ 0	\$ 918,597	\$ 0	\$ 0	\$ 918,597	\$ 333,333
Total Long Term Trade Debt	\$ 0	\$ 918,597	\$ 0	\$ 0	\$ 918,597	\$ 333,333
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 99,389,179</b>	<b>\$ 5,640,789</b>	<b>\$ 215,640</b>	<b>\$ 4,859,065</b>	<b>\$ 100,386,543</b>	<b>\$ 5,682,239</b>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Revenue Bonds:						
Major Enterprise Fund:						
Sewer Authority						
2007 Series	\$ 16,640,000	\$ 0	\$ 0	\$ 30,000	\$ 16,610,000	\$ 5,000
2011 Series A	21,340,000	0	0	920,000	20,420,000	960,000
2011 Series B	7,930,000	0	0	435,000	7,495,000	440,000
Total Revenue Bonds	\$ 45,910,000	\$ 0	\$ 0	\$ 1,385,000	\$ 44,525,000	\$ 1,405,000
Notes Payable:						
Major Enterprise Fund:						
Sewer Authority						
2000 Series Pennvest	\$ 2,945,163	\$ 0	\$ 0	\$ 233,059	\$ 2,712,104	\$ 240,254
2002 Series Pennvest	3,053,796	0	0	210,606	2,843,190	216,525
2003 Series Pennvest	1,664,715	0	0	109,529	1,555,186	122,607
2004 Series Pennvest	2,774,811	0	0	148,250	2,626,561	150,528
2007 Series Pennvest	3,618,324	0	0	201,098	3,417,226	194,329
2012 Series Pennvest	0	1,885,416	0	0	1,885,416	0
Total Notes Payable	\$ 14,056,809	\$ 1,885,416	\$ 0	\$ 902,542	\$ 15,039,683	\$ 924,243
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 59,966,809</b>	<b>\$ 1,885,416</b>	<b>\$ 0</b>	<b>\$ 2,287,542</b>	<b>\$ 59,564,683</b>	<b>\$ 2,329,243</b>
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 159,355,988</b>	<b>\$ 7,526,205</b>	<b>\$ 215,640</b>	<b>\$ 7,146,607</b>	<b>\$ 159,951,226</b>	<b>\$ 8,011,482</b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

A summary of long-term debt outstanding at December 31, 2013 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 been determined by the Remarketing Agent, plus 55 basis points. Interest rate at December 31, 2013 is 2.45%.

General Obligation Bonds, Series A of 2003:

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

General Obligation Bonds, Series B of 2003:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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.

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 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.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

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.

Mandatory Redemption:

The Notes are not subject to redemption at the option of the City prior to maturity. The Notes are subject to mandatory redemption from required sinking fund amortization and extraordinary Mandatory Redemption. The 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 amended. The Notes are General obligations of the City, secured by a pledge of its full faith, credit, and taxing powers.

General Obligation Notes, Series A 2013

On January 9, 2013 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 53 Section 8111(a) issued \$4,910,000 of 7.25% General Obligation Notes, Series A of 2013 to fund a portion of the City's working capital deficit, refund the refunded 2003 A, B, C, and D Bonds noted above and pay the cost and expenses related to issuing the notes. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2023.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long Term Debt (Continued)

Mandatory Redemption:

The notes are not subject to redemption at the option of the City prior to maturity. The notes are subject to mandatory redemption from required sinking fund amortization and extraordinary Mandatory Redemption. The 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, 2014 are subject to extraordinary mandatory redemption prior to maturity, as whole or in part at any time, on or after March 30, 2014, 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 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 required 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.

Long Term Trade Debt

In 2013, the City entered into a temporary forbearance agreement with Keystone Sanitary Landfill. The parties agreed that for calendar year 2013 only, the City shall pay tipping fees to Keystone until the City has paid the sum of \$ 417,500. Once paid all remaining tipping fees for 2013 shall be deferred. The agreement estimated that \$ 1,000,000 forbearance would be required. Beginning on January 15, 2014, the City shall, in addition to it's contractually bound per ton tipping fees, the amount of \$ 27,777.78 for thirty-six (36) consecutive months ending December 15, 2016. Since the agreement is an estimation, the thirty-six (36<sup>th</sup>) payment will be adjusted to reflect the actual deferred amount. The actual amount of the temporary forbearance agreement was \$ 918,597. Based upon actual forbearance, the City will make thirty three (33) payments of \$ 27,777.78 and will pay of the forbearance in October 2016.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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.

Sewer Authority 2000 Series (PENNVEST Loan):

The balance outstanding at March 31, 2013 amounted to \$2,712,104. The loan is secured by the gross revenues of the Authority and the guarantee of the City of Scranton. Interest only was payable on advances until July 1, 2003, when monthly principal and interest payments are due up to and including January 2023. Interest is at 1.522% for the first 5 months and 3.045% thereafter. Legal fees relating to obtaining the financing amounted to \$44,338 and have been recorded as deferred charges.

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2013 amounted to \$2,843,190. 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, 2013 amounted to \$1,555,186. 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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, 2013 was \$2,626,561. 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, 2013 was \$3,417,226. 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 drew \$ 1,885,416 on the loan as of March 31, 2013. The balance outstanding at March 31, 2013 is \$1,885,416.

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.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

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 were primarily be used to currently refund the Authority's then 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, 2013 was \$1,615,000. 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, 2013 was \$9,580,000. 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, 2013 was \$5,880,000.

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, 2013 is .19%.

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

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Future Debt Service Requirements as of December 31, 2013 are as follows:

Year Ending December 31,	Governmental Activities City General Obligation Bonds			Year Ending December 31,	Governmental Activities City General Obligation Notes		
	Principal	Interest	Total		Principal	Interest	Total
2014	\$ 4,205,000	\$ 4,056,307	\$ 8,261,307	2014	\$ 455,000	\$ 471,150	\$ 926,150
2015	3,895,000	3,832,545	7,727,545	2015	490,000	436,850	926,850
2016	4,400,000	3,611,810	8,011,810	2016	530,000	399,888	929,888
2017	4,430,000	3,350,716	7,780,716	2017	570,000	359,900	929,900
2018	4,965,000	3,084,596	8,049,596	2018	610,000	316,888	926,888
2019 - 2023	26,785,000	10,635,789	37,420,789	2019 - 2023	3,610,000	815,304	4,425,304
2024 - 2028	15,745,000	4,822,728	20,567,728	2024 - 2028	0	0	0
2029 - 2033	10,490,000	1,318,535	11,808,535	2029 - 2033	0	0	0
	<u>\$ 74,915,000</u>	<u>\$ 34,713,026</u>	<u>\$ 109,628,026</u>		<u>\$ 6,265,000</u>	<u>\$ 2,799,980</u>	<u>\$ 9,064,980</u>

Year Ending December 31,	Governmental Activities City Notes Payable			Year Ending December 31,	Governmental Activities City Long Term Trade Debt		
	Principal	Interest	Total		Principal	Interest	Total
2014	\$ 100,000	\$ 0	\$ 100,000	2014	\$ 333,333	\$ 0	\$ 333,333
2015	100,000	0	100,000	2015	333,333	0	333,333
2016	100,000	0	100,000	2016	251,931	0	251,931
2017	100,000	0	100,000	2017	0	0	0
2018	100,000	0	100,000	2018	0	0	0
2019 - 2023	400,000	0	400,000	2019 - 2023	0	0	0
	<u>\$ 900,000</u>	<u>\$ 0</u>	<u>\$ 900,000</u>		<u>\$ 918,597</u>	<u>\$ 0</u>	<u>\$ 918,597</u>

