

CITY OF SCRANTON, PENNSYLVANIA

**Financial Statements and Single Audit Together with
Report of Independent Public Accountants**

For the Year Ended December 31, 2014



DECEMBER 31, 2014

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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, 2014, 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 9 percent, 2 percent, and 1 percent, respectively, 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 report 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 opinions on of the governmental activities and the aggregate discretely presented component unit and unmodified audit opinion on the business-type activities, general and OECD funds, and aggregate remaining fund information.



Summary of Opinions

<i>Opinion Unit</i>	<i>Type of Opinion</i>
Entity Wide:	
Governmental Activities	Adverse
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Unit	Adverse
Fund:	
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 Governmental Activities

Accounting principles generally accepted in the United States of America require that net pension liability's discount rate be calculated at a single rate that reflects both the long-term expected rate of return and the yield for 20-year, tax-exempt general obligation municipal bonds, to the extent that the investments are not expected to be sufficient to make projected benefit payments. Management has used a single rate commensurate with only the long-term rate of return for investments with it being reasonably expected the pension plans would not have sufficient funding to make all projected benefit payments. Management has not recorded the net pension liability using a single blended discount rate that reflects both the long-term expected rate of return and the yield for 20-year, tax-exempt general obligation municipal bonds, in governmental activities and, accordingly, has not recorded an expense for the change in that liability. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable but is estimated by management to be material.

Adverse Opinion on Governmental Activities

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Governmental Activities paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City, as of December 31, 2014, and the changes in its financial position thereof for the year then ended.



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 do not purport to, and do not, present fairly the financial position of the reporting entity of the City, as of December 31, 2014, 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. In accordance with accounting principles generally accepted in the United States of America.

We also audited the adjustment described in note 18 that was applied to restate the statement of net position as of December 31, 2013 for the implementation of Government Accounting Standards Board Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees" and the adjustment for special cities. However, as noted in the paragraphs above, the adjustment for Government Accounting Standards Board (GASB) Statements No. 68, "Accounting and Financial Reporting for Pensions" is subject to the same qualifications as described above.

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, 2014, 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

As discussed in note 18 to the financial statements, during the year ended December 31, 2014, the City adopted new accounting guidance from Government Accounting Standards Board (GASB) Statements No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees" and restated for certain revenue transactions in the special cities fund. Our opinion is not modified with respect to this matter, except as noted previously for the pension amounts.

As discussed in Note 13 Commitments and Contingencies, the Police and Fire Departments union agreements expired at the end of 2002 and the two unions have been involved in various lawsuits with the City. In 2011 and 2012, the City received rulings that upheld back pay, apparatus and shift manning issues, and health care in favor of the unions. As of the issuance of these financial statements, the City has not paid the Court Award pursuant to the agreement by June 30, 2013. The City has accrued back pay for the period January 1, 2003 through December 31, 2014 in the government wide financial statements in the amount of \$22,834,965 includes interest through December 31, 2014. The liability is classified as long term as of December 31, 2014 and not included in the general fund financial statements because it has not been liquidated with expendable available resources as of the date of the financial statements.



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.

As discussed in note 14, Distressed Municipality Status, the City was declared a distressed municipality under the Financially Distressed Municipalities Act in 1992. On August 24, 2012, the City revised and updated its Act 47 recovery plan. The 2012 plan identifies mandates that the City must implement to eliminate the City's operating budget deficits as projected by the Act 47 Coordinator. The City's Act 47 Coordinator in conjunction with the City is currently in the process of revising its 2012 Recovery Plan.

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.

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 combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (the supplemental information) are presented for purposes of additional analysis and are 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.



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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2016 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
March 4, 2016

SB & Company, LLC

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis For the Year Ended December 31, 2014

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, 2014. 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, 2014, by \$228,856,586 (net deficit). See note 17.
2. The City's total net position increased by \$1,710,533, primarily due to the operating income generated in the proprietary fund.
3. As of December 31, 2014, the City's governmental fund reported an ending unassigned fund balance of \$723,474, a decrease from the prior year of \$3,397,649.
4. As of December 31, 2014, the City's business-type fund reported ending total net position of \$49,168,500, an increase from the prior year of \$8,705,351, primarily due to an increase in operating revenue over operating expenses.
5. Net deficit was restated by \$180,942,267 for implementation of GASB 68 and GASB 70. See Note 18.
6. 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 is in receivership.

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, 2014

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 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 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 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 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 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 .

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.

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis For the Year Ended December 31, 2014

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

The government-wide financial statements can be found on pages 17-19 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 combing 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 20-24 of this report.

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis For the Year Ended December 31, 2014

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 one type of proprietary fund, the enterprise 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 25-27 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 30-84 of this report.

Supplementary information

The schedule on page 95 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 \$179,688,086, as of December 31, 2014.

