

**CITY OF SCRANTON, PENNSYLVANIA**

**Financial Statements Together with  
Report of Independent Public Accountants**

**For the Year Ended December 31, 2017**



**S B & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

**DECEMBER 31, 2017**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

### **Report on the Financial Statements**

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 the City of Scranton (the City), as of and for the year ended December 31, 2017, 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***

The City's 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 did not audit the financial statements of the Sewer Authority (business-type activity fund) or the Redevelopment Authority, which represents 100 percent of the assets, net position and revenue of the business-type activity fund and one percent, of the assets, fund balances, and revenues of the non-major governmental funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sewer Authority or the Redevelopment Authority, is based solely on the reports of the other auditors. 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 adverse audit opinion on the governmental activities and aggregate discretely presented component unit and unmodified audit opinions on the business-type activities, major funds and aggregate remaining fund information.

***Summary of Opinions***

<b><i>Opinion Unit</i></b>	<b><i>Type of Opinion</i></b>
<b>Entity-Wide:</b>	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Unit	Adverse
<b>Fund:</b>	
General Fund	Unmodified
OECD Fund	Unmodified
Non-major Governmental Funds	Unmodified
Sewer Authority	Unmodified
Internal Service Fund	Unmodified
Pension Trust Fund	Unmodified

***Basis for Adverse Opinion on the Reporting Entity***

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City’s legal entity. The financial statements do not include financial data for the City’s legally separate component unit, the Scranton Parking Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City’s primary government.

***Adverse Opinion on the Reporting Entity***

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements referred to above do not present fairly the financial position of the reporting entity of the City, as of December 31, 2017, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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***Unmodified Opinions on Governmental Activities, Business-Type Activities, Major Funds, and Aggregate Remaining Fund Information***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund not covered by our opinion in the previous paragraphs, and the aggregate remaining fund information for the primary government of the City, as of December 31, 2017, and the respective changes in their financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

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. Our opinion is not modified with respect to this matter.

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 2015 plan identifies mandates that the City must implement to eliminate the City's operating budget deficits as projected by the Act 47 Coordinator. 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, budgetary comparison information, schedules of changes in pension fund net pension liability and related ratios and schedules of employer contributions for the Police, Firemen and Non-uniformed Pension Plans, and the schedule of funding progress and schedule of employer contributions for other post-employment benefits 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.

Philadelphia, Pennsylvania  
October 23, 2018

*S B & Company, LLC*

## **CITY OF SCRANTON, PENNSYLVANIA**

### **Management's Discussion and Analysis For the Year Ended December 31, 2017**

As management of the City of Scranton, Pennsylvania (the City), 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, 2017. 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 City continues to participate in the Commonwealth of Pennsylvania Act 97 for the financial distressed municipal program.

1. The liabilities of the City exceeded its assets as of December 31, 2017, by \$151,535,854 (net deficit). See Note 17.
2. The City's total net position decreased \$22,994,511, primarily due to the transfer of Sewer Authority assets.
3. As of December 31, 2017, the City's general fund reported an ending unassigned fund balance of \$33,211,382, a decrease from the prior year of \$42,297,055.
4. The City has elected not to include the Parking Authority financial statements in the financial statements; as such, the information has been excluded. Additionally, the Parking Authority was in receivership and leased during the year ended December 31, 2016.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. In general, the purpose of financial reporting is to provide external parties who read financial statements with information that will help them make decisions or draw conclusions about an entity. There are many external parties that read the City's financial statements; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the City, in accordance with required reporting standards, presents 1) governmental-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### ***Government-Wide financial statements***

The focus of government-wide financial statements is on the overall financial position and activities of the City. These financial statements are constructed around the concept of a primary government, the City.

## CITY OF SCRANTON, PENNSYLVANIA

### Management's Discussion and Analysis For the Year Ended December 31, 2017

#### Overview of the Financial Statements (continued)

##### *Government-Wide financial statements* (continued)

The City's government-wide financial statements include the statement of net position and the statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the net position held and liabilities owed by the City. The City reports all of its assets when it acquires ownership over the asset and infrastructure as assets even though they are not available to pay the obligations incurred by the City. On the other hand, the City reports liabilities, such as long-term bonds payable, even though these liabilities might not be paid until several years in the future.

The difference between the City's total assets and total liabilities is labeled as net position and this difference is similar to the total owners' equity presented by a commercial enterprise. Although the purpose of the City is not to accumulate net position, in general, as this amount increases, it indicates that the financial position of the City is improving over time.

The purpose of the statement of activities is to present the revenue and expenses of the City. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial entity in that revenue is recognized when earned or established criteria are satisfied and expenses are reported when incurred by the City. Thus, revenue is reported even when it may not be collected for several months after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the City reports an amount described as *change in net position*, essentially the same thing.

The focus of the statement of activities is on the *net cost* of various activities provided by the City. The statement begins with a column that identifies the cost of each of the City's major functions. Another column identifies the revenue that is specifically related to the classified governmental functions. The difference between the expenses and revenue related to specific program/activities identifies the extent to which each function of the City draws from the general revenue or is self-financing through fees, intergovernmental aid, or other sources of resources.

The primary government is divided into governmental activities and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenue, and other non-exchange revenue, while business-type activities are financed to some degree by charging external parties for the goods or services they acquire from the City.

#### Overview of the Financial Statements (continued)

## **CITY OF SCRANTON, PENNSYLVANIA**

### **Management's Discussion and Analysis For the Year Ended December 31, 2017**

#### ***Government-wide financial statements*** (continued)

Governmental activities include programs/activities such as general government, public safety, public works, and parks recreation and culture. Business-type activities, an integral part of the City's activities and responsibilities, primarily include the City's water and sewer services.

The government-wide financial statements can be found on pages 15 - 17 of this report.

#### ***Fund financial statements***

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the City rather than the City as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over the resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations. The City's fund financial statements are divided into two broad categories, namely, (1) governmental funds, and (2) proprietary funds.

#### ***Governmental fund***

Governmental fund financial statements consist of a balance sheet and statement of revenue, expenditures, and change in fund balance and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and change in fund balance provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City maintains seven governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and change in fund balance. There is also a combining schedule in the supplementary information section for the non-major funds.

The City adopts an annual appropriated budget for its general and proprietary fund. A budgetary comparison statement for the general fund has been provided to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18 - 21 of this report.

## **CITY OF SCRANTON, PENNSYLVANIA**

### **Management's Discussion and Analysis For the Year Ended December 31, 2017**

#### **Overview of the Financial Statements** (continued)

##### ***Proprietary fund***

Proprietary fund financial statements consist of a statement of net position, statement of revenue, expenses, and change in fund net position and statement of cash flows, and are prepared on an accounting basis that is similar to the basis used to prepare the government-wide financial statements.

The City maintains two types of proprietary funds, the enterprise fund and the internal service fund. The City uses enterprise funds to account for business-type activities that charge fees to customers for the use of specific goods and services. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to primarily account for its sanitary sewer and water distribution operations.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 22 - 23 of this report.

##### ***Notes to basic 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 can be found on pages 27 -74 of this report.

##### ***Supplementary information***

The schedule on page 85 of this report provides additional information about the City's general fund revenue and expenditures including a budget comparison.

#### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by \$151,535,854, as of December 31, 2017.

All of the City's assets reflect its investment in capital assets (e.g., land, buildings, equipment and construction in progress) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

# CITY OF SCRANTON, PENNSYLVANIA

## Management's Discussion and Analysis For the Year Ended December 31, 2017

### Government-Wide Financial Analysis (continued)

Our following analysis focuses on the net position and changes in net position of the City's governmental and business-type activities.

### CONDENSED STATEMENTS OF NET POSITION AS OF DECEMBER 31, 2017 AND 2016

	Governmental Activities		Business-Type Activities (March 31,)		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current assets	\$ 77,989,947	\$ 48,156,941	\$ 2,547,254	\$ 18,651,823	\$ 80,537,201	\$ 66,808,764
Restricted assets	631,658	759,100	16,998,252	26,793,956	17,629,910	27,553,056
Capital assets, net	84,525,430	84,872,274	7,387	74,660,819	84,532,817	159,533,093
<b>Total Assets</b>	<b>163,147,035</b>	<b>133,788,315</b>	<b>19,552,893</b>	<b>120,106,598</b>	<b>182,699,928</b>	<b>253,894,913</b>
<b>Total Deferred Outflow of Resources</b>	<b>563,920</b>	<b>8,576,468</b>	<b>-</b>	<b>880,786</b>	<b>563,920</b>	<b>9,457,254</b>
<b>Liabilities</b>						
Current liabilities	14,220,996	14,309,862	1,823,239	5,740,776	16,044,235	20,050,638
Long-term liabilities	266,630,034	362,182,051	-	59,886,012	266,630,034	422,068,063
Unearned revenue	7,247,937	7,465,259	-	-	7,247,937	7,465,259
<b>Total Liabilities</b>	<b>288,098,967</b>	<b>383,957,172</b>	<b>1,823,239</b>	<b>65,626,788</b>	<b>289,922,206</b>	<b>449,583,960</b>
<b>Total Deferred Inflows of Resources</b>	<b>44,877,496</b>	<b>788,793</b>	<b>-</b>	<b>85,261</b>	<b>44,877,496</b>	<b>874,054</b>
<b>Net Position</b>						
Net investment in capital assets	63,712,989	67,337,854	7,387	14,373,795	63,720,376	81,711,649
Restricted	631,658	759,100	16,998,252	23,580,216	17,629,910	24,339,316
Unrestricted	(233,610,155)	(310,478,136)	724,015	17,321,324	(232,886,140)	(293,156,812)
<b>Total Net Position</b>	<b>\$ (169,265,508)</b>	<b>\$ (242,381,182)</b>	<b>\$ 17,729,654</b>	<b>\$ 55,275,335</b>	<b>\$ (151,535,854)</b>	<b>\$ (187,105,847)</b>

For more information on the statement of net position see pages 15 and 16.

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors.

As of December 31, 2017, the City was able to report positive balances in the two categories of net position for its governmental activities. The same situation existed as of December 31, 2016.

**CITY OF SCRANTON, PENNSYLVANIA**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Government-Wide Financial Analysis** (continued)

**CONDENSED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Governmental		Business-Type		Total	
	Activities		Activities (March 31,)		Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Revenue</b>						
Program revenue						
Fees, fines, and charges for services	\$ 10,011,436	\$ 11,159,117	\$ 16,036,692	\$ 22,394,174	\$ 26,048,128	\$ 33,553,291
Operating grants and contributions	10,111,102	16,022,847	-	-	10,111,102	16,022,847
Capital grants and contributions	-	-	-	97,753	-	97,753
General revenues						
Property taxes	45,448,010	36,441,398	-	-	45,448,010	36,441,398
Act 511 taxes	37,389,174	36,820,000	-	-	37,389,174	36,820,000
Cable TV franchise revenue	1,071,698	1,016,420	-	-	1,071,698	1,016,420
Payment in lieu of taxes	271,559	60,791	-	-	271,559	60,791
Investment earnings	5,723	8,670	36,805	12,830	42,528	21,500
Miscellaneous	3,532,215	980,395	122,426	177,857	3,654,641	1,158,252
Rent and concessions	11,200	12,210	-	-	11,200	12,210
Gain on sale of assets	-	66,519,968	57,416,777	-	57,416,777	66,519,968
<b>Total Revenue and Transfers</b>	<b>107,852,117</b>	<b>169,041,816</b>	<b>73,612,700</b>	<b>22,682,614</b>	<b>181,464,817</b>	<b>191,724,430</b>
<b>Expenses</b>						
General government and admin	20,707,971	25,339,870	-	-	20,707,971	25,339,870
Public safety	36,657,742	51,164,481	-	-	36,657,742	51,164,481
Public works	20,806,017	20,852,406	-	-	20,806,017	20,852,406
Community development	3,284,200	4,766,949	-	-	3,284,200	4,766,949
Cultural and recreation	1,166,428	1,166,868	-	-	1,166,428	1,166,868
Interest and fees on long term debt	7,809,145	10,056,182	-	-	7,809,145	10,056,182
Enterprise expenses						
Sewer authority	-	-	114,027,825	19,813,170	114,027,825	19,813,170
<b>Total Expenses</b>	<b>90,431,503</b>	<b>113,346,756</b>	<b>114,027,825</b>	<b>19,813,170</b>	<b>204,459,328</b>	<b>133,159,926</b>
Change in net position	17,420,614	55,695,060	(40,415,125)	2,869,444	(22,994,511)	58,564,504
Net position, beginning of year	(186,686,122)	(242,381,182)	58,144,779	55,275,335	(128,541,343)	(187,105,847)
<b>Net Position, End of Year</b>	<b>\$ (169,265,508)</b>	<b>\$ (186,686,122)</b>	<b>\$ 17,729,654</b>	<b>\$ 58,144,779</b>	<b>\$ (151,535,854)</b>	<b>\$ (128,541,343)</b>

For more information on the statement of activities, see page 17.

## **CITY OF SCRANTON, PENNSYLVANIA**

### **Management's Discussion and Analysis For the Year Ended December 31, 2017**

#### **Government-Wide Financial Analysis** (continued)

##### ***Governmental Activities***

Governmental activities increased the City's net position by \$17,420,614, for the year ended December 31, 2017, primarily as a result of the changes in the net pension liability.

##### ***Business-type Activities***

Business-type activities decreased the City's net position as of March 31, 2017 by \$40,415,125.

#### **Fund Financial Analysis**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

##### ***Governmental Funds***

The focus of the City's governmental fund is to provide information on near-term inflow, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as 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. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. The unassigned fund balance represents 89% of general fund expenditures.

The fund balance of the City's general fund increased due to proceeds from the sale of the Sewer Authority.

##### ***Proprietary Funds***

The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Changes in the activity were previously discussed.

# CITY OF SCRANTON, PENNSYLVANIA

## Management's Discussion and Analysis For the Year Ended December 31, 2017

### General Fund Budgetary Highlights

No changes were made to the original budget for the City.

### Capital Asset and Debt Administration

#### *Capital Assets*

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017, was \$84,532,817. The investment in capital assets includes land, buildings, machinery and equipment, park facilities and infrastructure. The total net decrease in the City's investment in capital assets for the year ended December 31, 2017, was \$81,315,881.

	Governmental Activities		Business-Type Activities (March 31,)		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land & land improvement	\$ 3,485,506	\$ 3,485,506	\$ -	\$ 130,029	\$ 3,485,506	\$ 3,615,535
Buildings & building improvements	20,803,777	20,803,777	-	148,255,982	20,803,777	169,059,759
Infrastructure	132,206,565	132,206,565	-	-	132,206,565	132,206,565
Furniture, equipment and vehicles	24,836,784	22,860,848	7,510	5,763,487	24,844,294	28,624,335
Construction in progress	6,585,917	2,406,437	-	13,582,943	6,585,917	15,989,380
Accumulated depreciation	(103,393,120)	(97,645,569)	(123)	(86,001,307)	(103,393,243)	(183,646,876)
<b>Total Capital Assets, Net</b>	<b>\$ 84,525,430</b>	<b>\$ 84,117,564</b>	<b>\$ 7,387</b>	<b>\$ 81,731,134</b>	<b>\$ 84,532,817</b>	<b>\$ 165,848,698</b>

Additional information on the City's capital assets can be found in Note 5 on page 46 of this report.