Year Ending December 31,	Business-Type Activities Revenue Bonds & Notes Payable Sewer Authority		
	Principal	Interest	Total
2014	\$ 2,329,243	\$ 2,501,801	\$ 4,831,044
2015	2,232,694	2,444,383	4,677,077
2016	1,912,727	2,394,942	4,307,669
2017	1,947,569	2,356,871	4,304,440
2018	2,014,764	2,301,366	4,316,130
2019 - 2023	11,181,482	10,385,168	21,566,650
2024 - 2028	12,397,156	8,014,266	20,411,422
2029 - 2033	13,574,048	5,197,472	18,771,520
2034 - 2038	11,975,000	1,471,850	13,446,850
	<u>\$ 59,564,683</u>	<u>\$ 37,068,119</u>	<u>\$ 96,632,802</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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

Year Ending December 31,	Principal	Interest	Total
2014	\$ 588,906	\$ 735,542	\$ 1,324,448
2015	1,163,996	701,014	1,865,010
2016	949,348	634,401	1,583,749
2017	1,234,975	579,183	1,814,158
2018	1,040,892	505,236	1,546,128
2019 - 2023	5,921,303	1,534,996	7,456,299
2024 - 2028	<u>7,125,000</u>	<u>101,647</u>	<u>7,226,647</u>
TOTAL	<u>\$ 18,024,420</u>	<u>\$ 4,792,019</u>	<u>\$ 22,816,439</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, 2013 is (1,693,677)

The net book value of the capitalized leased building and vehicles is \$ 3,965,842

The breakdown of interest expense as of December 31, 2013 is as follows:

	Interest Expense Charged To Expense	Interest Expense Capitalized
City of Scranton	\$ 5,850,163	\$ 0
Sewer Authority of the City of Scranton	729,611	1,792,973
Redevelopment Authority of the City of Scranton	<u>165</u>	<u>0</u>
	<u>\$ 6,579,939</u>	<u>\$ 1,792,973</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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management (Continued)

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, 2013, the City's self-insured retention limits are as follows:

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

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim Loss Reserve of \$19,631,799 at December 31, 2013 was determined by an actuary and represents the discounted present value of expected losses using a 3.50% interest factor. The actuarial value was determined as of February 25, 2014. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2013 is calculated as follows:

Claims and Cost Paid	\$ 2,038,041
Decrease In Actuarial Discounted Loss Reserves	<u>(2,196,630)</u>
Worker's Compensation Claims	<u>\$ (158,589)</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-13	\$ 21,828,429	\$ (158,589)	\$ 2,038,041	\$ 19,631,799
31-Dec-12	\$ 21,191,810	\$ 3,410,848	\$ 2,774,229	\$ 21,828,429

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 9      Interfund Transfers

Interfund transfers during the year ended December 31, 2013 were as follows:

Operating Transfers

	In	Out
General Fund		
Debt Service Fund	\$                    0	\$        11,315,359
Liquid Fuels Fund	1,506,144	0
Special Cities	17,004	0
Recreation Fund	2,263	0
Special Cities		
Capital Projects Fund	0	933
General Fund	0	17,004
Capital Projects		
Special Cities	933	0
Debt Service		
General Fund	11,315,359	0
Liquid Fuels		
General Fund	0	1,506,144
Recreation Fund		
General Fund	0	2,263
	\$        12,841,703	\$        12,841,703

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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 required to contribute \$ 6,298,656 to the three (3) plans for the year 2013. As of December 31, 2013, \$ 2,000,000 was not contributed by the City and is reflected in the due to/from accounts along with accrued interest of \$ 185,299 for not funding the pension plans in accordance with applicable requirements.

Contributions, based on the MMO, in 2013 consisted of the following:

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
City/Commonwealth	\$ 3,833,376	\$ 4,643,813	\$ 1,013,260	\$ 9,490,449
Employees	<u>334,480</u>	<u>323,982</u>	<u>38,350</u>	<u>696,812</u>
Total	<u>\$ 4,167,856</u>	<u>\$ 4,967,795</u>	<u>\$ 1,051,610</u>	<u>\$ 10,187,261</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

A summary of the change in the net pension obligation as of January 1, 2013, 2011, and 2009 is presented below:

	January 1, 2013			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 1,947,364	\$ 1,541,420	\$ 260,582	\$ 3,749,366
Interest on pension benefit obligation	<u>7,025,960</u>	<u>10,168,611</u>	<u>1,418,201</u>	<u>18,612,772</u>
Annual pension cost	\$ 8,973,324	\$ 11,710,031	\$ 1,678,783	\$ 22,362,138
Contributions made	(4,004,815)	(4,635,503)	(1,938,336)	(10,578,654)
Contribution above (below) total financial requirement	(4,574,950)	(7,093,694)	(851,579)	(12,520,223)
Net actuarial (gain) loss on plan assets	<u>18,847,309</u>	<u>16,932,242</u>	<u>1,602,517</u>	<u>37,382,068</u>
Net Increase (Decrease) in pension benefit obligation	\$ 19,240,868	\$ 16,913,076	\$ 491,385	\$ 36,645,329
Pension benefit obligation beginning	<u>42,774,002</u>	<u>61,897,606</u>	<u>8,962,343</u>	<u>113,633,951</u>
Pension benefit obligation ending	<u>\$ 62,014,870</u>	<u>\$ 78,810,682</u>	<u>\$ 9,453,728</u>	<u>\$ 150,279,280</u>
	January 1, 2011			
	<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

	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
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>

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2013. 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 for the Police and Fire. 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 for the Non-Uniformed. Plan assets are valued using a five 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 future payroll based upon a 4% annual increase in covered payroll assumption.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2013				
	Police	Firemen	Non-Uniformed	Total
Actuarial accrued liability	\$ 87,159,259	\$ 94,604,548	\$ 12,277,481	\$ 194,041,288
Actuarial value of assets	<u>25,144,389</u>	<u>15,793,866</u>	<u>2,823,753</u>	<u>43,762,008</u>
Pension benefit obligation	<u>\$ 62,014,870</u>	<u>\$ 78,810,682</u>	<u>\$ 9,453,728</u>	<u>\$ 150,279,280</u>
Funded ratio	<u>29.00%</u>	<u>17.00%</u>	<u>23.00%</u>	<u>23.00%</u>
Covered payroll	<u>\$ 8,485,761</u>	<u>\$ 7,735,235</u>	<u>\$ 5,171,390</u>	<u>\$ 21,392,386</u>
Pension benefit obligation to covered payroll	<u>731.00%</u>	<u>1019.00%</u>	<u>183.00%</u>	<u>702.00%</u>
January 1, 2011				
	Police	Firemen	Non-Uniformed	Total
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>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2009				
	Police	Firemen	Non-Uniformed	Total
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>

Historical trend information for the plans is presented below:

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

Police Pension Fund			
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
01-Jan-09	1,466,328	100.00%	27,401,925
01-Jan-11	1,540,840	100.00%	42,774,002
01-Jan-13	3,648,077	73.00%	62,014,870

Firemen Pension Fund			
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
01-Jan-07	1,731,004	100.00%	37,788,571
01-Jan-09	1,854,942	100.00%	61,897,606
01-Jan-11	4,643,813	78.00%	78,810,682

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	815,883	100.00%	8,599,093
01-Jan-09	818,603	100.00%	8,962,343
01-Jan-11	1,013,260	100.00%	9,453,728

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 \$299,499 in 2013.

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 \$407 per month for the year ended March 31, 2013 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2013 amounted to \$347,024.

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, 2013, employer contributions totaled \$22,312 and employee contributions totaled \$6,079.

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 2013 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	\$ 8,028,950
Payment benefits made during the year	(532,218)
Change in net present value of benefits	<u>( 75,041)</u>
End of year present value	<u>\$ 7,421,691</u>

Post-Employment Healthcare Plan:

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

Benefits: If hired prior to January 1, 1996, medical, prescription drug, dental, and vision coverage are provided same as active employees. If hired after January 1, 1996, no post-employment benefits are provided for police, firefighters, and non-uniform union employees. For management and non-union employees, if hired prior to January 1, 1998, medical, prescription drug, dental, and vision coverage are provided same as active employees. If hired after January 1, 1998, no post-employment benefits are provided.

Eligibility: Minimum of between 20 to 25 years of service. No minimum for post-employment health and welfare benefits.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Coverage Period: From the 2012 settlement, certain named individuals, their spouses and eligible dependents receive coverage for life. Active police and firefighter employees hired prior to January 1, 1996 receive retiree coverage until they and their spouse reach Medicare age or for a period of ten years whichever occurs last. Active employees hired after January 1, 1996 receive no post-employment health benefits for police and firefighters. For non-uniform active employees hired prior to January 1, 1996 receive retiree coverage until they and their spouse reach Medicare age or for a period of ten years whichever occurs last. For non-uniform union employees, management and non-union employees hired between January 1, 1996 and January 1, 1998 receive retiree coverage until they and their spouse reach Medicare age or for a period of three years whichever occurs last. Active employees hired after January 1, 1998 receive no post-employment health benefits.

Medicare Part B: Active employees hired prior to January 1, 1996 will receive reimbursement of the Medicare Part B premium for themselves and their spouses during their coverage period.

Retiree Contributions: From the 2012 settlement, certain of named individuals, their spouses and eligible dependents do not pay a contribution to retiree coverage. If retire as of January 1, 2013 or after all other retirees must contribute 50% of the amount an active employee pays for the same coverage. As of January 1, 2013 that amount is 1.5% of the base pay of a second year firefighter and patrolman. For non-uniform union employees, management, and non-union retirees pay a contribution equal to active employees. For 2013, a single retiree contribution is \$ 1,196. and a married retiree's contribution is \$ 1,456. per year.

Spousal Coverage: Yes for police and firefighters. For non-uniform union, management, and non-union employees coverage ceases when coverage ends for the retiree.

Dependent Child Coverage: Yes and coverage ceases when coverage ends for the retiree or age 26 whichever occurs first.

Survivor Benefits: Yes for the survivor of retirees receiving coverage for life. Coverage ceases for all other spouses after ten years or upon reaching Medicare eligibility whichever occurs last. There are no survivor benefits for non-uniform union employees.

Permanent Disability: No minimum age or service requirement.

Life Insurance: Regardless of date of hire, life insurance is two times the salary of the officer at the time of retirement for police and firefighters. For non-uniform union, management, and non-union regardless of hire date, life insurance is \$ 10,000 for the 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 of 4% 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 cost 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:

The following changes in actuarial assumptions have occurred since the January 1, 2011 valuation. In all cases, the revised assumptions better reflect the City's actual experience.

The decrement timing for current active employees has been changed from assuming retirement at the beginning of the year to middle of the year.

The assumed rate for increase for non-Medicare medical and prescription drug cost have been changed from assuming 8.5% in 2014 reduced by .5% per year to an ultimate level of 5% per year, to 3.25% in 2014 followed by 8% in 2015 reduced by .5% per year to an ultimate level of 5%.

The assumed rate of increase for Medicare medical and prescription drug cost has been changed from 6.5% in 2014 reduced by .5% per year to an ultimate level of 5% per year, to 2.27% in 2014 and 5% per year thereafter.

The assumed rate for dental cost has been changed from 3.5% per year to 2.6% per year.

The assumed rate of increase for vision cost has been changed from 3.5% per year to 2.6% per year.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

The rate of increase for Medicare Part B Premium reimbursement has been changed from assuming 1% per year to 0% in 2014 and 1% per year thereafter.

The percentage of retirees assumed to have a child participating in coverage has changed from assuming 10% of retirees have one child participating in coverage to 20% of retirees having two children participating in coverage.

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 3.25% in 2014, 8% in 2015 decreasing by 0.5% per year to an ultimate level of 5% per year. The medical, prescription drug and vision rates for Medicare retirees are assumed to be 2.27% in 2014 and 5% per year thereafter. The dental and vision rate is assumed to be 2.6% per year. The Medicare Part B Premium trend rate is assumed to be 0% in 2014 and 1% per year thereafter.

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 starting at 15.0% for age 20 decreasing to 15% at age 25 and then 2.5% every five years until 0.00 at age 55.

Salary Scale: Employees' salaries are assumed to increase at the rate of 5.35% during 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.

Retiree Contribution Increase for Future Retirees: Uniformed contributions are assumed to increase by 4.85% in 2014, 1.75% in 2015 and 2016, 18.71% in 2017 and 1.75% per year thereafter. Non-uniform excluding Department of Public Works contributions are assumed to increase by 2% per year. Department of Public Works no increase is assumed. Contributions are assumed to remain level.

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.

Children: 20% of retirees are assumed to have two children participating in coverage. The age difference between the retiree and child is assumed to be 38 years.

Annual Required Contribution	\$ 12,122,343
Interest on Net OPEB Obligation	534,583
Adjustment to Annual Required Contribution	<u>(802,049)</u>
Annual OPEB Cost (Expense)	\$ 11,854,877
Interest On Employer Contributions	(181,263)
Contributions Made	<u>(8,366,004)</u>
Increase in Net OPEB Obligation	\$ 3,307,610
Net OPEB Obligation - Beginning of Year	<u>13,364,587</u>
Net OPEB Obligation - End of Year	<u>\$ 16,672,197</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
12/31/13	\$ 11,854,877	72.10%	\$ 16,672,197

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%
01/01/13	\$ 0	\$ 185,070,234	\$ 185,070,234	0.00%	\$ 27,259,944	678.91%

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 75% of the total taxes collected by the City in 2013. 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 \$20,944,000 of tax revenues on behalf of the City in 2013.

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, employment matters, and liability claims. 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, may have a material impact on the financial statements as presented

The City is a defendant in a condemnation case; the Board of Viewers found a defacto condemnation and awarded damages in the amount of \$ 247,000. An appeal is de novo and the City instructed their attorneys to file a timely appeal. Legal counsel cannot estimate the probability of successful outcome of the appeal at the present time.

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.

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 \$21,542,000 including accrued interest through December 31, 2013 and will pay the damages out of a future borrowing and has been accrued in the Government Wide Financial Statements for active employees. The liability for adjustments of the pension as a result of the increases will be paid out the City Pension Fund and future city contributions under its required municipal minimum obligation will materially increase. As of the date of these financial statements, the City has not paid any amounts arising under the terms of the agreement.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

The City has been named, as a party defendant in two (2) cases with a construction contractor. 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 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.

The City is a defendant in a lawsuit that claims as a result of various flood projects undertaken by the City the petitioner suffered a de facto condemnation and marked decline in value of their property. The Board of Viewers awarded damages in favor of the petitioner and an appeal is de novo and the City has authorized and directed a timely appeal. If the appeal unsuccessful, the potential exposure could be material to the financial statements.

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

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, 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.

As more fully discussed in Note 16 Subsequent Events, The Parking Authority of The City of Scranton, The City, and Landmark Community Bank entered into a Loan, Pledge, and Security Agreement to refinance this debt along with the Pennstar Bank debt below in December 2014 setting all claims against the Authority and the City.

Pennstar Bank filed a suit against the Authority late in 2012. The Authority stopped making payments on its term loan. The last payment made was in August 2012. The Authority has agreed to the entry of a stipulated judgment against it.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

As explained above in Landmark Community Bank suit, this loan was refinanced in December 2014 settling all claims against the Authority and the City.

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.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 14      Distressed Municipality Status (Continued)

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.
- 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, 2013, or 2014 due to various reasons.