#### *Debt Administration*

The City's outstanding debt as of December 31, 2017 and 2016, was as follows:

	Governmental Activities		Business-Type Activities (March 31,)		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Beginning Balance	\$ 154,893,540	\$ 123,462,032	\$ 61,932,549	\$ 57,236,215	\$ 216,826,089	\$ 180,698,247
Issued debt	24,620,000	76,546,046	3,535,723	16,253,900	28,155,723	92,799,946
Accretion and amortization	-	205,194	-	-	-	205,194
Less: retirements	(69,728,059)	(45,319,732)	(65,468,272)	(11,557,566)	(135,196,331)	(56,877,298)
<b>Ending Balance</b>	<b>\$ 109,785,481</b>	<b>\$ 154,893,540</b>	<b>\$ -</b>	<b>\$ 61,932,549</b>	<b>\$ 109,785,481</b>	<b>\$ 216,826,089</b>

The City's total debt decreased by \$107,040,608, during the fiscal year ended December 31, 2017, primarily as a result of the sale of the Sewer Authority and retirements of governmental activity bonds.

Additional information on the City's long-term debt can be found in Note 7 on pages 46-52 of this report.

## **CITY OF SCRANTON, PENNSYLVANIA**

### **Management's Discussion and Analysis For the Year Ended December 31, 2017**

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

The economy of the City is closely tied to the economy of the Commonwealth of Pennsylvania. Property taxes will be reviewed and property tax revenue may change as reassessments are made. The costs of operating in the general and enterprise funds are expected to increase due to labor costs, health care costs, pensions, and other factors.

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

During 2015, the City revised and updated its Act 47 Recovery Plan. The 2015 plan identifies and 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, worked 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-year time limit 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 years from the effective date of their most recent recovery plan or amendment. The 2015 Revised Recovery Plan was adopted by City Council in March 2015.

The revised Recovery Plan and its provisions outlined below are 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 of Scranton will review the divestiture of other non-essential assets not directly related to the provision of services;

## CITY OF SCRANTON, PENNSYLVANIA

### Management's Discussion and Analysis For the Year Ended December 31, 2017

#### *Economic Factors and Next Year's Budgets and Rates (continued)*

The following mandates are provisions of the 2015 Recovery Plan:

- 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 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 tax 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 of the fee schedule of the Department of Licenses and Permits;
- 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 revenue.

**CITY OF SCRANTON, PENNSYLVANIA**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

*Economic Factors and Next Year's Budgets and Rates (continued)*

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed 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**

**Statement of Net Position  
As of December 31, 2017**

	<b>Governmental Activities</b>	<b>Business Type Activities As of March 31, 2017</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 35,543,152	\$ 2,433,814	\$ 37,976,966
Investments	19,216,368	-	19,216,368
Receivables:			-
Taxes and fees receivable, net	18,697,019	-	18,697,019
Accounts receivable, net	1,411,410	113,440	1,524,850
Loans receivable	1,805,958	-	1,805,958
Other receivables, net	1,217,105	-	1,217,105
Property held for resale	98,935	-	98,935
Restricted assets:			-
Cash and cash equivalents	631,658	16,998,252	17,629,910
<b>Total Current Assets</b>	<b>78,621,605</b>	<b>19,545,506</b>	<b>98,167,111</b>
Land	3,485,506	-	3,485,506
Buildings	12,103,899	-	12,103,899
Improvements	8,699,878	-	8,699,878
Infrastructure	132,206,565	-	132,206,565
Vehicles, furniture, and equipment	24,836,784	7,510	24,844,294
Construction in progress	6,585,917	-	6,585,917
<b>Total capital assets</b>	<b>187,918,550</b>	<b>7,510</b>	<b>187,926,060</b>
Less: accumulated depreciation	103,393,120	123	103,393,243
<b>Capital assets, net</b>	<b>84,525,430</b>	<b>7,387</b>	<b>84,532,817</b>
<b>Total Assets</b>	<b>163,147,035</b>	<b>19,552,893</b>	<b>182,699,928</b>
<b>Deferred Outflow of Resources</b>			
Deferred outflows related to pensions	563,920	-	563,920
<b>Total Deferred Outflow of Resources</b>	<b>563,920</b>	<b>-</b>	<b>563,920</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF SCRANTON, PENNSYLVANIA**

**Statement of Net Position (continued)  
As of December 31, 2017**

	<b>Governmental Activities</b>	<b>Business Type Activities As of March 31, 2017</b>	<b>Total</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 5,865,695	\$ 1,823,064	\$ 7,688,759
Accrued liabilities	728,551	175	728,726
Current liabilities payable from restricted assets:			
Revenue bonds/notes payable	-	-	-
Accrued bond interest payable	905,821	-	905,821
Current portion of long term debt:			
Long-term debt obligations	5,465,125	-	5,465,125
Capital lease	1,255,804	-	1,255,804
<b>Total Current Liabilities</b>	<u>14,220,996</u>	<u>1,823,239</u>	<u>16,044,235</u>
Non-Current liabilities			
Worker's compensation claims payable	21,559,564	-	21,559,564
Long-term debt obligations	95,597,669	-	95,597,669
Capital lease	7,466,883	-	7,466,883
Net other post employment benefits obligation	46,460,797	-	46,460,797
Net pension liability	92,234,376	-	92,234,376
Compensated absences	3,310,745	-	3,310,745
Unearned revenue	7,247,937	-	7,247,937
<b>Total Liabilities</b>	<u>288,098,967</u>	<u>1,823,239</u>	<u>289,922,206</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pensions	<u>44,877,496</u>	<u>-</u>	<u>44,877,496</u>
<b>NET POSITION</b>			
Net investment in capital assets	63,712,989	7,387	63,720,376
Restricted:			-
Debt service	631,658	-	631,658
Restricted for Escrow Agreements	-	16,998,252	16,998,252
Unrestricted (deficit)	<u>(233,610,155)</u>	<u>724,015</u>	<u>(232,886,140)</u>
<b>Total Net Position</b>	<u>\$ (169,265,508)</u>	<u>\$ 17,729,654</u>	<u>\$ (151,535,854)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF SCRANTON, PENNSYLVANIA

Statement of Activities  
For the Year Ended December 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities (March 31, 2017)	Total
Governmental Activities							
General government and administration	\$ 20,707,971	\$ 9,679,223	\$ 7,250,772	\$ -	\$ (3,777,976)	\$ -	\$ (3,777,976)
Public safety	36,657,742	-	-	-	(36,657,742)	-	(36,657,742)
Public works	20,806,017	-	-	-	(20,806,017)	-	(20,806,017)
Community development	3,284,200	332,213	2,860,330	-	(91,657)	-	(91,657)
Culture and recreation	1,166,428	-	-	-	(1,166,428)	-	(1,166,428)
Interest and fees on long term debt	7,809,145	-	-	-	(7,809,145)	-	(7,809,145)
<b>Total Governmental Activities</b>	<b>90,431,503</b>	<b>10,011,436</b>	<b>10,111,102</b>	<b>-</b>	<b>(70,308,965)</b>	<b>-</b>	<b>(70,308,965)</b>
Business-type Activities							
Sewer Authority (for the year ended March 31, 2017)	114,027,825	16,036,692	-	-	-	(97,991,133)	(97,991,133)
<b>Total Government</b>	<b>\$ 204,459,328</b>	<b>\$ 26,048,128</b>	<b>\$ 10,111,102</b>	<b>\$ -</b>	<b>(70,308,965)</b>	<b>(97,991,133)</b>	<b>(168,300,098)</b>
General Revenues							
Taxes							
Property taxes							
					45,448,010	-	45,448,010
Act 511 taxes							
					37,389,174	-	37,389,174
Cable television franchise revenue							
					1,071,698	-	1,071,698
Payments in lieu of taxes							
					271,559	-	271,559
Investment earnings							
					5,723	36,805	42,528
Gain on sale of assets							
					-	57,416,777	57,416,777
Miscellaneous							
					3,532,215	122,426	3,654,641
Rents and concessions							
					11,200	-	11,200
<b>Total General Revenues and Transfers</b>							
					<b>87,729,579</b>	<b>57,576,008</b>	<b>145,305,587</b>
<b>Change in Net Position</b>							
					17,420,614	(40,415,125)	(22,994,511)
Net position, beginning of year							
					(186,686,122)	58,144,779	(128,541,343)
<b>Net Position, End of Year</b>							
					<b>\$ (169,265,508)</b>	<b>\$ 17,729,654</b>	<b>\$ (151,535,854)</b>

The accompanying notes are an integral part of this financial statement.

# CITY OF SCRANTON, PENNSYLVANIA

## Balance Sheet – Governmental Funds As of December 31, 2017

	General	OECD	Special Cities	Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 29,905,246	\$ 1,237,256	\$ 3,745,200	\$ 655,450	\$ 35,543,152
Taxes and fees receivable, net	18,697,019	-	-	-	18,697,019
Accounts receivable, net	-	150,920	1,191,737	-	1,342,657
Loans receivable, net	-	1,748,064	-	57,894	1,805,958
Other receivables, net	1,217,105	-	-	-	1,217,105
Due from other funds	762,975	575,292	1,204,549	-	2,542,816
Restricted assets:					-
Restricted cash and cash equivalents	-	-	-	631,658	631,658
Property held for resale	-	-	-	98,935	98,935
<b>Total Assets</b>	<b>\$ 50,582,345</b>	<b>\$ 3,711,532</b>	<b>\$ 6,141,486</b>	<b>\$ 1,443,937</b>	<b>\$ 61,879,300</b>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>					
Accounts payable	\$ 4,297,587	\$ 192,204	\$ 1,204,679	\$ 25,527	\$ 5,719,997
Accrued liabilities	703,765	24,786	-	-	728,551
Due to other funds	3,204,549	-	709,286	521,603	4,435,438
Unearned revenue	-	3,394,204	3,853,733	-	7,247,937
<b>Total Liabilities</b>	<b>8,205,901</b>	<b>3,611,194</b>	<b>5,767,698</b>	<b>547,130</b>	<b>18,131,923</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	9,096,641	-	-	57,894	9,154,535
<b>Total Deferred Inflows of Resources</b>	<b>9,096,641</b>	<b>-</b>	<b>-</b>	<b>57,894</b>	<b>9,154,535</b>
<b>Fund Balance</b>					
Nonspendable	68,421	-	-	98,935	167,356
Restricted for debt service	-	-	-	631,658	631,658
Restricted for externally imposed restrictions	-	100,338	373,788	626,386	1,100,512
Unassigned	33,211,382	-	-	(518,066)	32,693,316
<b>Total Fund Balance</b>	<b>33,279,803</b>	<b>100,338</b>	<b>373,788</b>	<b>838,913</b>	<b>34,592,842</b>
<b>Total Liabilities, Deferred Inflows and Fund Balance</b>	<b>\$ 50,582,345</b>	<b>\$ 3,711,532</b>	<b>\$ 6,141,486</b>	<b>\$ 1,443,937</b>	<b>\$ 61,879,300</b>

The accompanying notes are an integral part of this financial statement.

# CITY OF SCRANTON, PENNSYLVANIA

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position As of December 31, 2017

<b>Total Governmental Fund Balances</b>	\$ 34,592,842
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund statements	84,525,430
Property taxes receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.	5,367,287
Refuse fee receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.	3,711,706
Internal service fund is used by management to charge the cost of the workmen's compensation insurance fund to various departments. The net revenue/(expense) of the internal service fund is reported with governmental activities.	(520,398)
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.	68,421
Deferred outflow of resources, including loss on refunding, contributions subsequent to measurement date, and changes in assumptions are consumption of resources that is applicable to future reporting periods and therefore are not reported in the funds.	(44,313,576)
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	(65,900,000)
General obligation notes payable	(32,840,000)
Governmental notes payable	(2,322,794)
Accrued interest payable	(905,821)
Capitalized lease payable	(8,722,687)
Compensated absences	(3,310,745)
Other post employment benefits	(46,460,797)
Net pension liability	(92,234,376)
Long-term liabilities	<u>(252,697,220)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ (169,265,508)</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF SCRANTON, PENNSYLVANIA**

**Statement of Revenue, Expenditures, and Changes in Fund Balance – Governmental Funds  
For the Year Ended December 31, 2017**

	<u>General</u>	<u>OECD</u>	<u>Special Cities</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes	\$ 72,648,050	\$ -	\$ 10,189,134	\$ -	\$ 82,837,184
Intergovernmental	4,963,928	2,860,330	-	2,286,844	10,111,102
Departmental earnings	281,014	-	465,268	-	746,282
Refuse disposal fee	6,637,754	-	-	-	6,637,754
Licenses and permits	2,295,187	-	-	-	2,295,187
Cable television franchise revenue	1,071,698	-	-	-	1,071,698
Payments in lieu of taxes	271,559	-	-	-	271,559
Investment income	-	1,379	743	3,601	5,723
Other revenues	3,073,037	-	459,140	38	3,532,215
Rents and concessions	5,500	-	-	5,700	11,200
Program income	-	332,213	-	-	332,213
<b>Total Revenues</b>	<b>91,247,727</b>	<b>3,193,922</b>	<b>11,114,285</b>	<b>2,296,183</b>	<b>107,852,117</b>
<b>EXPENDITURES</b>					
Current:					
General government	14,539,547	-	1,388,488	-	15,928,035
Public safety	53,625,673	-	2,286,965	-	55,912,638
Public works	12,384,073	-	3,879,020	-	16,263,093
Community development	-	3,235,133	5,388	43,679	3,284,200
Culture and recreation	685,201	-	-	-	685,201
Debt Service:					
Debt service principal	1,134,145	-	-	-	1,134,145
Debt service interest/fees	7,809,145	-	-	-	7,809,145
Capital outlay	1,975,936	126,624	4,052,856	-	6,155,416
<b>Total Expenditures</b>	<b>92,153,720</b>	<b>3,361,757</b>	<b>11,612,717</b>	<b>43,679</b>	<b>107,171,873</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(905,993)</b>	<b>(167,835)</b>	<b>(498,432)</b>	<b>2,252,504</b>	<b>680,244</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from:					
Operating transfers in	2,930,526	-	-	-	2,930,526
Operating transfers out	(175,000)	-	710,781	(2,930,526)	(2,394,745)
Issuance of refunding bonds	24,620,000	-	-	-	24,620,000
Premium of Issuance of Bonds	1,539,054	-	-	-	1,539,054
Payment to escrow agent for refundings/retirements	(72,437,410)	-	-	-	(72,437,410)
Proceeds from tax anticipation note	12,750,000	-	-	-	12,750,000
Court award payment	(189,115)	-	-	-	(189,115)
Sale of assets	2,570,139	-	-	-	2,570,139
Payments on tax anticipation note	(12,964,896)	-	-	-	(12,964,896)
<b>Total Other Financing Sources (Uses)</b>	<b>(41,356,702)</b>	<b>-</b>	<b>710,781</b>	<b>(2,930,526)</b>	<b>(43,576,447)</b>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>(42,262,695)</b>	<b>(167,835)</b>	<b>212,349</b>	<b>(678,022)</b>	<b>(42,896,203)</b>
Fund Balances, beginning of year	75,542,498	268,173	161,439	1,516,935	77,489,045
<b>Fund Balances, End of Year</b>	<b>\$ 33,279,803</b>	<b>\$ 100,338</b>	<b>\$ 373,788</b>	<b>\$ 838,913</b>	<b>\$ 34,592,842</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF SCRANTON, PENNSYLVANIA**

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance –  
Governmental Funds to the Statement of Activities (continued)  
For the Year Ended December 31, 2017**

**Net Changes in Fund Balances - Total Governmental Funds** \$ (42,896,203)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlays exceeds depreciation:

Capital outlays	6,155,416	
Depreciation	<u>(5,747,551)</u>	407,865

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. 840,917

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 amounts earned versus the amount used. 135,176

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 amounts earned versus the amount used. (6,726,729)

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. (24,620,000)

Repayment of bond principal is 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:

Repayment of general bond principal	59,733,595	
Repayment of governmental note payable	7,609,377	
Repayment of capitalized lease principal	2,385,087	
		69,728,059

Net pension liability is not due and payable in the current period, and therefore are not reported in the funds. 19,873,509

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 678,020

678,020

**Change in Net Position of Governmental Activities** \$ 17,420,614

The accompanying notes are an integral part of this financial statement.