The City's Act 47 Coordinator in conjunction with the City is working on a revision to the 2012 Recovery Plan. In October 2014, the State of Pennsylvania signed House Bill 1773 into law. The bill significantly overhauled the Municipalities Financial Recovery Act, Known as Act 47. The new law placed a five (5) year time limits for municipalities to exit Act 47. For municipalities already under Act 47 and operating under a recovery plan, the termination date for their distressed status will be five (5) years from the effective date of their most recent recovery plan or amendment.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 14      Distressed Municipality Status (Continued)

In the fifth year of a municipalities' Act 47 status, the recovery plan coordinator must complete a report setting forth the financial condition of the municipality and make one of the following findings:

- a.) The conditions within the municipality warrant a termination of distressed status.
- b.) The conditions warrant a three year extension and exit plan.
- c.) The conditions justify a request by the Secretary of the Department of Community and Economic Development (Secretary) for a determination of fiscal emergency.
- d.) The conditions warrant disincorporation of the municipality.

The revised Recovery Plan and its provisions outlined below is designed to restore long term fiscal stability, budgetary predictability, and the repair of the City's creditworthiness. The new Recovery Plan provides the fiscal framework for the City's governing bodies to follow through 2020.

The following mandates are provisions of the 2015 Recovery Plan:

- The City of Scranton will petition the Lackawanna County Court of Common Pleas to increase the Local Services Tax from \$52 per year to \$156 per year. The increased revenue from the tax is included in the City of Scranton 2015 budget;
- The City of Scranton will apply for grant funding to undertake the feasibility and analysis of the creation of a Municipal Solid Waste Collection Authority and, separately, a Storm Water Management Authority;
- The City will continue to pursue the monetization of Scranton Parking Authority assets and the on-street parking franchise;
- The City will continue to pursue discussions with the Scranton Sewer Authority regarding a monetization of Authority assets to reduce the City's unfunded pension liabilities;
- The City of Scranton will review the divestiture of other non-essential assets not directly related to the provision of services;
- The City of Scranton will continue to work with its financial advisors and consultants to develop a strategy to restore its credit rating and refinance a portion of its \$132.9 million in general obligation and lease rental debt obligations;
- The Recovery Coordinator will prepare an analysis on the impact of the implementation of a payroll preparation tax. The tax would replace the Business Privilege and Mercantile taxes;
- The City will continue its review of health care and related programs to reduce the rate of increase in employee health care costs;
- Representatives of the City of Scranton and Scranton Housing Authority will meet to determine levels of financial assistance in addition to the in lieu of payments provided by the Authority;

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 14      Distressed Municipality Status (Continued)

- The City of Scranton will continue to use its real estate taxing authority to eliminate operating deficits projected to occur through 2020 if the implementation of the Plan's comprehensive mandates are not authorized;
- The City of Scranton will undertake an analysis of the status of properties presently exempt from taxation;
- With the reductions of staff over the past five years, The City will seek greater efficiencies in departmental task execution by a review and evaluation of work assignments;
- The City of Scranton will review pension plan changes for employees not represented by a collective bargaining unit or applicable law;
- The City will continue to review for utilization the provisions of Act 205, the Municipal Pension Plan Funding Standard and recovery Act;
- The City of Scranton will appoint a commission to review the ability to implement shared services programs;
- The City of Scranton will continue to pursue the implementation of the provisions of a Land Bank, as authorized by Act 153 of 2012.

Other initiatives of the City of Scranton are designed to achieve greater cost savings and efficiencies, as well as revenue production. Those initiatives include;

- The City of Scranton is completing a restructuring the fee schedule of the Department of Licenses and Permits;
- The life, disability, and dental insurance coverage were subject to a request for proposal and will be awarded in 2015;
- Changes were recently made to the Retiree Prescription program;
- 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. Further enhancements to the program include a mobile payment application. These enhancements, along with increases to meter rates and citations, will lead to increased parking meter revenue.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 15      Current Real Estate Taxes Collected at December 31, 2013

	Land	Building	Total
Total Assessed Value	92,971,532	302,449,357	395,420,889
Millage Rates	11.7975%	2.5656%	
Total Original Taxes Levied	\$ 10,968,316	\$ 7,759,641	\$ 18,727,957
Add: Additions			7,824
Less: Abatements			(37,588)
Real Estate Taxes To be Collected At Face			\$ 18,698,193
Add: Penalties Collected			108,476
Total Before Deductions			\$ 18,806,669
Less: Discounts Taken			(294,709)
Less: Home Vouchers			(5,749)
Less: KOZ Credits			(193,624)
Less: Delinquent Taxes Returned			(2,137,559)
Less: Other Miscellaneous			(30,832)
TOTAL REAL ESTATE TAXES COLLECTED			\$ 16,144,196
Real Estate Taxes For Unfunded Debt Assessment			\$ 2,924,080
Current Real Estate Taxes			13,220,116
TOTAL REAL ESTATE TAXES COLLECTED			\$ 16,144,196

Note 16      Subsequent Events

Pursuant to ASC 855, subsequent events were evaluated through April 20, 2015, which is the date the financial statements were available to be issued.

On December 3, 2014, The Parking Authority of The City of Scranton, The City, and Landmark Bank entered in a Loan, Pledge, and Security agreement to refinance the obligations evidenced by the Landmark Note and Pennstar Bank (Now NBT Bank) Note to the extent and upon the terms and conditions provided in the Loan Agreement "The 2014 Authority Note". The principal amount refinance was \$ 3,828,480.78. The 2014 Note bears interest at Prime as reported in the Wall Street Journal plus 350 basis points. Quarterly principal and interest payments are due on March 15, June 15, September 15, and December 15 commencing March 15, 2015 to amortize the loan over a ten (10) year period. The City pursuant to an ordinance enacted October 23, 2014 authorized the pledge and granted of a security interest in all revenues derived by the City from on-street parking and parking meter transaction, but excluding fines and penalties as security for the source of payment of 2014 Note.

As part of the agreement, the City authorizes and directs the Bank to establish as deposit accounts at the Bank a.) Meter Revenue Deposit Account b.) The Debt Service Reserve Account c.) The Debt Service Payment Account d.) The Unrestricted Deposit Account. The agreement requires that all metered revenue will be deposited into the meter revenue deposit account within 72 hours and the Bank is authorized without any direction from the City to make payments on debt pursuant to the agreement.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 17      Scranton Parking Authority

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. The bonds, related assets, and capital assets remain the property of the Authority and such activity is reported for the entire year.

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 2013, funds were transferred by the City totaling \$ 2,310,000 to cover approximately 56% of the debt service requirements. The City of Scranton has budgeted \$2,450,000 for 2014 Authority debt service payments. As of the date of this report, \$2,653,813 has been paid for 2014 debt service.

The following is a summary of The Parking Authority of The City of Scranton Debt not included in the audit report under the heading Long Term Debt as was provided by the in the last audit completed as of December 31, 2012.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 17      Scranton Parking Authority (Continued)

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 day's 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 day's notice.

Mandatory Redemption of Term Bonds:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 17      Scranton Parking Authority (Continued)

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 day's 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.