CITY OF SCRANTON, PENNSYLVANIA

Statement of Net Position – Proprietary Funds  
As of December 31, 2017

	<b>Business-Type Activities - Enterprise Funds Major Fund As of March 31, 2017 Sewer Authority</b>	<b>Governmental Activities - Internal Service Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,433,814	\$ -
Investments	-	19,216,368
Accounts receivable, net	113,440	68,753
Due from other funds	-	2,000,000
Restricted assets:	-	-
Cash and cash equivalents	16,998,252	-
Capital assets	-	-
Property, plant and equipment, net	7,387	-
<b>Total Assets</b>	<b>19,552,893</b>	<b>21,285,121</b>
<b>LIABILITIES</b>		
<b>Current liabilities (payable from current assets):</b>		
Accounts payable	1,823,064	245,955
Accrued payroll and payroll taxes	175	-
<b>Total current liabilities (payable from current assets)</b>	<b>1,823,239</b>	<b>245,955</b>
<b>Noncurrent liabilities:</b>		
Workers' compensation claims payable	-	21,559,564
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>21,559,564</b>
<b>Total Liabilities</b>	<b>1,823,239</b>	<b>21,805,519</b>
<b>NET POSITION</b>		
Investment in capital assets, net of related debt	7,387	-
Restricted for escrow agreements	16,998,252	-
Unrestricted	724,015	(520,398)
<b>Total Net Position</b>	<b>\$ 17,729,654</b>	<b>\$ (520,398)</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF SCRANTON, PENNSYLVANIA**

**Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
For the Year Ended December 31, 2017**

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>
	<u>Major Fund</u>		
	<u>For the Year Ended March 31, 2017</u>		
	<u>Sewer Authority</u>		
<b>REVENUES</b>			
Charges for services	16,036,692	\$	3,096,676
<b>Total Revenues</b>	<b>16,036,692</b>		<b>3,096,676</b>
<b>EXPENSES</b>			
Workers' compensation claims	-		2,071,074
Sewer plant and sewer system	8,415,278		-
Administrative and general	3,502,243		-
Depreciation	2,771,214		-
Other	-		346,140
<b>Total Expenses</b>	<b>14,688,735</b>		<b>2,417,214</b>
<b>Income from Operations</b>	<b>1,347,957</b>		<b>679,462</b>
<b>Non Operating Revenues (Expenses):</b>			
Investment income	36,805		161,455
Interest expense	(1,544,250)		-
Amortization of bond insurance cost	(20,846)		-
Bond issuance costs	(5,875,321)		-
Professional fees - sale of transaction costs	(2,753,725)		-
Gain on sale of assets - system sale	57,416,777		-
Gain on capital asset sale	16,550		-
Union pension withdrawal liability payment	(2,782,313)		-
Operating Transfers	(86,362,635)		-
Amortization of bond premium	533		-
Other revenue	105,343		-
<b>Total Non Operating Revenues (Expenses)</b>	<b>(41,763,082)</b>		<b>161,455</b>
<b>Change in Net Position</b>	<b>(40,415,125)</b>		<b>840,917</b>
Net Position, beginning of year	58,144,779		(1,361,315)
<b>Net Position, End of Year</b>	<b>\$ 17,729,654</b>	<b>\$</b>	<b>(520,398)</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF SCRANTON, PENNSYLVANIA**

**Statement of Cash Flows – Proprietary Funds  
As of December 31, 2017**

	<u>Business-Type Activities</u> <u>- Enterprise Funds</u>		<u>Governmental Activities -</u> <u>Internal Service Funds</u>
	<u>Major Fund</u>		
	<u>Sewer Authority</u>		
<b>Cash Flows from Operating Activities</b>			
Cash received from customers/interfund services provided	\$ 15,819,511	\$	3,004,379
Cash payments for goods and services	(6,580,590)		(2,340,510)
Cash payments to employees for services	(6,567,197)		-
<b>Net Cash from Operating Activities</b>	<u>2,671,724</u>		<u>663,869</u>
<b>Cash Flows from Noncapital and Related Financing</b> □			
<b>Activity Inflows</b>			
Other revenue received	105,343		-
Professional fees - sale transaction costs	(3,562,078)		-
<b>Net Cash Flows from Noncapital and Related Financing</b>	<u>(3,456,735)</u>		<u>-</u>
<b>Activity Inflows</b>			
<b>Cash Flows from Capital and Related Financing Activity Inflows</b>			
Payment of debt	(18,924,692)		-
Payment of interest	(2,210,697)		-
Proceeds from loans payable	3,545,723		-
Borrowings on line of credit	3,950,599		-
Payment on line of credit	(3,950,599)		-
Union pension withdrawal liability payment	(2,782,313)		-
Operating transfers	(86,362,635)		-
Payment to escrow for refunding debt - principal	(41,540,000)		-
Payment to escrow for refunding debt - interest	(7,882,295)		-
Funds received from bond trustee - bond defeasance	3,212,674		-
Proceeds from sale of capital assets	16,550		-
Proceeds from sale of sewer system	156,351,493		-
Cash transferred at closing to PAWC	(4,985,275)		-
Payment of closing costs on sale of sewer system	(1,114,006)		-
Purchase and construction of capital assets	(13,468,154)		-
<b>Net Cash from Capital and Related Financing Activity Inflows</b>	<u>(16,143,627)</u>		<u>-</u>
<b>Cash Flows from Investment Activities</b>			
Proceeds from maturity of investments	3,853,045		-
Purchase of investments	-		(825,324)
Sale of investments	-		-
Receipt of interest	37,445		161,455
<b>Net Cash from Investment Activities</b>	<u>3,890,490</u>		<u>(663,869)</u>
<b>Net change in cash and cash equivalents</b>	<u>(13,038,148)</u>		<u>-</u>
Cash and cash equivalents, beginning of year	32,470,214		-
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 19,432,066</u>	<u>\$</u>	<u>-</u>
<b>Reconciliation of Operating Income to</b>			
<b>Net Cash from Operating Activities:</b>			
Operating income	\$ 1,347,957	\$	679,462
Depreciation	2,771,214		-
Effect of changes in non-cash operating assets and liabilities:			
Bad debt expense	606,743		-
Accounts receivable	(217,180)		(92,297)
Other current assets	309,312		-
Accounts payable	(1,206,406)		76,704
Accrued payroll and payroll taxes	(181,280)		-
Compensated absences	(758,636)		-
<b>Net Cash from Operating Activities</b>	<u>\$ 2,671,724</u>	<u>\$</u>	<u>663,869</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF SCRANTON, PENNSYLVANIA**

**Statement of Net Position - Fiduciary Fund  
As of December 31, 2017**

	<b>ASSETS</b>	<b>Pension Trust</b>
Cash and investments		\$ 74,084,039
Receivables:		
Members' contributions		<u>48,618</u>
<b>Total Assets</b>		<u>74,132,657</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>		
<b>Net Position</b>		
Held in trust for pension benefits		<u><u>\$ 74,132,657</u></u>

The accompanying notes are an integral part of this financial statement.

**CITY OF SCRANTON, PENNSYLVANIA**

**Statement of Change in Net Position - Fiduciary Fund  
For the Year Ended December 31, 2017**

	<b>Pension Trust</b>
<b>Additions</b>	
Contributions	
Employee	\$ 1,271,311
Employer/Commonwealth	18,811,562
Total Contributions	<u>20,082,873</u>
Investment Income:	
Interest income	7,649,507
Total Investment Income	<u>7,649,507</u>
<b>Total Additions</b>	<u>27,732,380</u>
<b>Deductions</b>	
Benefit payments	(12,680,985)
Administrative expenses	(233,531)
<b>Total Deductions</b>	<u>(12,914,516)</u>
Change in net position	14,817,864
Net position, beginning of year	<u>59,314,793</u>
<b>Net Position, End of Year</b>	<u>\$ 74,132,657</u>

The accompanying notes are an integral part of this financial statement.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### The 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 Council-Mayor form of government and provides the following services as authorized by its charter: public safety, roads, sanitation, health, culture-recreation, and general administrative services.

The City's financial statements are prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

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 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

The City has concluded that the following organizations should be presented in the City's financial statements:

- Redevelopment Authority of the City of Scranton
- Sewer Authority of the City of Scranton, Pennsylvania
- Parking Authority of City of Scranton, Pennsylvania

The City has not included the other organizations, as they City is not financially accountable for these organizations.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### The Reporting Entity (continued)

- 1) Component Unit - In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. This type of entity may then be reported in one or 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, 2017.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### The Reporting Entity (continued)

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 the 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 Sewer Authority is a blended component unit. The Sewer Authority was sold during the City's fiscal year ended December 31, 2016.

The 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 was not completed for December 31, 2016 and no financial statements have been prepared or included in the City's report for the year ended December 31, 2017 as part of its reporting entity. The Parking Authority should be a discretely presented component unit.

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. The Redevelopment Authority is a blended component unit.

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

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basic Financial Statements – Government-wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, public works, parks, recreation and culture and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. For the most part, the effect of interfund activity has been removed from these statements. The City's net position is reported in two parts - investment in capital assets, net of related debt, and unrestricted net position.

The government-wide statement of activities reports both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenue (property and income taxes and certain intergovernmental revenue). For the most part, the effect of interfund activity has been removed from these statements. The statement of activities reduces gross expenses (including depreciation) by related program revenue, operating and capital grants, and contributions. The program revenue must be directly associated with the function or business-type activity. Program revenue include revenue from fines, licenses and permit fees, and charges for services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grant column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenues (property and income taxes, intergovernmental revenue, interest income, etc.).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenue and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The model as defined in GASB Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenue or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City reports the following major funds:

#### Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City has four governmental funds:

- a) The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources, except those legally or administratively required to be accounted for in another 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 Cities, 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. The remaining Special Revenue Funds are classified as non-major funds.

- 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.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements

December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basic Financial Statements - Fund Financial Statements (continued)

##### Proprietary Funds

The focus of proprietary funds measurement is upon determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenue for the City's proprietary funds are charges for water and sewer services. Operating expenses for the City's proprietary funds include salaries, utility costs for the sewer plant, supplies, administrative costs, maintenance and depreciation on capital assets. All revenue or expenses not meeting this definition are reported as non-operating revenue and expenses.

The City's proprietary funds are classified as internal revenue funds and enterprise funds.

- a) 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 workers' compensation claims in this fund. These are Proprietary fund reported within the governmental activities in the government-wide financial statements.
- b) Enterprise Funds are used for activities which are financed and operated in a manner similar to businesses in the private sector, where the intent of the governing body is that the costs 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. The Sewer Authority is the only enterprise fund of the City.

##### Fiduciary Funds

The focus of the fiduciary fund is 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.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of Accounting**

Basis of accounting refers to the point at which revenue or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. 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. Reimbursements are reported as reductions to expenses.

**Accrual:** Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting, although the internal activity is not eliminated from the proprietary and fiduciary fund statements. Revenue is recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

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

**Modified Accrual:** The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when 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 received.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than program revenue. Likewise, general revenue includes all taxes.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of Accounting** (continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the utility fund is charges to customers for services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

#### **Budgets and Budgetary Accounting**

The City prepares an annual operating budget for the general fund on a basis consistent with accounting principles generally accepted in the United States of America. 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.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

#### Cash and Cash Equivalents

Cash and cash equivalents includes cash and all other investment instruments with original maturities of three months or less.

#### Investments

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.

The City categorizes its fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are valuations based on unadjusted quoted prices for identical assets or liabilities in active markets; Level 2 inputs are valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and Level 3 inputs are valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker traded transactions.

#### 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, 2017, upon which the 2017 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.

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Real Estate Taxes (continued)**

The schedule for real estate taxes levied is as follows:

February 1	Original levy date
February 1 – March 1	2 ½% 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 City utilizes the reserve method for writing off uncollectible real estate taxes.

	<b>Pension Trust</b>
	<hr/>
<b>ASSETS</b>	
Cash and investments	\$ 74,084,039
Receivables:	
Members' contributions	<u>48,618</u>
<b>Total Assets</b>	<u><u>74,132,657</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	
<b>Net Position</b>	
Held in trust for pension benefits	<u><u>\$ 74,132,657</u></u>

The millage rate at January 1, 2017 was 232.521 mills on the assessed value of land and 50.564 mills on the assessed value of improvements.

**Loans Receivable**

Loans receivable consist of economic development loans to third parties that are administered by OECD. 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 the Financial Statements December 31, 2017

### 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 due from funds. Short-term interfund loans are reported as interfund receivables and payables. Long-term interfund loans 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.

#### Fixed Assets

The accounting for property, plant and equipment (fixed assets) depend 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 fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

Fixed assets are depreciated using the straight-line method over the following estimated useful lives:

	<b>Redevelopment Authority</b>	<b>Governmental Funds</b>
	<b>Useful Life</b>	<b>Useful Life</b>
Building and Building Improvements	N/A	20-50 years
Land Improvements	N/A	10-15 years
Equipment/Furniture	15 years	5-7 years
Vehicles	N/A	8-15 years
Extraordinary repairs	N/A	N/A
Roadways	N/A	30-50 years
Traffic Systems	N/A	15 years

In the government-wide financial statements, fixed assets are accounted for as capital assets. The City has elected to report general infrastructure assets retroactively.

Depreciation of all exhaustible fixed assets is recorded as a direct expense in the accompanying statement of activities, with accumulated depreciation reflected in the statement of net position.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fixed Assets (continued)

Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

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 in the same manner as in the government-wide statements.

#### 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. As of December 31, 2017, aggregate liability for unused vacation and sick pay was \$3,310,745.

#### 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 is 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 funds is the same in the fund statements as it is in the government-wide statements.

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 recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Net Position and Fund Balances

In the government-wide financial statements and proprietary fund financial statements, net position is classified in the following categories:

**Investment in Capital Assets, Net of Related Debt:** This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

**Restricted Net Position:** This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position:** This category represents the net position of the City, which are not restricted for any project or other purpose. However, these funds may be designated for specific projects or purposes in the financial statements.

#### Fund Equity

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

**Nonspendable fund balance** – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

**Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation;

**Committed fund balance** – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. To be 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.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Implementation of New Accounting Principles

The City has adopted the provisions of Governmental Accounting Standards Board (GASB) issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"; Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"; Statement No. 80, "Blending Requirements for Certain Component Units"; Statement No. 81, "Irrevocable Split-Interest Agreements". Statement No. 82, "Pension Issues." The adoption of this standard does not have a material effect on these statements.

As of the year ended December 31, 2017, GASB issued Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"; Statement No. 83, "Certain Asset Retirement Obligations"; Statement No. 84, "Fiduciary Activities"; Statement No. 85, "Omnibus 2017"; Statement No. 86, "Certain Debt Extinguishment Issues"; Statement No. 87, "Leases." It is expected that GASB Statement No. 75 will have a material impact on the City's financial statements. The City is analyzing the effects of these pronouncements and plans to adopt them as applicable by its effective date.

### 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

#### Policies and Practices

Pennsylvania statutes authorize the City to invest 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. These statutes do not prescribe regulations related to demand deposit; however, they do allow the pooling of governmental funds for investment purposes.

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

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. As of year-end, the carrying amount of combined deposits was \$55,606,876, and the collected bank balance was \$55,689,310.