The 2009 Parking Authority Loan Payable and the 2011 Parking Authority Loan Payable are discussed in further detail in Note 13 Commitments and Contingencies and Note 16 Subsequent Events.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 17      Scranton Parking Authority (Continued)

Future Debt Service for the 2004, 2006, and 2007 Guaranteed Parking Revenues is as follows:

Year Ending December 31,	Business-Type Activities Revenue Bonds Parking Authority		
	Principal	Interest	Total
2014	\$ 965,000	\$ 2,429,435	\$ 3,394,435
2015	1,005,000	2,387,340	3,392,340
2016	1,045,000	2,342,240	3,387,240
2017	1,090,000	2,294,970	3,384,970
2018	1,130,000	2,245,248	3,375,248
2019 - 2023	6,455,000	10,380,500	16,835,500
2024 - 2028	8,125,000	8,631,425	16,756,425
2029 - 2033	10,335,000	6,334,481	16,669,481
2034 - 2038	13,510,000	3,123,750	16,633,750
2039	4,860,000	127,575	4,987,575
	<u>\$ 48,520,000</u>	<u>\$ 40,296,964</u>	<u>\$ 88,816,964</u>

**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, 2013

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$ 51,855,220	\$ 51,855,220	\$ 50,857,253	\$ (997,967)
Intergovernmental	2,921,682	2,921,682	5,049,367	2,127,685
Departmental Earnings	4,064,000	4,064,000	2,390,311	(1,673,689)
Refuse Disposal Fees	4,550,000	4,550,000	4,911,231	361,231
Licenses and Permits	3,445,063	3,445,063	2,998,677	(446,386)
Cable Television Franchise Revenue	975,000	975,000	849,459	(125,541)
Payments in Lieu of Taxes	1,300,000	1,300,000	211,663	(1,088,337)
Interest Income	10,000	10,000	4,695	(5,305)
User Fees	60,500	60,500	52,895	(7,605)
Other Revenues	100,000	100,000	29,743	(70,257)
Donations	1,000	1,000	65,377	64,377
Rents and Concessions	25,000	25,000	6,500	(18,500)
Total Revenues	<u>\$ 69,307,465</u>	<u>\$ 69,307,465</u>	<u>\$ 67,427,171</u>	<u>\$ (1,880,294)</u>
Expenditures				
General Government	\$ 29,064,162	\$ 29,114,162	\$ 11,935,497	\$ 17,178,665
Public Safety	38,975,743	38,975,743	40,087,104	(1,111,361)
Public Works	10,369,835	10,369,835	9,855,675	514,160
Community Development	675,945	675,945	638,114	37,831
Culture and Recreation	600,877	600,877	568,958	31,919
Total Expenditures	<u>\$ 79,686,562</u>	<u>\$ 79,736,562</u>	<u>\$ 63,085,348</u>	<u>\$ 16,651,214</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (10,379,097)</u>	<u>\$ (10,429,097)</u>	<u>\$ 4,341,823</u>	<u>\$ 14,770,920</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, 2013

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Financing Sources (Uses)				
Proceeds from Tax Anticipation				
Notes	\$ 14,000,000	\$ 14,000,000	\$ 12,000,000	\$ (2,000,000)
Other Financing Sources	500	500	0	(500)
Operating Transfers In	1,870,023	1,870,023	1,525,411	(344,612)
Operating Transfers Out	(8,006,047)	(8,006,047)	(11,315,359)	(3,309,312)
Market Based Revenue Opportunities	353,421	353,421	0	(353,421)
Repayment Ice Box Development	600,000	600,000	0	(600,000)
Proceeds 2013 Bond Issue	25,000,000	25,000,000	4,910,000	(20,090,000)
Bond Issuance Discount	0	0	(187,808)	(187,808)
Contingency	(1,000,000)	(540,000)	(215)	539,785
Unencumbered Expenses	(4,000,000)	(4,000,000)	(18,731)	3,981,269
Payments on Guarantee of Parking Authority	(1,900,000)	(2,310,000)	(2,310,000)	0
Payments of Tax Anticipation				
Notes	(14,800,000)	(14,800,000)	(12,233,967)	2,566,033
Net Other Financing Sources (Uses)	<u>\$ 12,117,897</u>	<u>\$ 12,167,897</u>	<u>\$ (7,630,669)</u>	<u>\$ (19,798,566)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ 1,738,800</u>	<u>\$ 1,738,800</u>	<u>\$ (3,288,846)</u>	<u>\$ (5,027,646)</u>
Fund Deficit, Beginning of Year	<u>7,667,257</u>	<u>7,667,257</u>	<u>7,667,257</u>	<u>0</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 9,406,057</u>	<u>\$ 9,406,057</u>	<u>\$ 4,378,411</u>	<u>\$ (5,027,646)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2013

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
	ASSETS					
Cash and Cash Equivalents	\$ 203,769	\$ 708,147	\$ 524,625	\$ 2,974,645	\$ 0	\$ 4,411,186
Accounts Receivable, Net	13	0	0	1,593,552	0	1,593,565
Loans Receivable	0	0	100,000	0	0	100,000
Due From Other Funds	0	0	0	86,653	0	86,653
Restricted Assets:						
Restricted Cash and Cash Equivalents	0	0	0	0	4,368,203	4,368,203
Property Held for Resale	0	0	98,935	0	0	98,935
TOTAL ASSETS	<u>\$ 203,782</u>	<u>\$ 708,147</u>	<u>\$ 723,560</u>	<u>\$ 4,654,850</u>	<u>\$ 4,368,203</u>	<u>\$ 10,658,542</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 0	\$ 25,527	\$ 726	\$ 1,078,076	\$ 0	\$ 1,104,329
Due to Other Funds	0	0	497,774	694,861	0	1,192,635
TOTAL LIABILITIES	<u>\$ 0</u>	<u>\$ 25,527</u>	<u>\$ 498,500</u>	<u>\$ 1,772,937</u>	<u>\$ 0</u>	<u>\$ 2,296,964</u>
DEFERRED INFLOW OF RESOURCES						
Unearned Grant Revenues	\$ 0	\$ 0	\$ 42,598	\$ 0	\$ 0	\$ 42,598
Unearned Revenue Loans Receivable	0	0	100,000	0	0	100,000
Unearned Revenues	0	0	0	2,881,913	0	2,881,913
TOTAL DEFERRED INFLOW OF RESOURCES	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 142,598</u>	<u>\$ 2,881,913</u>	<u>\$ 0</u>	<u>\$ 3,024,511</u>
FUND BALANCES						
Restricted for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,368,203	\$ 4,368,203
Restricted for Capital Projects	0	682,620	0	0	0	682,620
Restricted for Externally Imposed						
Regulations	0	0	520,356	0	0	520,356
Nonspendable Property Held For Resale	0	0	98,935	0	0	98,935
Unreserved - Undesignated	203,782	0	(536,829)	0	0	(333,047)
TOTAL FUND BALANCES	<u>\$ 203,782</u>	<u>\$ 682,620</u>	<u>\$ 82,462</u>	<u>\$ 0</u>	<u>\$ 4,368,203</u>	<u>\$ 5,337,067</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 203,782</u>	<u>\$ 708,147</u>	<u>\$ 723,560</u>	<u>\$ 4,654,850</u>	<u>\$ 4,368,203</u>	<u>\$ 10,658,542</u>