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)**

**Policies and Practices (continued)**

The uninsured balances were fully collateralized by securities placed with the respective bank escrow agents held in the City's name. As of December 31, 2017, the City's deposits were not exposed to custodial credit risk.

**Investments**

As of December 31, 2017, the City had the following investments:

<u>Types of Investments</u>	<u>Fair Value / Carrying Amount</u>	<u>Cost</u>
<b>GOVERNMENTAL FUNDS</b>		
Primary Government:		
Internal Service Fund		
Cash and Cash Equivalents	\$ 7,756,692	\$ 7,756,692
Corporate Obligations:		
Corporate-Domestic Bonds	5,106,310	5,094,887
Governmental Securities:		
U.S. Government Agencies	222,540	225,322
Mutual Funds:		
U.S. Agency Equity Funds	6,130,826	6,203,971
<b>Total Internal Service Fund</b>	<u>\$ 19,216,368</u>	<u>\$ 19,280,872</u>
	<u>Fair Value / Carrying Amount</u>	<u>Cost</u>
<b>FIDUCIARY FUNDS</b>		
Pension Trust Fund		
Mutual Funds:		
Cash Equivalents	\$ 3,607,271	\$ 3,607,271
Equity Mutual Funds	27,251,577	27,102,782
Bond Mutual Funds	43,225,191	38,561,511
<b>Total Pension Trust Fund</b>	<u>\$ 74,084,039</u>	<u>\$ 69,271,564</u>

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)**

**Investments (continued)**

The City has the following recurring fair value investments as of December 31, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurement Using</u>		
		<u>in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Input (Level 3)</u>
Primary Government:				
Corporate Obligations:				
Corporate-Domestic Bonds	\$ 5,106,310	\$ 5,106,310	\$ -	\$ -
Governmental Securities:				
U.S. Government Agencies	222,540	222,540	-	-
Mutual Funds:				
U.S. Agency Equity Funds	6,130,826	6,130,826	-	-
Subtotal Government Funds	<u>\$ 11,459,676</u>	<u>\$ 11,459,676</u>	<u>\$ -</u>	<u>\$ -</u>
Pension Trust Fund				
Mutual Funds:				
Equity Mutual Funds	\$ 27,251,577	\$ 27,251,577	-	-
Bond Mutual Funds	43,225,191	43,225,191	-	-
Subtotal Pension Trust Fund	<u>\$ 70,476,768</u>	<u>\$ 70,476,768</u>	<u>\$ -</u>	<u>\$ -</u>

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 (Internal Service 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 the 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 the Financial Statements  
December 31, 2017**

**3. TAXES AND FEES RECEIVABLE**

Taxes and fees receivable in the general fund consist of the following at December 31, 2017:

Real estate taxes	\$ 11,098,809
Act 511 taxes:	
Earned income	7,132,697
Delinquent refuse disposal fee	7,815,457
Total	<u>26,046,963</u>
Less: Allowance for uncollectible taxes and fees	<u>(7,349,944)</u>
<b>Total Taxes and Fees Receivable, Net</b>	<b><u>\$ 18,697,019</u></b>

**4. DUE FROM AND DUE TO OTHER FUNDS**

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund		
OECD	\$ 53,689	\$ -
Special Cities	709,286	1,204,549
Internal Service Fund	-	2,000,000
Special Cities		
General Fund	1,204,549	709,286
OECD		
Redevelopment Authority	521,603	-
General Fund	-	53,689
Redevelopment Authority		
OECD		521,603
Internal Service Fund		
General Fund	2,000,000	
<b>Total</b>	<b><u>\$ 4,489,127</u></b>	<b><u>\$ 4,489,127</u></b>

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**5. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017, was as follows:

	<b>Balance December 31, 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance December 31, 2017</b>
<b>Governmental Activities:</b>				
Land	\$ 3,485,506	\$ -	\$ -	\$ 3,485,506
Construction in progress	2,406,437	4,179,480	-	6,585,917
Building	12,103,899	-	-	12,103,899
Land and building improvements	8,699,878	-	-	8,699,878
Infrastructure	132,206,565	-	-	132,206,565
Vehicles, furniture, and equipment	22,860,848	1,975,936	-	24,836,784
<b>Total</b>	<b>181,763,134</b>	<b>6,155,416</b>	<b>-</b>	<b>187,918,550</b>
<b>Less: Accumulated depreciation</b>				
Building	(5,265,941)	(345,826)	-	(5,611,766)
Land and building improvements	(5,954,814)	(248,568)	-	(6,203,382)
Infrastructure	(70,299,139)	(3,305,164)	-	(73,604,303)
Vehicles, furniture, and equipment	(16,125,675)	(1,847,993)	-	(17,973,668)
<b>Total</b>	<b>(97,645,569)</b>	<b>(5,747,551)</b>	<b>-</b>	<b>(103,393,120)</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 84,117,565</b>	<b>\$ 407,865</b>	<b>\$ -</b>	<b>\$ 84,525,430</b>
	<b>March 31, 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>March 31, 2017</b>
<b>Business-Type Activities:</b>				
Land	\$ 130,029	\$ -	\$ (130,029)	\$ -
Construction in progress	13,582,943	8,940,393	(22,523,336)	-
Building and building improvements	148,255,982	4,314,127	(152,570,109)	-
Equipment	5,763,487	559,912	(6,315,889)	7,510
<b>Total</b>	<b>167,732,441</b>	<b>13,814,432</b>	<b>(181,539,363)</b>	<b>7,510</b>
<b>Less: Accumulated depreciation</b>				
Building and building improvements	(82,630,198)	(2,260,591)	84,890,789	-
Equipment	(3,371,109)	(510,623)	3,881,609	(123)
<b>Total</b>	<b>(86,001,307)</b>	<b>(2,771,214)</b>	<b>88,772,398</b>	<b>(123)</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 81,731,134</b>	<b>\$ 11,043,218</b>	<b>\$ (92,766,965)</b>	<b>\$ 7,387</b>

Depreciation expense was charged to governmental functions as follows:

General	\$ 104,787
Public Safety	618,613
Public Works	4,542,924
Parks and Recreation	481,227
<b>Total Depreciation Expense</b>	<b>\$ 5,747,551</b>

**6. SHORT-TERM DEBT**

During the year ended December 31, 2017, the City issued a tax anticipation note for \$12,750,000. The note was repaid, with interest, during the year for \$12,964,896.

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 7. LONG-TERM DEBT

Type of Debt	Balance Outstanding			Balance Outstanding		Due
	December 31, 2016	Additions	Reductions	December 31, 2017	Within One Year	
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligation Bonds:						
Emmaus General Authority Series 2002	\$ 4,405,000	\$ -	\$ 300,000	\$ 4,105,000	\$ 310,000	
Series B of 2003	25,195,000	-	25,195,000	-	-	
Series C of 2003	13,270,000	-	13,270,000	-	-	
Series D of 2003	6,135,000	-	6,135,000	-	-	
Series A of 2012	6,075,000	-	6,075,000	-	-	
Series C of 2012	6,655,000	-	6,655,000	-	-	
Series A and AA of 2016	39,278,595	-	2,103,595	37,175,000	2,605,000	
Series A of 2017	-	24,620,000	-	24,620,000	2,000,000	
<b>Total General Obligation Bonds</b>	<b>101,013,595</b>	<b>24,620,000</b>	<b>59,733,595</b>	<b>65,900,000</b>	<b>4,915,000</b>	
General Obligation Notes:						
Series B of 2012	800,000	-	800,000	-	-	
Series A of 2013	3,774,025	-	3,774,025	-	-	
Series of 2016	35,563,692	-	2,723,692	32,840,000	235,000	
<b>Total General Obligation Notes</b>	<b>40,137,717</b>	<b>-</b>	<b>7,297,717</b>	<b>32,840,000</b>	<b>235,000</b>	
Lease Obligations Payable						
2006 Capitalized Lease Equip Energy System	700,428	-	700,428	-	-	
2006 Capitalized Lease Buildings	8,820,000	-	1,115,000	7,705,000	910,000	
2016 Capitalized lease equipment	1,587,346	-	569,659	1,017,687	345,804	
<b>Total Lease Obligations Payable</b>	<b>11,107,774</b>	<b>-</b>	<b>2,385,087</b>	<b>8,722,687</b>	<b>1,255,804</b>	
Notes Payable:						
DCED Act 47 Loan	600,000	-	100,000	500,000	100,000	
PIB loan	2,034,454	-	211,660	1,822,794	215,125	
<b>Total Notes Payable</b>	<b>2,634,454</b>	<b>-</b>	<b>311,660</b>	<b>2,322,794</b>	<b>315,125</b>	
Other Long Term Liabilities						
Worker's Compensation claims	21,559,564	353,943	-	21,913,507	-	
Compensated absences	3,445,921	-	135,176	3,310,745	-	
Other post employment benefits	39,734,068	6,726,729	-	46,460,797	-	
Net pension liability	161,894,406	-	69,660,030	92,234,376	-	
<b>Total Other Long Term Liabilities</b>	<b>226,633,959</b>	<b>7,080,672</b>	<b>69,795,206</b>	<b>163,919,425</b>	<b>-</b>	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 381,527,499</b>	<b>\$ 31,700,672</b>	<b>\$ 139,523,265</b>	<b>\$ 273,704,906</b>	<b>\$ 6,720,929</b>	
	<b>March 31, 2016</b>			<b>March 31, 2017</b>		
<b>BUSINESS-TYPE ACTIVITIES</b>						
Revenue Bonds:						
2011 Series A	\$ 18,295,000	\$ -	\$ 18,295,000	\$ -	\$ -	
2011 Series B	6,130,000	-	6,130,000	-	-	
2014 Series	9,800,546	-	9,800,546	-	-	
2015 Series	7,835,821	-	7,835,821	-	-	
<b>Total Revenue Bonds</b>	<b>\$ 42,061,367</b>	<b>\$ -</b>	<b>\$ 42,061,367</b>	<b>\$ -</b>	<b>\$ -</b>	
Notes Payable:						
2000 Series Pennvest	\$ 1,968,854	\$ -	\$ 1,968,854	\$ -	\$ -	
2002 Series Pennvest	2,175,195	-	2,175,195	-	-	
2003 Series Pennvest	1,207,786	-	1,207,786	-	-	
2004 Series Pennvest	2,160,855	-	2,160,855	-	-	
2007 Series Pennvest	2,827,067	-	2,827,067	-	-	
2012 Series Pennvest	7,714,934	-	7,714,934	-	-	
2015 Series Pennvest	6,285,975	-	6,285,975	-	-	
<b>Total Notes Payable</b>	<b>\$ 24,340,666</b>	<b>\$ -</b>	<b>\$ 24,340,666</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 66,402,033</b>	<b>\$ -</b>	<b>\$ 66,402,033</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL LONG TERM DEBT</b>	<b>\$ 447,929,532</b>	<b>\$ 31,700,672</b>	<b>\$ 205,925,298</b>	<b>\$ 273,704,906</b>	<b>\$ 6,720,929</b>	

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 7. LONG-TERM DEBT (continued)

A summary of long-term debt outstanding at December 31, 2017 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 at December 31, 2017, was 2.45%.

General Obligation Bonds, Series B of 2003: On August 1, 2003, the City of Scranton, in accordance with the local governmental 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 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%. These bonds were refunded during the year ended December 31, 2017.

General Obligation Bonds, Series C of 2003: On August 1, 2003, the City of Scranton, in accordance with the local governmental 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 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%. The bonds were redeemed during the year ended December 31, 2017.

General Obligation Bonds, Series D of 2003: On August 1, 2003, the City of Scranton, in accordance with the local governmental 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%. The bonds were redeemed during the year ended December 31, 2017.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 7. LONG-TERM DEBT (continued)

General Obligation Bonds, Series A of 2012: On October 23, 2012, the City of Scranton, in accordance with the local governmental Unit Debt Act of the Commonwealth of Pennsylvania, Act 53 Section 8111(a), issued \$9,850,000, of 8.50% General Obligation Bonds, Series A of 2012 to fund a portion of the City's working capital deficit and pay the costs and expenses related to issuing the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2022. The bonds were redeemed during the year ended December 31, 2017.

Mandatory Redemption: The bonds are not subject to redemption at the option of the City prior to maturity. The bonds are subject to mandatory redemption from required sinking fund amortization and extraordinary mandatory redemption. The bonds are subject to mandatory redemption prior to maturity, in part at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to date fixed for redemption, on September 1, of each year following years in the indicated principal amounts as drawn by lot by the Paying Agent.

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

General Obligation Notes, Series B of 2012: On October 23, 2012, the City of Scranton, in accordance with the local governmental 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, collectively, the Refunded Notes); the payment of the costs and expenses related to issuing the 2012 Notes. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2022. The bonds were redeemed during the year ended December 31, 2017.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 7. LONG-TERM DEBT (continued)

**Mandatory Redemption:** The bonds are not subject to redemption at the option of the City prior to maturity. The bonds are subject to mandatory redemption from required sinking fund amortization and extraordinary mandatory redemption. The bonds are subject to mandatory redemption prior to maturity, in part at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to date fixed for redemption, on September 1, of each year following years in the indicated principal amounts as drawn by lot by the Paying Agent.

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

**General Obligation Bonds, Series C of 2012:** On December 12, 2012, the City of Scranton, in accordance with the local governmental Unit Debt Act of the Commonwealth of Pennsylvania, Act 53 Section 8111(a), issued \$9,750,000, of 7.50% General Obligation Bonds, Series C of 2012 to fund a portion of the City’s working capital deficit and pay the costs and expenses related to issuing the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2022. The bonds were redeemed during the year ended December 31, 2017.

**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.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements

December 31, 2017

#### 7. LONG-TERM DEBT (continued)

General Obligation Notes, Series A of 2013: On January 9, 2013, the City of Scranton, in accordance with the local governmental 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 refund a portion of the City's working capital deficit, refund the refunded 2003 A, B, C, and D Notes noted above and pay the costs and expenses related to issuing the Notes. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2023. The bonds were redeemed during the year ended December 31, 2017.

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.

General Obligation Notes, Series of 2016: On August 24, 2016, the City of Scranton, in accordance with the local governmental Unit Debt Act of the Commonwealth of Pennsylvania, Act 53 Section 8111(a) issued \$32,850,000 of 5.00% General Obligation Notes. Proceeds of the Notes are to be applied for and towards the costs of a project consisting of: (a) refunding the City's outstanding lease rental debt represented by the City's respective guaranties of The Parking Authority of the City of Scranton, Pennsylvania's (the "Parking Authority") Guaranteed Parking Revenue Bonds, Series of 2004, the Parking Authority's Guaranteed Parking Revenue Bonds, Series of 2006 and the Parking Authority's Guaranteed Parking Revenue Bond, series of 2007 (collectively, the "Refunded Bonds"); (b) funding various capital improvements in the City, including renovations to certain fire stations located in the City" and (c) paying the costs related to the issuance of the Notes. Interest is payable on May 15, and November 15, each year with final maturity November 15, 2026.

Mandatory Redemption: The Notes are subject to redemption at the option of the City prior to maturity. The Notes are subject to mandatory redemption from required sinking fund amortization. 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 November 15 of each year, drawn by lot by the Paying Agent.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 7. LONG-TERM DEBT (continued)

General Obligation Bonds, Series A and AA of 2016: In June 2016, the City issued Guaranteed Lease Revenue Bonds, Series A of 2016 in the amount of \$29,810,000 and Guaranteed Lease Revenue Bonds, Series AA of 2016 in the amount of \$7,920,000.

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.

PIB Loan: In 2015, the City of Scranton borrowed \$2,242,820 at an interest rate of 1.625%. Principal and interest payments are due annually through 2025.

General Obligation Bonds, Series of 2017: In August 2017, the City issued General Obligation Bonds in the amount of \$24,620,000, at an interest rate of 5%. Principal and interest are due each year on September 1 through September 2029. The bonds were used to refund the Series B of 2003 debt. The City has covenanted that it will include in its budget in each fiscal year the amount required to pay debt service on the Bonds for such year, it will appropriate from its general revenues in each such fiscal year, the amount required to pay debt service on the Bonds for such year, and it will duly and punctually pay or cause to be paid when due, from its sinking fund or any other of its revenues or funds, the principal of and interest on the Bonds at the dates and place and in the manner stated therein, according to the true intent and meaning thereof.

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**7. LONG-TERM DEBT (continued)**

Future debt service requirements as of December 31, 2017, were as follows:

<b>For the Years Ending December 31,</b>	<b>Governmental Activities General Obligation Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 4,915,000	\$ 3,255,257	\$ 8,170,257
2019	5,180,000	3,006,550	8,186,550
2020	5,445,000	2,750,963	8,195,963
2021	5,735,000	2,482,188	8,217,188
2022	6,170,000	2,198,975	8,368,975
2023-2027	28,910,000	6,424,300	35,334,300
2028-2031	9,545,000	703,150	10,248,150
<b>Total</b>	<b>\$ 65,900,000</b>	<b>\$ 20,821,382</b>	<b>\$ 86,721,382</b>

<b>For the Years Ending December 31,</b>	<b>Governmental Activities General Obligation Notes</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 235,000	\$ 1,642,000	\$ 1,877,000
2019	245,000	1,630,250	1,875,250
2020	260,000	1,618,000	1,878,000
2021	270,000	1,605,000	1,875,000
2022	285,000	1,591,500	1,876,500
2023-2027	9,680,000	7,337,250	17,017,250
2028-2032	21,865,000	3,097,250	24,962,250
<b>Total</b>	<b>\$ 32,840,000</b>	<b>\$ 18,521,250</b>	<b>\$ 51,361,250</b>

<b>For the Years Ending December 31,</b>	<b>Governmental Activities Notes Payable</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 315,125	\$ 29,844	\$ 344,969
2019	318,647	26,322	344,969
2020	322,227	22,742	344,969
2021	325,865	19,104	344,969
2022	329,562	15,406	344,969
2023-2025	711,369	23,422	734,791
<b>Total</b>	<b>\$ 2,322,795</b>	<b>\$ 136,841</b>	<b>\$ 2,459,636</b>

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**7. LONG-TERM DEBT (continued)**

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

<b>For the Years Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 1,304,120	\$ 507,825	\$ 1,811,945
2019	1,292,963	437,784	1,730,747
2020	1,145,045	366,499	1,511,544
2021	1,168,784	299,649	1,468,433
2022	1,194,901	230,335	1,425,236
2023-2024	2,616,874	240,560	2,857,434
<b>Total</b>	<b>\$ 8,722,687</b>	<b>\$ 2,082,653</b>	<b>\$ 10,805,339</b>

The cost of the assets are	\$ 7,313,278
The accumulated depreciation expense through December 31, 2017 is	2,379,717
The net book value of the capitalized leased building and vehicles is	<u>\$ 4,933,561</u>

**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 limits 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 claim costs are reflected as revenues in the Internal Service fund.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters.

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

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**8. RISK MANAGEMENT (continued)**

At December 31, 2017, 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 Workers' Compensation	350,000	Unlimited
Boiler and Machinery	50,000	15,000,000

**Accrued Workers’ Compensation Claims**

The accrued workers’ compensation claim loss reserve of \$21,559,564 as of December 31, 2017, 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 September 25, 2016. The amount of Workers’ Compensation Claims operating expense for the Internal Service fund for the year ended December 31, 2017 is calculated as follows:

Claims and Cost Paid	\$ 2,204,097
Increase In Actuarial Discounted Loss Reserves	353,944
<b>Workers' Compensation Claims</b>	<b><u>\$ 2,558,041</u></b>

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**8. RISK MANAGEMENT (continued)**

**Accrued Worker’s Compensation Claims (continued)**

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

<u>Calendar Year Ended</u>	<u>Balance Beginning of Calendar Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance End of Calendar Year</u>
12/31/2016	\$ 18,409,101	\$ 5,260,201	\$ 2,109,738	\$ 21,559,564
12/31/2017	21,559,564	2,558,040	2,204,097	21,913,507

**9. INTERFUND TRANSFERS**

Interfund transfers during the year ended December 31, 2017, were as follows:

<u>Operating Transfers</u>	<u>In</u>	<u>Out</u>
General Fund		
Debt Service Fund	\$ -	\$ -
Liquid Fuels Fund	2,930,526	-
Debt Service		
General Fund	-	-
Liquid Fuels		
General Fund	-	2,930,526
<b>Total</b>	<b>\$ 2,930,526</b>	<b>\$ 2,930,526</b>

**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). The 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.

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Defined Benefit Plans (continued)**

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

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

Police and firemen are required to contribute 5% of covered payroll for fiscal year 2016 for members hired on or after July 1, 1987. Police and firemen are required to contribute 5.5% of covered payroll for fiscal year 2016 for members hired prior to July 1, 1987. 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 December 31, 2016. 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 \$15,186,044 to the three plans for the year 2017.

Contributions, based on the MMO, in 2016 consisted of the following:

	<b>Police</b>	<b>Firemen</b>	<b>Non-Uniformed</b>	<b>Total</b>
City	\$ 7,996,779	\$ 9,501,455	\$ 1,313,328	\$ 18,811,562
Commonwealth	(1,348,946)	(1,238,627)	(1,036,945)	(3,624,518)
<b>Total</b>	<b>\$ 6,647,833</b>	<b>\$ 8,262,828</b>	<b>\$ 276,383</b>	<b>\$ 15,187,044</b>

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Defined Benefit Plans (continued)**

The pension benefit obligations were determined as part of an actuarial valuation at December 31, 2017. 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 7.5% per year net of investment expenses, projected salary increases of 4.5% per year and no cost of living increases. 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 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.. 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.

**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**

The long-term expected rate of return on pension plan investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of December 31, 2017 is below.

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	36.00%	5.20%
International Equity	13.50%	5.20%
Emerging Equity	5.50%	5.20%
Core Fixed Income	20.00%	3.00%
Intermediate Inv. Grade Corp	10.00%	3.80%
High Yield	5.00%	4.30%
Emerging Debt	5.00%	4.80%
Cash	0.00%	0.80%
<b>Total Net Blended Return</b>		<b>3.94%</b>

\* Excludes 2.50% inflation assumption.

Long Term Expected Rate of Return (Including Inflation) 6.44%

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Pension (continued)**

For the year ended December 31, 2017, the annual money weighted rate of return on pension plan investments, net of investment expense was 12.85%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Actuarial Assumptions.* Total pension liability was determined by an actuarial valuation as of December 31, 2017, utilizing the Entry Age Normal actuarial funding method and the following actuarial assumptions applied to all periods included in the measurement:

Salary Increases	4.50%
Investment Rate of Return	7.50% (Net of pension plan investment expense including inflation)
Retirement Age	Normal retirement: age 55 and 25 years of service for police and firemen. Age 55, 15 years of service and 20 years of contributions for non-uniformed. Early retirement: age 55, 10 years of service and 20 years of contributions for non-uniformed. None for police and firemen. Vesting: 10 years of service for non-uniformed. 25 years of service for police and firemen.
Mortality Rate	Based on the Blue Collar RP-2000 Mortality Table

The following table summarizes the membership:

<b><u>Plan Membership</u></b>	<b><u>Police Pension Plan</u></b>	<b><u>Fireman's Pension Plan</u></b>	<b><u>Non-Uniformed Pension Plan</u></b>
As of December 31, 2017, membership consisted of:			
Inactive Plan Members Currently Receiving Benefits	177	214	120
Inactive Plan Entitled to but not yet Receiving Benefits	-	1	4
Active Plan Members	<u>145</u>	<u>131</u>	<u>131</u>
<b>Total</b>	<b><u>322</u></b>	<b><u>346</u></b>	<b><u>255</u></b>

	<b><u>Police Pension Plan</u></b>	<b><u>Firemen's Pension Plan</u></b>	<b><u>Non-Uniformed Pension Plan</u></b>
Total Pension Liability (TPL)	\$ 75,858,734	\$ 79,937,423	\$ 10,570,876
Plan Fiduciary Net Position	<u>(42,589,981)</u>	<u>(26,739,497)</u>	<u>(4,803,179)</u>
<b>Net Pension Liability (NPL)</b>	<b><u>\$ 33,268,753</u></b>	<b><u>\$ 53,197,926</u></b>	<b><u>\$ 5,767,697</u></b>

**Plan Fiduciary Net Position as a Percentage  
of the Total Pension Liability**

56.1%	33.5%	45.4%
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**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Pension (continued)**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the plan, calculated using the discount rate of 8%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

	Police Pension Plan		
	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 41,292,038	\$ 33,268,753	\$ 26,433,869

  

	Firemen's Pension Plan		
	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 60,930,699	\$ 53,197,926	\$ 46,547,939

  

	Non-Uniformed Pension Plan		
	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 6,682,393	\$ 5,767,697	\$ 4,968,338

For the year ended December 31, 2017, the municipality recognized a pension expense of \$(732,175). At December 31, 2017, the municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police Pension Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ (6,269,110)
Changes in Assumptions	-	(15,925,375)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(623,357)
<b>Total</b>	<b>\$ -</b>	<b>\$ (22,817,842)</b>

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Pension (continued)**

Amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Year Ended December 31,</u>	
2018	\$ (4,096,805)
2019	(4,393,757)
2020	(5,186,979)
2021	(5,155,507)
2022	(3,984,794)

For the year ended December 31, 2017, the municipality recognized a pension expense of \$(609,412). At December 31, 2017, the municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Firemen Pension Plan</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ (2,752,627)
Changes in Assumptions	-	(16,541,141)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(642,107)
Total	<u>\$ -</u>	<u>\$(19,935,875)</u>

Amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Year Ended December 31,</u>	
2018	\$ (5,314,343)
2019	(5,480,576)
2020	(6,177,625)
2021	(2,963,431)

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Pension (continued)**

For the year ended December 31, 2017, the municipality recognized a pension expense of \$269,640. At December 31, 2017, the municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Non-Uniformed Pension Plan</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ -	\$ (2,046,048)
Changes in Assumptions	563,920	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(77,731)
<b>Total</b>	<b>\$ 563,920</b>	<b>\$ (2,123,779)</b>

Amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<b>Year Ended December 31,</b>	<b>Amount</b>
2018	\$ (365,149)
2019	(365,148)
2020	(413,315)
2021	(409,991)
2022	(6,256)

# CITY OF SCRANTON, PENNSYLVANIA

## Notes to the Financial Statements December 31, 2017

### 10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

#### **Other Postemployment Benefit**

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 an increase above that cost. The retiree pays the other 25%.

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 2016 nor the number of participants eligible for these benefits.

#### **Termination Benefits 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 \$531,944, have been projected to increase at an annual rate of 7.5% for 2016 and decreasing by 0.5% per year to an ultimate level of 5% per to 0% during 2016, 8.25% during 2017, and reduced by 0.25% per year thereafter to an ultimate level of 5% per year. The present value as of December 31, 2017 was \$7,421,691.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

##### Post-Employment Healthcare Plan

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.

**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. 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. 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 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 named individuals, their spouses and eligible dependents do not pay a contribution for retiree coverage. If retired 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, 2015, that amount is 1.5% of the base pay of a second year firefighter and patrolman. Non-uniform union employees, management, and non-union retirees pay a contribution equal to active employees. For 2015, a single retiree's contribution is \$1,248 per year and a married retiree's is \$1,508 per year.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

##### Post-Employment Healthcare Plan (continued)

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 firefighter or police officer at the time of retirement. For non-uniform union, management, and non-union, regardless of hire date, life insurance is \$10,000 for the life of the retiree. For police officers and firefighters, life insurance is one times the salary at the date of retirement.

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 underfunded 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.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements

December 31, 2017

#### 10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

##### Post-Employment Healthcare Plan (continued)

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

The following changes in actuarial assumptions have occurred since the January 1, 2015 GASB 45 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 the middle of the year.

The assumed rate for increase for non-Medicare medical and prescription drug cost has been changed from assuming 8% in 2017 reduced by 0.25% per year to an ultimate level of 5% per year, to 5% in 2017, 8% during 2018 reduced by 0.25% per year to an ultimate level of 5% per year.

The assumed rate for increase for Medicare medical and prescription drug cost has been changed from assuming 5.5% during 2017 reduced by 0.25% per year to an ultimate level of 5% per year to 7% during 2017, 5.5% during 2018 reduced by 0.25% per year thereafter to an ultimate level of 5% per year.

The assumed rate of increase for the Medicare Part B premium has been changed from 1% per year to 2% per year.

The assumed rate of increased applicable to the threshold amounts associated with the ACA Cadillac Tax has been changed from 2.75% per year to 2.50% per year.

The assumed rate of mortality for fire and police has changed from Blue Collar RP-2000 to Blue Collar RP-2000 projected 17 years using Scale AA.

The assumed rate of mortality for non-uniformed employees and retirees has changed from RP-2000 to RP-2000 projected 17 years using Scale AA.

Fire retirees are no longer assumed to retire at a minimum of age 57 and 25 years of service. They are assumed to retire with 25 years of service according to the following: age 55 – 5% rate; age 56-57 – 10% rate; age 58-59 – 15% rate; and age 60+ - 100% rate.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

##### Post-Employment Healthcare Plan (continued)

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 and prescription drug trend rate for Non-Medicare retirees is assumed to be 5% in 2017 and 2018, 8% in 2019 decreasing by 0.25% per year to an ultimate level of 5% per year. The medical and prescription drug trend rate for Medicare retirees is assumed to be 7% in 2017 and 2018, 5.5% in 2019 decreasing by 0.25% per year to an ultimate level of 5% per year. The dental and vision trend rate is assumed to be 2% per year. The Medicare Part B Premium trend rate is assumed to be 2% per year.

Retirement: Fire fighters' retirement is assumed to occur between the ages of 55 to 60+ 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 projected 17 years using Scale AA. Non-uniformed RP – 2000 Tables for Males and Females projected 17 years using Scale AA.

Disability: 1955 United Auto Workers Disability Table.

Withdrawals: Uniformed starting at 5.5% for age 20 and decreasing by a 0.5% 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: Uniformed employee salaries are assumed to increase at the rate of 2.01% during 2018 and 2019, and 2.26% per year thereafter. The rate is based upon the increases described in the recent Memorandum of Understanding effective 2018 plus an additional 0.5% per year to reflect merit increases/promotions. Salary scale for non-uniformed employees is not necessary for valuation purposes.

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Financial Statements  
December 31, 2017**

**10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Post-Employment Healthcare Plan (continued)**

Retiree Contribution Increase for Future Retirees: Uniformed contributions are assumed to increase by 44.29% during 2018, 2.01% in 2019, 2.26% in 2020 and 2.52% during 2021 and beyond. Non-uniform excluding Department of Public Works contributions are assumed to increase by 2% per year for retirees and 0% for spouses and dependent children. For the 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.

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

Children: 50% of retirees are assumed to have a child participating in coverage. The age difference between the retiree and child is assumed to be 38 years.