"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, 2013

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>Revenues:</b>						
Intergovernmental	\$ 1,538,385	\$ 0	\$ 98,024	\$ 4,245,325	\$ 0	\$ 5,881,734
Departmental Earnings	0	0	0	60,948	0	60,948
Interest Income	559	169	298	911	6,894	8,831
Other Revenues	0	0	3	1,579,427	0	1,579,430
Rents and Concessions	0	0	3,710	0	0	3,710
<b>Total Revenues</b>	<b>\$ 1,538,944</b>	<b>\$ 169</b>	<b>\$ 102,035</b>	<b>\$ 5,886,611</b>	<b>\$ 6,894</b>	<b>\$ 7,534,653</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	\$ 0	\$ 35	\$ 700	\$ 212,398	\$ 0	\$ 213,133
Public Works	0	0	0	3,250,779	0	3,250,779
Health and Welfare	0	0	0	2,085,524	0	2,085,524
Community Development	0	0	135,053	319,973	0	455,026
<b>Debt Service</b>						
Debt Service-Principal	0	0	0	0	4,859,065	4,859,065
Debt Service-Interest	0	0	165	0	5,164,465	5,164,630
Capital Outlay	0	1,058	0	0	0	1,058
<b>Total Expenditures</b>	<b>\$ 0</b>	<b>\$ 1,093</b>	<b>\$ 135,918</b>	<b>\$ 5,868,674</b>	<b>\$ 10,023,530</b>	<b>\$ 16,029,215</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 1,538,944</b>	<b>\$ (924)</b>	<b>\$ (33,883)</b>	<b>\$ 17,937</b>	<b>\$ (10,016,636)</b>	<b>\$ (8,494,562)</b>
<b>Other Financing Sources (Uses):</b>						
Sale Of Property	\$ 0	\$ 0	\$ (41,916)	\$ 0	\$ 0	\$ (41,916)
Operating Transfers In	0	933	0	0	11,315,359	11,316,292
Operating Transfers Out	(1,506,144)	0	0	(17,937)	0	(1,524,081)
<b>Net Other Financing Sources (Uses)</b>	<b>\$ (1,506,144)</b>	<b>\$ 933</b>	<b>\$ (41,916)</b>	<b>\$ (17,937)</b>	<b>\$ 11,315,359</b>	<b>\$ 9,750,295</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses</b>	<b>\$ 32,800</b>	<b>\$ 9</b>	<b>\$ (75,799)</b>	<b>\$ 0</b>	<b>\$ 1,298,723</b>	<b>\$ 1,255,733</b>
<b>Fund Balances, Beginning 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>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 203,782</b>	<b>\$ 682,620</b>	<b>\$ 82,462</b>	<b>\$ 0</b>	<b>\$ 4,368,203</b>	<b>\$ 5,337,067</b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PENSION TRUST FUND  
YEAR ENDED DECEMBER 31, 2013

Additions:

Contributions

Employee	\$ 696,812	
Employer	6,483,955	
Commonwealth State Aid	<u>3,006,494</u>	
Total Contributions		\$10,187,261

Investment Income:

Investment Return (Depreciation)	\$ 6,015,274	
Interest Income	<u>473</u>	
Total Investment Income	\$ 6,015,747	
Less Investment Expenses	<u>(270,161)</u>	
Net Investment Earnings		<u>5,745,586</u>

TOTAL ADDITIONS \$ 15,932,847

DEDUCTIONS

Benefit Payments	\$12,839,112	
Administrative Expenses	<u>170,427</u>	
Total Deductions		<u>13,009,539</u>

CHANGE IN NET POSITION \$ 2,923,308

NET POSITION HELD IN TRUST FOR PENSION BENEFITS:

Beginning of Year		<u>46,139,561</u>
END OF YEAR		<u>\$ 49,062,869</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, 2013

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes				
Act 511:				
Wage	\$ 22,400,000	\$ 22,400,000	\$ 24,697,883	\$ 2,297,883
Non-Resident Wage Tax	400,000	400,000	566,375	166,375
Delinquent Wage Tax	150,000	150,000	991,003	841,003
Real Estate Transfer	2,520,000	2,520,000	2,338,656	(181,344)
Mercantile	1,424,064	1,424,064	1,201,094	(222,970)
Business Privilege	850,000	850,000	920,754	70,754
Local Service Tax	1,650,000	1,650,000	1,620,168	(29,832)
Delinquent Mercantile	60,000	60,000	38,964	(21,036)
Delinquent Business Privilege	100,000	100,000	41,337	(58,663)
Total Act 511	<u>\$ 29,554,064</u>	<u>\$ 29,554,064</u>	<u>\$ 32,416,234</u>	<u>\$ 2,862,170</u>
Current Real Estate	\$ 13,970,013	\$ 13,970,013	\$ 13,220,116	\$ (749,897)
Unfunded Debt Millage	3,241,043	3,241,043	2,924,080	(316,963)
Delinquent Real Estate	2,100,000	2,100,000	1,738,627	(361,373)
Public Utility	61,000	61,000	57,893	(3,107)
Parking Tax	225,000	225,000	169,508	(55,492)
Commuter Tax	2,500,000	2,500,000	0	(2,500,000)
Amusement Tax	100,000	100,000	217,277	117,277
Penalties & Interest	104,100	104,100	113,518	9,418
Total Taxes	<u>\$ 51,855,220</u>	<u>\$ 51,855,220</u>	<u>\$ 50,857,253</u>	<u>\$ (997,967)</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,921,682	\$ 2,921,682	\$ 3,006,494	\$ 84,812
OECD Reimbursement Demolition Program	0	0	5,000	5,000
Fire Safety Grant	0	0	2,037,873	2,037,873
Total Intergovernmental	<u>\$ 2,921,682</u>	<u>\$ 2,921,682</u>	<u>\$ 5,049,367</u>	<u>\$ 2,127,685</u>
Departmental Earnings				
Parking Meters	\$ 1,900,000	\$ 1,900,000	\$ 944,954	\$ (955,046)
Fines and Forfeits	1,755,500	1,755,500	1,150,092	(605,408)
Pave Cuts	203,500	203,500	67,364	(136,136)
Report Copies Fire & Police	85,000	85,000	0	(85,000)
Alarm Fees	100,000	100,000	200,605	100,605
Other Aggregated Service Revenues	0	0	346	346
Zoning	20,000	20,000	26,950	6,950
Total Departmental Earnings	<u>\$ 4,064,000</u>	<u>\$ 4,064,000</u>	<u>\$ 2,390,311</u>	<u>\$ (1,673,689)</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, 2013

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 4,550,000	\$ 4,550,000	\$ 4,911,231	\$ 361,231
Licenses and Permits	3,445,063	3,445,063	2,998,677	(446,386)
Cable Television Franchise Revenue	975,000	975,000	849,459	(125,541)
Payments in Lieu of Taxes	1,300,000	1,300,000	211,663	(1,088,337)
Interest Income	10,000	10,000	4,695	(5,305)
User Fees	60,500	60,500	52,895	(7,605)
Other Revenues	100,000	100,000	29,743	(70,257)
Donations	1,000	1,000	65,377	64,377
Rents and Concessions	25,000	25,000	6,500	(18,500)
Total Other Revenues	<u>\$ 10,466,563</u>	<u>\$ 10,466,563</u>	<u>\$ 9,130,240</u>	<u>\$ (1,336,323)</u>
Total Revenues	<u>\$ 69,307,465</u>	<u>\$ 69,307,465</u>	<u>\$ 67,427,171</u>	<u>\$ (1,880,294)</u>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$ 14,000,000	\$ 14,000,000	\$ 12,000,000	\$ (2,000,000)
Other Financing Sources	500	500	0	(500)
Market Based Revenue Opportunities	353,421	353,421	0	(353,421)
Repayment Ice Box Development	600,000	600,000	0	(600,000)
Proceeds 2013 Bond Issue	25,000,000	25,000,000	4,910,000	(20,090,000)
Operating Transfers in from:				
Liquid Fuels Fund	1,495,023	1,495,023	1,506,144	11,121
Other Funds	375,000	375,000	19,267	(355,733)
Total Other Financing Sources	<u>\$ 41,823,944</u>	<u>\$ 41,823,944</u>	<u>\$ 18,435,411</u>	<u>\$ (23,388,533)</u>
Total Revenues and Other Financing Sources	<u>\$111,131,409</u>	<u>\$111,131,409</u>	<u>\$ 85,862,582</u>	<u>\$ (25,268,827)</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, 2013

Expenditures	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>General Government</b>				
Salaries and Wages	\$ 1,627,862	\$ 1,627,862	\$ 1,573,038	\$ 54,824
Employee Benefits	3,860,817	3,860,817	3,386,747	474,070
Workers' Compensation Claims	3,700,608	3,700,608	2,643,281	1,057,327
General Insurance	1,000,000	1,000,000	1,122,147	(122,147)
Office Supplies and Expense	123,375	189,734	153,875	35,859
Professional Fees	573,500	556,928	731,167	(174,239)
Telephone	75,000	75,000	95,534	(20,534)
Equipment	63,000	62,965	60,315	2,650
Other	2,600	2,848	622,303	(619,455)
Boards and Commissions	106,300	106,300	129,224	(22,924)
Utilities	726,000	726,000	673,695	52,305
Grants and Contributions	5,100	5,100	5,000	100
Court Awards & Settlements	17,200,000	17,200,000	194,055	17,005,945
Parking Authority Ticket Issuers	0	0	545,116	(545,116)
<b>Total General Government</b>	<b>\$ 29,064,162</b>	<b>\$ 29,114,162</b>	<b>\$11,935,497</b>	<b>\$ 17,178,665</b>
<b>Public Safety</b>				
Salaries and Wages	\$ 18,758,376	\$ 18,758,376	\$20,607,521	\$ (1,849,145)
Employee Benefits	19,868,572	19,868,572	19,092,130	776,442
Supplies	60,420	59,019	53,885	5,134
Equipment	236,200	233,260	275,812	(42,552)
Training	35,750	38,822	40,668	(1,846)
Travel	4,500	10,606	10,606	0
Professional Fees	11,925	7,088	6,482	606
<b>Total Public Safety</b>	<b>\$ 38,975,743</b>	<b>\$ 38,975,743</b>	<b>\$40,087,104</b>	<b>\$ (1,111,361)</b>
<b>Public Works</b>				
Salaries and Wages	\$ 4,217,507	\$ 4,217,507	\$ 4,063,079	\$ 154,428
Employee Benefits	2,095,264	2,095,264	2,335,599	(240,335)
Supplies	318,262	297,395	226,444	70,951
Professional Fees	162,807	163,755	123,099	40,656
Equipment	1,360,050	1,352,431	1,205,939	146,492
Electric	445,000	445,000	316,314	128,686
Landfill Fees	500,000	428,400	439,789	(11,389)
Salt	250,000	372,000	342,025	29,975
Flood Protection	940,945	940,945	746,686	194,259
Street Lighting	80,000	57,138	56,701	437
<b>Total Public Works</b>	<b>\$ 10,369,835</b>	<b>\$ 10,369,835</b>	<b>\$ 9,855,675</b>	<b>\$ 514,160</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, 2013

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 615,796	\$ 615,796	\$ 588,791	\$ 27,005
Employee Benefits	16,649	16,649	11,823	4,826
Supplies	<u>43,500</u>	<u>43,500</u>	<u>37,500</u>	<u>6,000</u>
Total Community Development	<u>\$ 675,945</u>	<u>\$ 675,945</u>	<u>\$ 638,114</u>	<u>\$ 37,831</u>
Culture and Recreation				
Salaries and Wages	\$ 454,065	\$ 454,065	\$ 427,515	\$ 26,550
Employee Benefits	2,520	2,520	2,125	395
Supplies	117,792	117,792	115,256	2,536
Programs	<u>26,500</u>	<u>26,500</u>	<u>24,062</u>	<u>2,438</u>
Total Culture and Recreation	<u>\$ 600,877</u>	<u>\$ 600,877</u>	<u>\$ 568,958</u>	<u>\$ 31,919</u>
Total Expenditures	<u>\$ 79,686,562</u>	<u>\$ 79,736,562</u>	<u>\$63,085,348</u>	<u>\$ 16,651,214</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$ 14,800,000	\$ 14,800,000	\$12,233,967	\$ 2,566,033
Bond Premium Fees	0	0	187,808	(187,808)
Contingency	1,000,000	540,000	215	539,785
Unencumbered Expenses	4,000,000	4,000,000	18,731	3,981,269
Payments on Guarantee of Parking Authority	1,900,000	2,310,000	2,310,000	0
Operating Transfers Out to: Debt Service Fund	<u>8,006,047</u>	<u>8,006,047</u>	<u>11,315,359</u>	<u>(3,309,312)</u>
Total Other Financing Uses	<u>\$ 29,706,047</u>	<u>\$ 29,656,047</u>	<u>\$26,066,080</u>	<u>\$ 3,589,967</u>
Total Expenditures and Other Financing Uses	<u>\$109,392,609</u>	<u>\$109,392,609</u>	<u>\$89,151,428</u>	<u>\$ 20,241,181</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	RECEIVED IN 2013 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			\$ 3,851,300
Emergency Solutions Grants Program	14.231			175,057
Homeless Prevention & Rapid Re-Housing (HPRP) (Recovery Act Funded)	14.257			120,316
Economic Development Initiative-Special Project	14.251			73,069
Home Investment Partnerships Program	14.239			770,464
Total U.S. Department of Housing and Urban Development				<u>\$ 4,990,206</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed through the PA Department of Community & Economic Development				
Neighborhood Stabilization Program	14.228			
Incurred 2012 Received 2013			\$ 713	
Incurred 2013 Received 2013			433	\$ 433
Incurred 2013 Received 2014			0	147
Total PA Department of Community & Economic Development			<u>\$ 1,146</u>	<u>\$ 580</u>
Total U.S. Department of Housing and Urban Development				<u>\$ 4,990,786</u>
U.S. DEPARTMENT OF JUSTICE:				
Justice Grant Assistance Program	16.580			\$ 30,041
Total U.S. Department of Justice				<u>\$ 30,041</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the Pennsylvania Department of Transportation				
Highway Planning and Construction				
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222		
Incurred 2013 Received 2014			\$ 0	\$ 55,629
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 2012 Received 2013			\$ 1,005,158	
Incurred 2013 Received 2013			2,445,935	2,445,935
Incurred 2013 Received 2014			0	323,429
Total U.S. Department of Transportation			<u>\$ 3,451,093</u>	<u>\$ 2,824,993</u>
Environmental Protection Agency				
Brownfield Assessment & cleanup Cooperative Agreements Recovery Act	66.818			\$ 7,266
Total Environmental Protection Agency				<u>\$ 7,266</u>
Department of Homeland Security				
Staffing for Adequate Fire and Emergency Response Hiring Program	97.083			\$ 2,036,452
Assistance to Firefighter Grant Program	97.044			149,200
Total Department of Homeland Security				<u>\$ 2,185,652</u>
Passed through the Pennsylvania Emergency Agency				
Disaster Grants Public Assist (Presidentially Declared)	97.036			
Incurred 2012 Paid 2013			\$ 67,402	\$ 0
Total Pennsylvania Emergency Agency			<u>\$ 67,402</u>	<u>\$ 0</u>
Total Department of Homeland Security				<u>\$ 2,185,652</u>
U.S. General Service Administration				
Donation of Federal Surplus Property Program	39.003			\$ 199,895
Total U.S. General Service Administration				<u>\$ 199,895</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 10,238,633</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

ROBERT L. ROSSI, C.P.A.  
ROBERT T. ARVONIO, C.P.A.  
PETER D. ARVONIO, JR., C.P.A.  
ROBERT A. HANIS, C.P.A.

299 MAIN ST. 2<sup>ND</sup> FLR  
OLYPHANT, PA 18447-2326  
TEL. (570) 876-2300 - FAX (570) 876-5153  
Website: www.rrco.net

SALVATORE A. NOLE, JR., C.P.A.  
JOSEPH E. ROSSI, C.P.A.  
SEAN J. GRASSI, C.P.A.  
RALPH R. MORRIS, III, C.P.A.

**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**

April 20, 2015

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, 2013, 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 April 20, 2015.

**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: 2013-3 & 2013-4.

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 2013-01, 2013-02 and 2013-05.

### **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.

*Robert Rossi & Co*

**ROBERT ROSSI & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

ROBERT L. ROSSI, C.P.A.  
ROBERT T. ARVONIO, C.P.A.  
PETER D. ARVONIO, JR., C.P.A.  
ROBERT A. HANIS, C.P.A.