Annual Required Contribution	\$ 17,083,337
Interest on Net OPEB Obligation	1,292,495
Adjustment to Annual Required Contribution	(2,119,267)
Annual OPEB Cost (Expense)	<u>16,256,565</u>
Interest On Employer Contributions	(202,101)
Contributions Made	<u>(9,327,736)</u>
Increase in Net OPEB Obligation	6,726,728
Net OPEB Obligation- Beginning of Year	<u>32,312,377</u>
<b>Net OPEB Obligation- End of Year</b>	<u><u>\$ 39,039,105</u></u>

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage Contributed</b>	<b>Net OPEB Obligation</b>
12/31/2015	\$ 14,338,493	58%	\$ 26,125,705
12/31/2016	15,852,366	59%	32,312,377
12/31/2017	16,256,565	57%	39,039,105

<b>Schedule of Funding Process</b>						
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Liability (UAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Ratio of UAL to Payroll</b>
01/01/13	\$ -	\$ 184,941,503	\$ 184,941,503	0.00%	\$ 27,259,944	678.44%
01/01/15	-	195,258,597	195,258,597	0.00%	30,528,097	639.60%
01/01/17	-	212,443,320	212,443,320	0.00%	26,160,019	812.09%

## **CITY OF SCRANTON, PENNSYLVANIA**

### **Notes to the Financial Statements December 31, 2017**

#### **11. CREDIT 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 2016. 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 is subject to fluctuations in the prevailing market prices of those investments.

#### **12. RELATED PARTY TRANSACTIONS**

The City paid approximately \$600,000, to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$30.9 million, of tax revenues on behalf of the City in 2017.

#### **13. COMMITMENTS AND CONTINGENCIES**

##### **Litigation**

The City is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the City is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included within the financial statements as of December 31, 2017.

##### **Collective Bargaining Agreements**

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

##### **Fund Deficit Self-Insurance Fund Settlement Agreement**

On December 18, 2001, the City entered into a Settlement Agreement and Release with the Commonwealth of Pennsylvania Department of Labor and Industry, Bureau of Worker's Compensation (the 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.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 13. COMMITMENTS AND CONTINGENCIES (continued)

##### **Fund Deficit Self-Insurance Fund Settlement Agreement** (continued)

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 will require that any shortfall above the permitted 25% deficit amount be funded over a five-year period.

#### 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 (the Act). DCED then appointed the Pennsylvania Economy League as coordinator to administer a recovery plan for the City pursuant to this Act.

During 2015, the City revised and updated its Act 47 Recovery Plan. The 2015 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, worked 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-year time limit 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 years from the effective date of their most recent recovery plan or amendment. The 2015 Revised Recovery Plan was adopted by City Council in March 2015.

The revised Recovery Plan and its provisions outlined below are 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;

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 14. DISTRESSED MUNICIPALITY STATUS (continued)

- 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 of Scranton will review the divestiture of other non-essential assets not directly related to the provision of services;
- 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 lieu of payments provided by
- 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 tax 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; and
- The City of Scranton will continue to pursue the implementation of the provisions of a Land Bank, as authorized by Act 153 of 2012.

## CITY OF SCRANTON, PENNSYLVANIA

### Notes to the Financial Statements December 31, 2017

#### 14. DISTRESSED MUNICIPALITY STATUS (continued)

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 of the fee schedule of the Department of Licenses and Permits; and
- 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 revenue.

#### 15. REAL ESTATE TAXES COLLECTED

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	\$ 90,752,757	\$ 296,707,462	\$ 387,460,219
Millage Rates	232.521	50.564	283.085
<b>Total Original Taxes Levied</b>	<b>21,101,922</b>	<b>15,002,716</b>	<b>36,104,638</b>
Add: Additions	83,766	78,465	162,231
Less: Abatements	56,602	113,787	170,389
Real Estate Taxes To be Collected At Face	21,129,086	14,967,394	36,096,480
Add: Penalties Collected			222,967
Total Before Deductions			36,319,447
Less: Discounts Taken			556,592
Less: Home Vouchers			8,433
Less: KOZ Credits			71,464
Less: Delinquent Taxes Returned			4,640,304
Less: Other Miscellaneous			131,953
<b>Total Real Estate Taxes Collected</b>			<b><u>\$ 30,910,701</u></b>

#### 16. SEWER AUTHORITY

During the year ended December 31, 2016, the Sewer Authority was sold to a third party. The City received \$66,519,986 as part of the sale. As a part of the sale, the City additionally received escrow deposits and wind down funds held back of \$17,840,000, which are held by a third party. The third party paid \$195,000,000 for the Sewer Authority, of which \$67,065,588 was used to pay off the defeased Sewer Authority debt. Additionally, the Dunmore Borough received \$16,626,366 for their share of the sale and received \$4,460,000 of escrow deposits.

## **CITY OF SCRANTON, PENNSYLVANIA**

### **Notes to the Financial Statements December 31, 2017**

#### **16. SEWER AUTHORITY (continued)**

As part of the agreement, the City agreed to assume certain liabilities which were estimated to be less than the escrow deposit amount. However, if certain liabilities exceed the escrow deposits, the City would be liable for its proportionate share. Management believes that the escrow will be sufficient to extinguish all liabilities. Additionally, the City agreed to share in the up keep of certain stormwater assets with the seller and Dunmore Borough. Management believes such upkeep will be de minimis to the City.

#### **17. OPERATIONS**

As of December 31, 2017, the City's governmental activities net position was a deficit of \$169,265,508. Total liabilities were \$228,098,967 as of December 31, 2017 of which \$109,785,481 related to long-term debt obligations, \$92,234,376 related to net pension liability and \$46,460,797 related to other post-employment benefits. The City made governmental activities debt service payments of \$81,380,700 during 2017, compared to total governmental revenue of \$107,852,117 for 2017. Total property and ACT 511 taxes were \$72,648,050 compared to a net deficit of \$169,265,508 for 2017 in the governmental activities. The City's total general fund revenues were \$91,247,727 of which \$34,733,222 were related to real estate taxes. The City is considered a distressed municipality under Act 47. The City has included its recovery plan in footnote 14.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Changes in Pension Fund Net Pension Liability and Related Ratios - Police  
December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>				
Service Cost	\$ 1,062,029	\$ 1,300,741	\$ 1,238,801	\$ 1,093,850
Interest	5,475,400	7,797,729	7,519,247	7,050,809
Differences Between Expected and Actual Experience	(7,430,244)	-	(218,430)	-
Changes of Assumptions	(20,511,936)	-	3,149,169	-
Benefit Payments, Including Refunds of Member Contributions	<u>(5,338,761)</u>	<u>(5,334,183)</u>	<u>(5,343,755)</u>	<u>(5,385,989)</u>
<b>Net Change in Total Pension Liability</b>	<u>(26,743,512)</u>	<u>3,764,287</u>	<u>6,345,032</u>	<u>2,758,670</u>
<b>Total Pension Liability - Beginning</b>	<u>102,602,246</u>	<u>98,837,959</u>	<u>92,492,927</u>	<u>89,734,257</u>
<b>Total Pension Liability - Ending</b>	<u>\$ 75,858,734</u>	<u>\$102,602,246</u>	<u>\$ 98,837,959</u>	<u>\$ 92,492,927</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 6,647,833	\$ 5,006,025	\$ 4,041,361	\$ 3,975,175
Contributions - State Aid	1,348,946	1,268,647	1,129,200	1,107,586
Contributions - Member	645,078	754,378	420,859	350,984
Net Investment Income	4,412,086	2,556,892	115,460	1,754,307
Benefit Payments, Including Refunds of Member Contributions	(5,338,761)	(5,334,183)	(5,343,755)	(5,385,989)
Administrative Expense	<u>(64,224)</u>	<u>(56,185)</u>	<u>(42,686)</u>	<u>(44,009)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<u>7,650,958</u>	<u>4,195,574</u>	<u>320,439</u>	<u>1,758,054</u>
<b>Plan Net Position - Beginning</b>	<u>34,939,023</u>	<u>30,743,449</u>	<u>30,423,010</u>	<u>28,664,956</u>
<b>Plan Net Position - Ending</b>	<u>\$ 42,589,981</u>	<u>\$ 34,939,023</u>	<u>\$ 30,743,449</u>	<u>\$ 30,423,010</u>
<b>Plan's Net Pension Liability</b>	<u>\$ 33,268,753</u>	<u>\$ 67,663,223</u>	<u>\$ 68,094,510</u>	<u>\$ 62,069,917</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.1%	34.1%	31.1%	32.9%
Covered Employee Payroll	\$ 11,000,000	\$ 10,100,000	\$ 9,700,000	\$ 8,700,000
Plan's Net Pension Liability as a Percentage of the Covered Employee Payroll	302.4%	669.9%	702.0%	713.4%
Annual money-weighted rate of return, net of investment expense	12.85%	5.29%	0.38%	6.57%

**Notes to Schedules:**

Assumption Changes - In 2015, the mortality assumption was changed from the Blue Collar RP-2000 Table to the Blue Collar RP-2000 Table projected to 2015 using Scale AA.

Assumption Changes - In 2017, the investment return rate assumption was changed from 8.0% to 7.5% per annum, salary increase rates changed from 5.0% to 4.5% , cost of living was adjustment changed from 5.0% and 2.5% to none.

\* This schedule will be presented on a prospective basis.

This information is not available for previous years.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Employer Contributions - Police  
December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 7,996,779	\$ 6,274,672	\$ 5,170,561	\$ 5,082,761
Contributions made	<u>7,996,779</u>	<u>6,274,672</u>	<u>5,170,561</u>	<u>5,082,761</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 11,000,000	\$ 10,100,000	\$ 9,700,000	\$ 8,700,000
Contributions as a percentage of covered-employee payroll	72.7%	62.1%	53.3%	58.4%

\* This schedule will be presented on a prospective basis.

**Notes to Schedule**

Actuarial Measurement Date	As of December 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	16 years
Asset Valuation Method	5 year smoothing method described in internal revenue procedure 2000-40 approval 16.
Assumptions:	
Inflation	2.25%
Salary Increases	4.50%
Investment Rate of Return	7.50% (Net of pension plan investment expense including inflation)
Retirement Age	Normal Retirement: Pre 7/1/1987 employee - 25 years of service; Post 6/30/1987 - Age 55 and 25 years of service Vesting: 25 years of service
Mortality Rate	Based on the Blue Collar RP-2000 Mortality Table

This information is not available for previous years.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Changes in Pension Fund Net Pension Liability and Related Ratio - Firemen  
December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>				
Service Cost	\$ 942,714	\$ 998,710	\$ 951,152	\$ 877,594
Interest	5,499,862	8,107,968	7,914,310	7,523,591
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	(3,178,426)	-	(784,286)	-
Changes of Assumptions	(23,063,685)	-	3,694,635	-
Benefit Payments, Including Refunds of Member Contributions	(6,487,711)	(6,465,804)	(6,518,785)	(6,483,409)
<b>Net Change in Total Pension Liability</b>	<u>(26,287,246)</u>	<u>2,640,874</u>	<u>5,257,026</u>	<u>1,917,776</u>
<b>Total Pension Liability - Beginning</b>	<u>106,224,669</u>	<u>103,583,795</u>	<u>98,326,769</u>	<u>96,408,993</u>
<b>Total Pension Liability - Ending</b>	<u>\$ 79,937,423</u>	<u>\$ 106,224,669</u>	<u>\$ 103,583,795</u>	<u>\$ 98,326,769</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 8,262,627	\$ 6,087,485	\$ 5,011,978	\$ 4,928,939
Contributions - State Aid	1,238,828	1,023,667	1,011,575	1,006,897
Contributions - Member	588,651	751,112	378,642	325,302
Net Investment Income	2,490,671	1,522,810	67,227	1,031,379
Benefit Payments, Including Refunds of Member Contributions	(6,487,711)	(6,465,804)	(6,518,785)	(6,483,409)
Administrative Expense	(57,437)	(48,494)	(42,078)	(50,368)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>6,035,629</u>	<u>2,870,776</u>	<u>(91,441)</u>	<u>758,740</u>
<b>Plan Net Position - Beginning</b>	<u>20,703,868</u>	<u>17,833,092</u>	<u>17,924,533</u>	<u>17,165,793</u>
<b>Plan Net Position - Ending</b>	<u>\$ 26,739,497</u>	<u>\$ 20,703,868</u>	<u>\$ 17,833,092</u>	<u>\$ 17,924,533</u>
<b>Plan's Net Pension Liability</b>	<u>\$ 53,197,926</u>	<u>\$ 85,520,801</u>	<u>\$ 85,750,703</u>	<u>\$ 80,402,236</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	33.5%	19.5%	17.2%	18.2%
Covered Employee Payroll	\$ 10,500,000	\$ 9,100,000	\$ 9,000,000	\$ 7,800,000
Plan's Net Pension Liability as a Percentage of the Covered Employee Payroll	506.6%	939.8%	952.8%	1030.8%
Annual money-weighted rate of return, net of investment expense	12.85%	5.29%	0.38%	6.57%

**Notes to the Schedules:**

Assumption Changes - In 2015, the mortality assumption was changed from the Blue Collar RP-2000 Table to the Blue Collar RP-2000 Table projected to 2015 using Scale AA.

Assumption Changes - In 2017, the investment return rate assumption was changed from 8.0% to 7.5% per annum, salary increase rates changed from 5.0% to 4.5% , cost of living was adjustment changed from 5.0% and 2.5% to none.

\* This schedule will be presented on a prospective basis.

This information is not available for previous years.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Employer Contributions - Firemen  
December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 9,501,455	\$ 7,111,152	\$ 6,023,553	\$ 5,935,833
Contributions made	<u>9,501,455</u>	<u>7,111,152</u>	<u>6,023,553</u>	<u>5,935,833</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 10,500,000	\$ 9,100,000	\$ 9,000,000	\$ 7,800,000
Contributions as a percentage of covered-employee payroll	90.49%	78.14%	66.93%	76.10%

\* This schedule will be presented on a prospective basis.

**Notes to the Schedule**

Actuarial Measurement Date	As of December 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	23 years
Asset Valuation Method	5 year smoothing method described in internal revenue procedure 2000-40 approval 16.
Assumptions:	
Inflation	2.25%
Salary Increases	4.50%
Investment Rate of Return	7.50% (Net of pension plan investment expense including inflation)
Retirement Age	Normal Retirement: Pre 7/1/1987 employee - 25 years of service; Post 6/30/1987 - Age 55 and 25 years of service Vesting: 25 years of service
Mortality Rate	Based on the Blue Collar RP-2000 Mortality Table

This information is not available for previous years.

# CITY OF SCRANTON, PENNSYLVANIA

## Schedule of Changes in Pension Fund Net Pension Liability and Related Ratio – Non-Uniformed December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>				
Service Cost	\$ 75,416	\$ 82,437	\$ 78,511	\$ 81,737
Interest	747,856	954,145	954,216	937,975
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	(2,278,845)	-	13,368	-
Changes of Assumptions	498,678	-	267,267	-
Benefit Payments, Including Refunds of Member Contributions	(854,513)	(997,346)	(1,077,747)	(1,110,468)
<b>Net Change in Total Pension Liability</b>	<u>(1,811,408)</u>	<u>39,236</u>	<u>235,615</u>	<u>(90,756)</u>
<b>Total Pension Liability - Beginning</b>	<u>12,382,284</u>	<u>12,343,048</u>	<u>12,107,433</u>	<u>12,198,189</u>
<b>Total Pension Liability - Ending</b>	<u>\$ 10,570,876</u>	<u>\$ 12,382,284</u>	<u>\$ 12,343,048</u>	<u>\$ 12,107,433</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 276,383	\$ 43,056	\$ 245,284	\$ 271,319
Contributions - State Aid	1,036,945	979,014	862,584	836,499
Contributions - Member	37,582	36,606	37,141	37,752
Net Investment Income	746,750	270,237	12,956	200,183
Benefit Payments, Including Refunds of Member Contributions	(854,513)	(997,346)	(1,077,747)	(1,110,468)
Administrative Expense	(111,870)	(109,478)	(92,284)	(48,723)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>1,131,277</u>	<u>222,089</u>	<u>(12,066)</u>	<u>186,562</u>
<b>Plan Net Position - Beginning</b>	<u>3,671,902</u>	<u>3,449,813</u>	<u>3,461,879</u>	<u>3,275,317</u>
<b>Plan Net Position - Ending</b>	<u>\$ 4,803,179</u>	<u>\$ 3,671,902</u>	<u>\$ 3,449,813</u>	<u>\$ 3,461,879</u>
<b>Plan's Net Pension Liability</b>	<u>\$ 5,767,697</u>	<u>\$ 8,710,382</u>	<u>\$ 8,893,235</u>	<u>\$ 8,645,554</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	45.4%	29.7%	27.9%	28.6%
Covered Employee Payroll	\$ 5,800,000	\$ 5,400,000	\$ 5,300,000	\$ 5,300,000
Plan's Net Pension Liability as a Percentage of the Covered Employee Payroll	99.4%	161.3%	167.8%	163.1%
Annual money-weighted rate of return, net of investment expense	12.85%	5.29%	0.38%	6.57%

### Notes to the Schedules:

Assumption Changes - In 2015, the mortality assumption was changed from the RP-200 Table to the RP-2000 Table projected to 2015 using Scale AA.