299 MAIN ST. 2<sup>ND</sup> FLR  
OLYPHANT, PA 18447-2326  
TEL. (570) 876-2300 - FAX (570) 876-5153  
Website: www.rrco.net

SALVATORE A. NOLE, JR., C.P.A.  
JOSEPH E. ROSSI, C.P.A.  
SEAN J. GRASSI, C.P.A.  
RALPH R. MORRIS, III, C.P.A.

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

April 20, 2015

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, 2013. 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, 2013.

### ***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 2013-6. 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 & Co*

CITY OF SCRANTON, PENNSYLVANIA  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Section I – Auditor’s Result Section

- (1) A qualified opinion was expressed on the aggregate remaining fund information of the auditee. An adverse opinion was expressed on major enterprise fund of the parking authority of the City of Scranton, and a qualified opinion on business type activities. An unqualified opinion was expressed on the remaining Governmental-Activities, and each major fund.
- (2) The audit disclosed significant deficiencies, three (3) 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
14.239	Home Investment Partnership Program
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 \$307,159.
- (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, 2013

Questioned  
Cost

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

2013-1 Segregation of Duties

Condition: There is no segregation of duties regarding the system for processing accounts payable.

Criteria: Internal controls should be in place that provide reasonable assurance that one person is not 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.

Cause: There are no procedures in place requiring separation of duties after payments have been approved by the Controller's Office.

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

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

\$ 0

2013-2 Processing of Invoices

Condition: At the end of the year, invoices were vouchered, approved for payment, and processed by accounts payable. However, instances were noted where they included prior balance forward in total being vouchered and such total had already been vouchered thus duplicating the expenditure and causing overpayments. Instances were noted where 2013 expenditures were vouchered on 2014 vouchers and not properly processed in prior year and expensed in current year. Instances were noted where the same invoice was vouchered in 2013 and 2014 by different administration employees.

Criteria: The City has a process where invoices for payment are vouchered by each department employees, approved by heads of department, approved by purchasing, approved by business office, and approved by controller's office for payment. The City also has a process where accounts payable is held open for the first two (2) month of the year to capture expenditures in the proper period.

Cause: With change in administration at the end of the calendar year, procedures were not properly being followed and approvals of expenditures did not make necessary corrections prior to processing by accounts payable.

CITY OF SCRANTON, PENNSYLVANIA  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Questioned  
Cost

Effect: Expenditures were paid twice in some instances, not recorded in proper period in some instances, and may have caused a shortfall in available budget categories in 2014.

Recommendation: Procedures should be reviewed with all departments on proper preparation and approving of invoices for payment.

0

2013-3 Processing of Transactions on Certain Funds

Condition: For the Workmen's Compensation Internal Service Fund, Debt Service Fund, and Pension Fund, transactions and account reconciliations for November and December of 2013 and most if not all of 2014 were not being processed and prepared.

Criteria: The City has a process for recording of transactions and account reconciliations on each of its funds.

Cause: The City previous finance manager left in December 2013 and for most of 2014 the City was without a finance manager to make sure that all transactions and all account reconciliations were being completed for all funds.

Effect: The loss of a permanent finance manager from December 2013 until late 2014 left the Business Office short staffed and contributed to the delay in the completion of necessary information for completion of the 2013 audit.

Recommendation: Procedures should be reviewed to insure that all transactions are processed timely and account reconciliations are completed in a timely manner.

0

2013-4 Account Reconciliations

Condition: Account reconciliations for November and December of 2013 and most if not all of 2014 were not being prepared on inter fund transfers in and out, operating transfers in and out, and payroll tax liability accounts.

Criteria: The City has a process for account reconciliations on each of its funds.

Cause: The City previous finance manager left in December 2013 and for most of 2014 the City was without a finance manager to make sure that all transactions and all account reconciliations were being completed for all funds.

CITY OF SCRANTON, PENNSYLVANIA  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Questioned  
Cost

Effect: The loss of a permanent finance manager from December 2013 until late 2014 left the Business Office short staffed and reconciliations were not being completed for November and December of 2013 and most if not all of 2014 were not being prepared. The result was that payroll tax liabilities were showing increasing overpaid debit balances because of misposting of entries and transfer from one fund to another fund were deposited into the wrong fund and were not timely caught and resolved accordingly.

Recommendation: Procedures should be reviewed to insure that all transactions are processed timely and account reconciliations are completed in a timely manner.

0

2013-5 Processing & Recording of Transactions for Current and Delinquent Receivables

Condition: The City needs to establish monthly, quarterly, and annual reporting and reconciliation procedures of its current and delinquent taxes and refuse receivables.

Criteria: The City has a process for daily cash receipt reconciliations on current refuse and delinquent real estate taxes with Northeast Revenue Services. It does not have established procedures for insuring receipt of monthly, quarterly, or annual reports from all agencies that collect taxes on its behalf and reconciling such reports to City records.

Cause: The City did not consistently receive reports from other agencies and when such reports were received they were not reconciled to City records.

Effect: Revenues in some instances were noted as processed to the wrong account and were not timely corrected by the City and recording of receivables could not be completed until such reports were received and reconciled to City records.

Recommendation: Procedures should be reviewed to insure that reports are timely received and reconciled to City records.

0

CITY OF SCRANTON, PENNSYLVANIA  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Questioned  
Cost

*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*

2013-6                      *Submission of Data Collection Form*

Condition:                      The submission of the Data Collection Form to the Bureau of Census was not completed by its required due date.

Criteria:                        The Form is required to be submitted either 30 days after the issuance of the Audit report or 90 days after the entity's year end.

Cause:                            Because of change over in administrations and the Business Office being short staffed for most of 2014 the audit was not audit completed by the submission deadline and could not complete its data collection form and transmit the report to the Bureau of Census.

Effect:                            The City is late in filing of its required data collection form with the Bureau of Census.

Recommendation:    When circumstances are in the City's control they should strive to have its audit completed by the September 30 deadline

0

Total Questioned Costs

\$ 0

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2013

2012 - 1 Segregation of Duties

There is no segregation of duties regarding the system for processing accounts payable. One person is responsible for matching invoices to purchase orders, enters invoices into the general ledger, processes the checks for payment, has access to the signature machine, and mails the checks to vendors. This finding still exists as of December 31, 2013.

2012 - 2 Segregation of Duties

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. The two staffing levels were restored during parts of 2013.

2012 - 3 Processing & Recording of Transactions for Current and Delinquent Receivables

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. The City instituted daily reconciliation of cash receipts in 2013 with (NRS).

Department of Homeland Security  
Staffing for Adequate Fire and Emergency Response Hiring Program (SAFER)  
CFDA # 97.083

2012 - 4 Reporting

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. Grant reporting was completed for 2013.

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

2013-1 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 will take steps to implement procedures to address this issue.

2013-2 Processing of Invoices

Recommendation: Procedures should be reviewed with all departments on proper preparation and approving of invoices for payment.

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

2013-3 Processing of Transactions on Certain Funds

Recommendation: Procedures should be reviewed to insure that all transactions are processed timely and account reconciliations are completed in a timely manner.

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

2013-4 Account Reconciliations

Recommendation: Procedures should be reviewed to insure that all transactions are processed timely and account reconciliations are completed in a timely manner.

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

2013-5 Processing & Recording of Transactions for Current and Delinquent Receivables

Recommendation: Procedures should be reviewed to insure that reports are timely received and reconciled to City records.

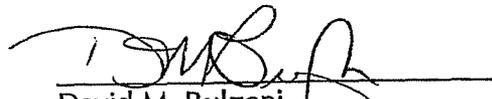
Response: We agree with the finding of the independent auditor and will take steps to implement procedures to address this issue.

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

2013-6                      Submission of Data Collection Form

Recommendation:    When circumstances are in the City's control they should strive to have its audit completed by the September 30 deadline.

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

  
\_\_\_\_\_  
David M. Bulzoni  
Business Administrator