Assumption Changes - In 2017, the investment return rate assumption was changed from 8.0% to 7.5% per annum, salary increase rates changed from 5.0% to 4.5% , cost of living was adjustment changed from 5.0% and 2.5% to none.

\* This schedule will be presented on a prospective basis.

This information is not available for previous years.

# CITY OF SCRANTON, PENNSYLVANIA

## Schedule of Employer Contributions – Non-Uniformed December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,313,328	\$ 1,014,228	\$ 1,107,868	\$ 1,107,818
Contributions made	<u>1,313,328</u>	<u>1,014,228</u>	<u>1,107,868</u>	<u>1,107,818</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 5,800,000	\$ 5,400,000	\$ 5,300,000	\$ 5,300,000
Contributions as a percentage of covered-employee payroll	22.64%	18.78%	20.90%	20.90%

\* This schedule will be presented on a prospective basis.

### Notes to the Schedule

Actuarial Measurement Date	As of December 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	11 years
Asset Valuation Method	5 year smoothing method described in internal revenue procedure 2000-40 approval 16.
Assumptions:	
Inflation	2.25%
Salary Increases	4.50%
Investment Rate of Return	7.50% (Net of pension plan investment expense including inflation)
Retirement Age	Normal retirement: Age 55, 15 years of service and 20 years of contributions Early retirement: age 55, 10 years of service and 20 years of contributions Vesting: 10 years of service
Mortality Rate	Based on the Blue Collar RP-2000 Mortality Table

This information is not available for previous years.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Funding Process – Other Post Employment Benefits  
December 31, 2017**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability (UAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Ratio of UAL to Payroll</u>
01/01/13	\$ -	\$ 184,941,503	\$ 184,941,503	0.00%	\$ 27,259,944	678.44%
01/01/15	-	195,258,597	195,258,597	0.00%	30,528,097	639.60%
01/01/17	-	212,443,320	212,443,320	0.00%	26,160,019	812.09%

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Employer Contributions – Other Post Employment Benefits  
December 31, 2017**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual OPEB Cost</u></b>	<b><u>Percentage Contributed</u></b>	<b><u>Net OPEB Obligation</u></b>
12/31/2015	\$ 14,338,493	58%	\$ 26,125,705
12/31/2016	15,852,366	59%	32,312,377
12/31/2017	16,256,565	57%	39,039,105

**SUPPLEMENTARY INFORMATION**

**CITY OF SCRANTON, PENNSYLVANIA**

**Supplemental Schedule of Revenue and Expenditures -  
Budget and Actual - General Fund  
For the Year Ended December 31, 2017**

	<b>Budget Amounts</b>		<b>Actual</b>	<b>Variance from Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUE</b>				
Taxes	\$ 72,262,562	\$ 72,262,562	\$ 72,648,050	\$ 385,488
Intergovernmental	4,298,246	4,298,246	4,963,928	665,682
Departmental earnings	579,692	579,692	281,014	(298,678)
Refuse disposal fees	7,662,500	7,662,500	6,637,754	(1,024,746)
Licenses & permits	2,418,700	2,418,700	2,295,187	(123,513)
Cable television franchise revenue	1,155,000	1,155,000	1,071,698	(83,302)
Payments in lieu of taxes	219,865	219,865	271,559	51,694
Other revenues	719,350	719,350	3,073,037	2,353,687
Rents and concessions	5,000	5,000	5,500	500
<b>TOTAL REVENUE</b>	<b>89,320,915</b>	<b>89,320,915</b>	<b>91,247,727</b>	<b>1,926,812</b>
<b>EXPENDITURES</b>				
General government	15,649,011	15,649,011	14,539,547	1,109,464
Public safety	54,774,202	54,774,202	55,601,609	(827,407)
Public works	12,230,631	12,230,631	12,384,073	(153,442)
Culture and recreation	735,263	735,263	685,201	(50,062)
Debt service	11,413,230	11,413,230	81,380,700	69,967,470
<b>TOTAL EXPENDITURES</b>	<b>94,802,337</b>	<b>94,802,337</b>	<b>164,591,130</b>	<b>70,046,023</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(5,481,422)</b>	<b>(5,481,422)</b>	<b>(73,343,403)</b>	<b>(68,119,211)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from tax anticipation notes	12,750,000	12,750,000	12,750,000	-
Sale of assets	-	-	2,570,139	
Repayments from tax anticipation notes	(12,960,000)	(12,960,000)	(12,964,896)	(4,896)
Court Award	(200,000)	(200,000)	(189,115)	10,885
Parking authority debt payments	-	-	-	-
Bond issuance	1,000	1,000	26,159,054	26,158,054
Operating transfers in	5,942,008	5,942,008	2,930,526	(3,011,482)
Operating transfers out	(51,585)	(51,585)	(175,000)	(123,415)
<b>Net Other Financing Sources (Uses)</b>	<b>5,481,423</b>	<b>5,481,423</b>	<b>31,080,708</b>	<b>23,029,146</b>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>-</b>	<b>-</b>	<b>(42,262,695)</b>	<b>(45,090,064)</b>
<b>Fund Balance, Beginning of Year</b>	<b>15,734,359</b>	<b>15,734,359</b>	<b>75,542,498</b>	<b>59,808,139</b>
<b>Fund Balance, End of Year</b>	<b>\$ 15,734,359</b>	<b>\$ 15,734,359</b>	<b>\$ 33,279,803</b>	<b>\$ 14,718,075</b>

**CITY OF SCRANTON, PENNSYLVANIA**

**Supplemental Schedule of Revenue and Expenditures -  
Budget and Actual - General Fund  
For the Year Ended December 31, 2017**

	<b>Budget Amounts</b>		<b>Actual</b>	<b>Variance from Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes				
Act 511:				
Wage	\$ 25,683,924	\$ 25,683,924	\$ 26,398,014	\$ 714,090
Non-Resident Wage Tax	460,000	460,000	-	(460,000)
Delinquent Wage Tax	205,000	205,000	185,961	(19,039)
Real Estate Transfer	3,375,000	3,375,000	3,870,927	495,927
Mercantile	1,555,000	1,555,000	1,683,012	128,012
Business Privilege	1,280,250	1,280,250	1,010,128	(270,122)
Local Service Tax	4,595,000	4,595,000	4,494,725	(100,275)
Delinquent Mercantile	95,000	95,000	93,038	(1,962)
Delinquent Business Privilege	140,000	140,000	179,024	39,024
Total Act 511	<u>37,389,174</u>	<u>37,389,174</u>	<u>37,914,829</u>	<u>525,655</u>
Current Real Estate	14,403,218	14,403,218	22,456,319	8,053,101
Current Real Estate Tax Land	18,328,610	18,328,610	9,890,390	(8,438,220)
Delinquent Real Estate	1,541,459	1,541,459	1,693,101	151,642
Public Utility	68,000	68,000	74,321	6,321
Parking Tax	-	-	140	140
Amusement Tax	400,000	400,000	349,373	(50,627)
Penalties & Interest	132,100	132,100	269,578	137,478
Total Taxes	<u>72,262,561</u>	<u>72,262,561</u>	<u>72,648,051</u>	<u>385,490</u>
Intergovernmental				
Supplemental State Assisted Pension	3,250,000	3,250,000	3,624,720	374,720
ACT 47 Grants	28,380	28,380	238,560	210,180
OECD Reimbursement Demoliton Program	285,866	285,866	428,022	142,156
Fire Safety Grant	734,000	734,000	672,627	(61,373)
Total Intergovernmental	<u>4,298,246</u>	<u>4,298,246</u>	<u>4,963,929</u>	<u>665,683</u>
Departmental Earnings				
Parking Meters	-	-	6,246	6,246
Pave Cuts	453,398	453,398	218,038	(235,360)
Report Copies Fire & Police	-	-	-	-
Alarm Fees	111,044	111,044	23,100	(87,944)
Zoning	15,250	15,250	33,630	18,380
Total Departmental Earnings	<u>579,692</u>	<u>579,692</u>	<u>281,014</u>	<u>(298,678)</u>

**CITY OF SCRANTON, PENNSYLVANIA**

**Supplemental Schedule of Revenue and Expenditures -  
Budget and Actual - General Fund  
For the Year Ended December 31, 2017**

Refuse Disposal Fees	\$ 7,662,500	\$ 7,662,500	\$ 6,637,754	\$ (1,024,746)
Total Refuse Disposal Fees	<u>7,662,500</u>	<u>7,662,500</u>	<u>6,637,754</u>	<u>(1,024,746)</u>
Licenses and Permits	2,418,700	2,418,700	2,295,187	(123,513)
Total Licenses and Permits	<u>2,418,700</u>	<u>2,418,700</u>	<u>2,295,187</u>	<u>(123,513)</u>
Cable Television Franchise Revenue	1,155,000	1,155,000	1,071,698	(83,302)
Total Cable Television Franchise Revenue	<u>1,155,000</u>	<u>1,155,000</u>	<u>1,071,698</u>	<u>(83,302)</u>
Payments in Lieu of Taxes	219,865	219,865	271,559	51,694
Total Payments in Lieu of Taxes	<u>219,865</u>	<u>219,865</u>	<u>271,559</u>	<u>51,694</u>
Rents and Concessions	5,000	5,000	5,500	500
Total Rents and Concessions	<u>5,000</u>	<u>5,000</u>	<u>5,500</u>	<u>500</u>
Other Revenues				
Interest Income	10,000	10,000	234,166	224,166
User Fees	52,500	52,500	48,684	(3,816)
Fines and Forfeits	478,250	478,250	433,503	(44,747)
Donations	1,000	1,000	-	(1,000)
Other	177,600	177,600	2,356,682	2,179,082
Total Other Revenues	<u>719,350</u>	<u>719,350</u>	<u>3,073,035</u>	<u>2,353,685</u>
<b>TOTAL REVENUES</b>	<u>89,320,914</u>	<u>89,320,914</u>	<u>91,247,727</u>	<u>1,926,813</u>

**CITY OF SCRANTON, PENNSYLVANIA**

**Supplemental Schedule of Revenue and Expenditures -  
Budget and Actual - General Fund  
For the Year Ended December 31, 2017**

**EXPENDITURES**

General Government:

Salaries and Wages	2,745,042	2,745,042	2,623,558	121,484
Employee Benefits	4,556,459	4,556,459	4,589,998	(33,539)
Worker's Compensation Claims	-	-	-	-
General Insurance	900,000	900,000	873,550	26,450
Office Supplies and Expense	132,278	132,278	127,861	4,417
Professional Fees	1,120,663	1,120,663	1,006,828	113,835
Telephone	145,000	145,000	143,642	1,358
Equipment	318,355	318,355	207,765	110,590
Boards and Commissions	-	-	-	-
Utilities	1,205,818	1,205,818	1,124,810	81,008
Parking Authority Ticket Issuers	-	-	-	-
Parking Authority Debt payments	-	-	-	-
Other	4,525,396	4,525,396	3,841,535	683,861
Total General Government	<u>15,649,011</u>	<u>15,649,011</u>	<u>14,539,547</u>	<u>1,109,464</u>

Public Safety:

Salaries and Wages	22,940,832	22,940,832	23,719,527	778,695
Employee Benefits	29,499,327	29,499,327	29,816,007	316,680
Supplies	55,751	55,751	51,073	(4,678)
Equipment	1,957,191	1,957,191	1,702,577	(254,614)
Training	109,645	109,645	107,675	(1,970)
Professional Fees	124,480	124,480	117,798	(6,682)
Other	86,976	86,976	86,950	(26)
Total Public Safety	<u>54,774,202</u>	<u>54,774,202</u>	<u>55,601,607</u>	<u>(827,431)</u>

Public Works

Salaries and Wages	4,431,375	4,431,375	4,241,333	(190,042)
Employee Benefits	3,074,487	3,074,487	3,075,535	1,048
Supplies	307,102	307,102	290,062	(17,040)
Professional Fees	101,516	101,516	91,743	(9,773)
Equipment	2,146,562	2,146,562	2,508,973	362,411
Landfill Fees	1,303,896	1,303,896	1,322,295	18,399
Flood Protection	49,500	49,500	39,071	(10,429)
Salt	273,500	273,500	273,268	(232)
Street Lighting	541,693	541,693	541,694	1
Training	1,000	1,000	100	
Total Public Works	<u>12,230,631</u>	<u>12,230,631</u>	<u>12,384,074</u>	<u>(154,343)</u>

Culture and Recreation

Salaries and Wages	560,493	560,493	593,411	32,918
Employee Benefits	2,520	2,520	2,940	420
Supplies	55,900	55,900	29,657	(26,243)
Programs	21,350	21,350	20,065	(1,285)
Equipment	95,000	95,000	39,129	(55,871)
Total Culture and Recreation	<u>735,263</u>	<u>735,263</u>	<u>685,202</u>	<u>(50,061)</u>
Debt service payments	<u>11,413,230</u>	<u>11,413,230</u>	<u>81,380,700</u>	<u>69,967,470</u>
<b>TOTAL EXPENDITURES</b>	<u>94,802,337</u>	<u>94,802,337</u>	<u>164,591,130</u>	<u>70,045,099</u>

**CITY OF SCRANTON, PENNSYLVANIA**

**Supplemental Schedule of Revenue and Expenditures -  
Budget and Actual - General Fund  
For the Year Ended December 31, 2017**

<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(5,481,423)</u>	<u>(5,481,423)</u>	<u>(73,343,403)</u>	<u>(68,118,286)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Tax Anticipation Notes	12,750,000	12,750,000	12,750,000	-
Repayments of tax anticipation notes	(12,960,000)	(12,960,000)	(12,964,896)	(4,896)
Court award	(200,000)	(200,000)	(189,115)	10,885
Sale of assets	-	-	2,570,139	2,570,139
Bond issuance	1,000	1,000	26,159,054	26,158,054
Operating Transfers out	(51,585)	(51,585)	(175,000)	(123,415)
Operating Transfers in from:				
Liquid Fuels Fund	2,192,008	2,192,008	2,930,526	738,518
Other Funds	3,750,000	3,750,000	-	(3,750,000)
<b>Net Other Financing Sources (Uses)</b>	<u>5,481,423</u>	<u>5,481,423</u>	<u>31,080,708</u>	<u>25,599,285</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>-</u>	<u>-</u>	<u>(42,262,695)</u>	<u>(42,519,001)</u>
<b>Fund Balance, Beginning of Year</b>	<u>15,734,359</u>	<u>15,734,359</u>	<u>75,542,498</u>	<u>59,808,139</u>
<b>Fund Balance, End of Year</b>	<u><b>\$ 15,734,359</b></u>	<u><b>\$ 15,734,359</b></u>	<u><b>\$ 33,279,803</b></u>	<u><b>\$ 17,289,138</b></u>

CITY OF SCRANTON, PENNSYLVANIA

Combining Balance Sheet – Non-Major Governmental Funds  
For the Year Ended December 31, 2017

	<u>Liquid Fuels</u>	<u>Capital Projects</u>	<u>Redevelopment Authority</u>	<u>Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 104,864	\$ -	\$ 550,586	\$ -	\$ 655,450
Accounts receivable, net	-	-	-	-	-
Loans receivable	-	-	57,894	-	57,894
Due from other funds	-	-	-	-	-
Restricted assets:					
Restricted cash and cash equivalents	-	-	-	631,658	631,658
Property held for resale	-	-	98,935	-	98,935
<b>Total Assets</b>	<u>\$ 104,864</u>	<u>\$ -</u>	<u>\$ 707,415</u>	<u>\$ 631,658</u>	<u>\$ 1,443,937</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Accounts payable	\$ -	\$ 25,527	\$ -	\$ -	\$ 25,527
Due to other funds	-	-	521,603	-	521,603
Other liabilities	-	-	-	-	-
Unearned revenue	-	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>25,527</u>	<u>521,603</u>	<u>-</u>	<u>547,130</u>
<b>Deferred Inflow of Resources</b>					
Unavailable revenues	-	-	57,894	-	57,894
<b>Total Deferred Inflow of Resources</b>	<u>-</u>	<u>-</u>	<u>57,894</u>	<u>-</u>	<u>57,894</u>
<b>Fund Balance</b>					
Nonspendable	-	-	98,935	-	98,935
Restricted for debt service	-	-	-	631,658	631,658
Restricted for externally imposed restrictions	104,864	-	521,522	-	626,386
Unassigned	-	(25,527)	(492,539)	-	(518,066)
<b>Total Fund Balance</b>	<u>104,864</u>	<u>(25,527)</u>	<u>127,918</u>	<u>631,658</u>	<u>838,913</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 104,864</u>	<u>\$ -</u>	<u>\$ 707,415</u>	<u>\$ 631,658</u>	<u>\$ 1,443,937</u>

CITY OF SCRANTON, PENNSYLVANIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds  
For the Year Ended December 31, 2017

	Liquid Fuels	Capital Projects	Redevelopment Authority	Debt Service	Total Non-Major Governmental Funds
<b>REVENUES</b>					
Intergovernmental	\$ 2,233,719	\$ -	\$ 53,125	\$ -	\$ 2,286,844
Departmental earnings	-	-	-	-	-
Interest income	3,316	-	285	-	3,601
Other revenues	32	-	6	-	38
Rents and concessions	-	-	5,700	-	5,700
<b>Total Revenues</b>	<b>2,237,067</b>	<b>-</b>	<b>59,116</b>	<b>-</b>	<b>2,296,183</b>
<b>EXPENDITURES</b>					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Health and welfare	-	-	-	-	-
Community development	-	-	43,679	-	43,679
Debt Service:					
Debt service principal	-	-	-	-	-
Debt service interest	-	-	-	-	-
Capital Outlay	-	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>43,679</b>	<b>-</b>	<b>43,679</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,237,067</b>	<b>-</b>	<b>15,437</b>	<b>-</b>	<b>2,252,504</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Issuance of bonds	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	(2,930,526)	-	-	-	(2,930,526)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,930,526)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,930,526)</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>(693,459)</b>	<b>-</b>	<b>15,437</b>	<b>-</b>	<b>(678,022)</b>
Fund Balances, beginning of Year	798,323	(25,527)	112,481	631,658	1,516,935
<b>Fund Balances, End of Year</b>	<b>\$ 104,864</b>	<b>\$ (25,527)</b>	<b>\$ 127,918</b>	<b>\$ 631,658</b>	<b>\$ 838,913</b>

**CITY OF SCRANTON, PENNSYLVANIA**

**Single Audit Together with  
Reports of Independent Public Accountants**

**For the Year Ended December 31, 2017**



**SB & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

**DECEMBER 31, 2017**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

### **Report on the Financial Statements**

We have audited 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 (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

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

The City's 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 did not audit the financial statements of the Sewer Authority (business-type activity fund) or the Redevelopment Authority, which represents 100 percent of the assets, net position and revenue of the business-type activity fund and one percent of the assets, fund balances, and revenues of the non-major governmental funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sewer Authority or the Redevelopment Authority, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the governmental activities and aggregate discretely presented component unit and unmodified audit opinions on the business-type activities, major funds and aggregate remaining fund information.

***Summary of Opinions***

<b><i>Opinion Unit</i></b>	<b><i>Type of Opinion</i></b>
<b>Entity-Wide:</b>	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Unit	Adverse
<b>Fund:</b>	
General Fund	Unmodified
OECD Fund	Unmodified
Non-major Governmental Funds	Unmodified
Sewer Authority	Unmodified
Internal Service Fund	Unmodified
Pension Trust Fund	Unmodified

***Basis for Adverse Opinion on the Reporting Entity***

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City’s legal entity. The financial statements do not include financial data for the City’s legally separate component unit, the Scranton Parking Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City’s primary government.

***Adverse Opinion on the Reporting Entity***

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements referred to above do not present fairly the financial position of the reporting entity of the City, as of December 31, 2017, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



***Unmodified Opinions on Business-Type Activities, Major Funds, and Aggregate Remaining Fund Information***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund not covered by our opinion in the previous paragraphs, and the aggregate remaining fund information for the primary government of the City, as of December 31, 2017, and the respective changes in their financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

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. Our opinion is not modified with respect to this matter.

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 2015 plan identifies mandates that the City must implement to eliminate the City's operating budget deficits as projected by the Act 47 Coordinator. 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, budgetary comparison information, schedules of changes in pension fund net pension liability and related ratios and schedules of employer contributions for the Police, Firemen and Non-uniformed Pension Plans, and the schedule of funding progress and schedule of employer contributions for other post-employment benefits 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.



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### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of Federal awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFF) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates 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 by us and the other auditors. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Philadelphia, Pennsylvania  
October 23, 2018

A handwritten signature in blue ink that reads "SB &amp; Company, LLC". The signature is written in a cursive, flowing style.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scranton (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 23, 2018. Our report includes a reference to other auditors who audited the financial statements of the Sewer Authority and the Redevelopment Authority, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (see finding 2017-001).



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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

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

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

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Philadelphia, Pennsylvania  
October 23, 2018

*SB & Company, LLC*



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Scranton's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Board's major Federal programs for the year ended December 31, 2017. The City's major Federal programs are identified in the summary of independent public accountant'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'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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 on the City's compliance.



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

In our opinion, the City 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, 2017.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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 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 compliance audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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'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.



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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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Philadelphia, Pennsylvania  
November 26, 2018

*SB & Company, LLC*

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
CDBG - Entitlement Grants			
Community Development Block Grant/Entitlement Grants	14.218	N/A	\$ 1,912,534
Emergency Solutions Grants Program	14.231	N/A	218,132
Home Investment Partnerships Program	14.239	N/A	429,297
Total U.S. Department of Housing and Urban Development			<u>2,559,963</u>
<b>U.S. Department of Justice</b>			
Justice Grant Assistance Program	16.738	N/A	20,920
<b>U.S. Department of Homeland Security</b>			
Staffing for Adequate Fire and Emergency Response Hiring Program	97.083	N/A	672,627
Total U.S. Department of Housing and Urban Development			<u>672,627</u>
<b>U.S. Department of Transportation</b>			
<u>Pass-through Pennsylvania Department of Transportation</u>			
Highway Planning and Construction - Rockwell Avenue Bridge Replacement Project	20.205	Unknown	2,808,037
Total U.S. Department of Transportation			<u>2,808,037</u>
<b>U.S. General Service Administration</b>			
Donation of Federal Surplus Property Program	39.003	N/A	22,912
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 6,084,459</u></b>

The accompanying notes are an integral part of this schedule.

**CITY OF SCRANTON, PENNSYLVANIA**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

All Federal grant operations of the City are included in the scope of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. These programs represent Federal award programs for fiscal year 2017, cash or non-cash expenditure activities to ensure coverage of at least 40% of federal grant funds. Actual coverage was 78% of total cash and non-cash Federal award program expenditures.

Expenditures reported on the Schedule of expenditures of Federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

<b>Major Programs</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
Home Investment Partnership Programs	14.218	\$ 1,912,534
Highway Planning and Construction - Rockwell Avenue Bridge Replacement Project	20.205	2,808,037
		\$ 4,720,571

**2. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of Federal awards (the "Schedule") includes the Federal award activity of the City under programs of the Federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2017**

**Section I - Summary of Independent Public Accountants' Results**

**Financial Statements**

Type of Independent Public Accountants' report issued	Modified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency identified that is not considered to be a material weakness?	No
Noncompliance material to the financial statements noted?	No

**Federal Awards**

Type of Independent Public Accountants' report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency identified that is not considered to be a material weakness?	None noted
Audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	Yes

**Identification of Major Programs:**

<b>Major Programs</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
Home Investment Partnership Programs	14.218	\$ 1,912,534
Highway Planning and Construction - Rockwell Avenue Bridge Replacement Project	20.205	2,808,037
		\$ 4,720,571
Threshold for distinguishing between Type A and B programs		\$ 750,000
Did the City qualify as a low risk auditee?		No

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Prior Year Findings and Questions Costs  
For the Year Ended December 31, 2017**

**Section II –Financial Statement Findings**

**Finding 2017 – 001**

**Financial Statement Departures from GAAP**

**Repeat Finding: Yes – 2016 - 001**

*Condition:*

The City has included departures from generally accepted accounting principles in its financial statements. The financial statements of the Scranton Parking Authority, a component unit of the City of Scranton, have not been included within the 2017 financial statements of the City.

*Criteria:*

Generally accepted accounting principles requires that the entire reporting entity be included within the financial statements.

*Cause:*

There is not a finance function in place to ensure timely completion of financial statements for the Scranton Parking Authority

*Effect:*

The Scranton Parking Authority's audited information is not included in the 2017 financial statements of the City.

*Questioned Costs:*

Unknown.

*Recommendation:*

We recommend that the City implement procedures to comply with GAAP.

*Views of Responsible Officials:*

In 2016, the Scranton Parking Authority was in Receivership and the City of Scranton did not have direct control over the financial reporting function of the Authority. Subsequent to year end the Scranton Parking Authority has been monetized.

*Auditor Conclusion:*

Based on the above, finding remains as stated.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2017**

**Section III –Federal Award Findings**

**Finding 2017 – 002**

**Submission of Data Collection Form**

**Repeat Finding: Yes – 2016 - 002**

*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 30 days after the issuance of the Audit report or 9 months after the entity's year end.

*Cause:*

The City's financial statements were not ready for issuance within 9 months after fiscal year end.

*Effect:*

The City is late in filing its required Data Collection Form with the Bureau of Census.

*Questioned Costs:*

Unknown.

*Recommendation:*

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

*Views of Responsible Officials:*

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

*Auditor Conclusion:*

Based on the above, finding remains as stated.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Corrective Actions  
For the Year Ended December 31, 2017**

**Finding 2017-001**

***Auditee Response and Corrective Action Plan:***

In 2016, the Scranton Parking Authority was in Receivership and the City of Scranton did not have direct control over the financial reporting function of the Authority. Subsequent to year end the Scranton Parking Authority has been monetized.

***Person(s) Responsible:***

David Bulzoni

***Anticipated Completion Date:***

December 2018

**Finding 2017-002**

***Auditee Response and Corrective Action Plan:***

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

***Person(s) Responsible:***

David Bulzoni

***Anticipated Completion Date:***

December 2018

# CITY OF SCRANTON, PENNSYLVANIA

## Schedule of Prior Year Findings and Questions Costs For the Year Ended December 31, 2017

### Section II - Financial Statement Findings

#### Finding 2016 – 001

##### Financial Statement Departures from GAAP

*Condition:*

The City has included departures from generally accepted accounting principles in its financial statements. The financial statements of the Scranton Parking Authority, a component unit of the City of Scranton, have not been included within the 2016 financial statements of the City. Additionally, the net pension liability for the City's pension plans should use a single blended rate of return that reflects both the long-term expected rate of return and the yield for a 20-year, tax-exempt general obligation municipal bond, to the extent that the investments are not expected to be sufficient to make projected benefit payments.

*Criteria:*

Generally accepted accounting principles requires that the entire reporting entity be included within the financial statements and a single blended rate of return that reflects both the long-term expected rate of return and the yield for a 20-year, tax-exempt general obligation municipal bond, to the extent that the investments are not expected to be sufficient to make projected benefit payments.

*Cause:*

There is not a finance function in place to ensure timely completion of financial statements for the Scranton Parking Authority. For the pension discount rate, the actuary assumptions do not account for the timing of the cross over point, which is the point in time in which the plan is projected to be unable to pay benefits and the point in time which the 20-year, tax-exempt general obligation municipal bond rate is required to be used.

*Effect:*

The Scranton Parking Authority's audited information is not included in the 2016 financial statements of the City. The City's net pension liability is potentially understated by the difference in using the long-term rate of return and the blended rate of return.

*Questioned Costs:*

Unknown.

*Recommendation:*

We recommend that the City implement procedures to comply with GAAP.

*Auditee Response and Corrective Action Plan:*

In 2016, the Scranton Parking Authority was in Receivership and the City of Scranton did not have direct control over the financial reporting function of the Authority. Subsequent to year end the Scranton Parking Authority has been monetized.

*Auditor's 2017 Status:*

Based on follow-up testing performed in fiscal year 2017, the pension discount rate finding is resolved, however the reporting entity finding remains as stated. See finding 2017-001.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Prior Year Findings and Questions Costs  
For the Year Ended December 31, 2017**

**Section III – Federal Award Findings**

**Finding 2016 – 002**

**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 30 days after the issuance of the Audit report or 9 months after the entity's year end.

*Cause:*

Because of change over in administration and the Business Office being short staffed for most of 2016, the audit was not completed by the submission deadline and the form could not be completed and transmitted to the Bureau of Census.

*Effect:*

The City is late in filing its required Data Collection Form with the Bureau of Census.

*Questioned Costs:*

Unknown.

*Recommendation:*

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

*Auditee Response and Corrective Action Plan:*

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

*Auditor's 2017 Status:*

Finding remains as stated. See current year 2017-002 finding.

**CITY OF SCRANTON, PENNSYLVANIA**

**Schedule of Prior Year Findings and Questions Costs  
For the Year Ended December 31, 2017**

**Finding 2016 – 003**

**Drawdown of Federal Funds**

**CFDA #14.218 – Community Development Block Grant/Entitlement Grants**

**CFDA #14.231 – Emergency Solutions Grants Program**

*Condition:*

There were expenditures not yet incurred included in the drawdown requests.

*Criteria:*

The grants are on a cost reimbursement basis and expenditures should be incurred prior to requesting the drawdown.

*Cause:*

Management includes an estimate of costs that will be incurred from the drawdown request date to the date the cash will be received.

*Effect:*

The City is not in compliance with cost reimbursement grant policies.

*Questioned Costs:*

Unknown.

*Recommendation:*

We recommend that the City request reimbursement only for costs incurred through the request date.

*Auditee Response and Corrective Action Plan:*

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

*Auditor's 2017 Status:*

Based on current year testing, the finding is resolved.