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, 2014

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, 2014 AND 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 54,185,160	\$ 65,671,053	\$ 19,503,711	\$ 20,162,328	\$ 73,688,871	\$ 85,833,381
Restricted assets	2,214,759	4,763,203	20,373,471	23,316,657	22,588,230	28,079,860
Capital assets, net	89,591,466	94,593,423	69,601,589	59,759,798	159,193,055	154,353,221
Deferred charges	-	-	-	1,041,789	-	1,041,789
Total Assets	145,991,385	165,027,679	109,478,771	104,280,572	255,470,156	269,308,251
Total Deferred Outflow of Resources	807,192	201,591	601,168	-	1,408,360	201,591
Liabilities						
Current liabilities	20,271,905	17,587,790	5,323,889	5,265,553	25,595,794	22,853,343
Long-term liabilities	343,473,732	164,050,424	55,587,550	57,951,520	399,061,282	222,001,944
Unearned revenue	11,909,526	24,730,107	-	-	11,909,526	24,730,107
Total Liabilities	375,655,163	206,368,321	60,911,439	63,217,073	436,566,602	269,585,394
Net Position						
Net investment in capital assets	72,057,046	75,213,163	14,033,680	195,115	86,090,726	75,408,278
Restricted	2,214,759	5,050,823	16,908,465	19,230,929	19,123,224	24,281,752
Unrestricted	(303,128,391)	(121,403,037)	18,226,355	21,637,455	(284,902,036)	(99,765,582)
Total Net Position	\$ (228,856,586)	\$ (41,139,051)	\$ 49,168,500	\$ 41,063,499	\$ (179,688,086)	\$ (75,552)

For more information on the statement of net position see page 17.

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, 2014, 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, 2013.

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis
For the Year Ended December 31, 2014

Government-wide Financial Analysis (continued)

CONDENSED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenue						
Fees, fines, and charges for services	\$ 10,807,419	\$ 11,663,736	\$ 24,037,219	\$ 23,262,420	\$ 34,844,638	\$ 34,926,156
Operating grants and contributions	10,639,081	17,202,096	-	-	10,639,081	17,202,096
Capital grants and contributions	-	3,255,736	125,000	-	125,000	3,255,736
General revenues						
Property taxes	28,018,933	17,245,813	-	-	28,018,933	17,245,813
Act 511 taxes	32,207,528	32,587,645	-	-	32,207,528	32,587,645
Cable TV franchise revenue	869,952	849,459	-	-	869,952	849,459
Payment in lieu of taxes	79,024	211,663	-	-	79,024	211,663
Investment earnings	173,462	(260,478)	86,168	124,449	259,630	(136,029)
Donations	-	65,377	-	-	-	65,377
Miscellaneous	1,150,267	29,746	353,224	362,068	1,503,491	391,814
Rent and concessions	10,985	10,210	-	-	10,985	10,210
Interfund transfers	-	2,263	-	(2,263)	-	-
Total Revenue and Transfers	83,956,651	82,863,266	24,601,611	23,746,674	108,558,262	106,609,940
Expenses						
General government and admin	16,516,856	9,884,225	-	-	16,516,856	9,884,225
Public safety	45,247,002	42,641,209	-	-	45,247,002	42,641,209
Public works	15,639,031	15,652,920	-	-	15,639,031	15,652,920
Health and welfare	920,140	2,085,524	-	-	920,140	2,085,524
Community development	3,819,221	8,706,387	-	-	3,819,221	8,706,387
Cultural and recreation	1,159,529	1,314,930	-	-	1,159,529	1,314,930
Unallocated depreciation	-	34,759	-	-	-	34,759
Interest on long term debt	7,649,690	5,850,163	-	-	7,649,690	5,850,163
Provision for uncollectible accounts	-	560,000	-	-	-	560,000
Long term court awards	-	542,000	-	-	-	542,000
Loss on disposal of fixed assets	-	82,582	-	728	-	83,310
Enterprise expenses						
Sewer authority	-	-	15,896,260	15,767,625	15,896,260	15,767,625
Transfer of assets to the receivership state	-	2,310,000	-	-	-	2,310,000
Total Expenses	90,951,469	89,664,699	15,896,260	15,768,353	106,847,729	103,123,052
Change in net position	(6,994,818)	(6,801,433)	8,705,351	7,978,321	1,710,533	1,176,888
Net position, beginning of year, as restated	(221,861,768)	(34,337,618)	40,463,149	33,085,178	(181,398,619)	(1,252,440)
Net Position, End of Year	\$ (228,856,586)	\$ (41,139,051)	\$ 49,168,500	\$ 41,063,499	\$ (179,688,086)	\$ (75,552)

For more information on the statement of activities, see page 19.

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis For the Year Ended December 31, 2014

Government-wide Financial Analysis (continued)

Governmental Activities

Governmental activities decreased the City's net position by \$6,994,818, for the year ended December 31, 2014.

Business-type Activities

Business-type activities increased the City's net position as of December 31, 2014 by \$8,705,351. The key element of this increase is from the excess water and sewer charges over operating expenses.

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 unreserved fund balance represents 2% of general fund expenditures.

The fund balance of the City's general fund decreased due to increased expenditures for a waste water upgrade project.

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, 2014

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, 2014, was \$159,193,055. The investment in capital assets includes land, buildings, water/sewer improvements, 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, 2014 was \$4,839,834. This decrease was a result of depreciation expense exceeding additions during the year.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land & land improvement	\$ 3,485,506	\$ 3,485,506	\$ 130,029	\$ 130,029	\$ 3,615,535	\$ 3,615,535
Buildings & building improvements	20,798,427	20,798,427	122,105,417	119,950,641	142,903,844	140,749,068
Infrastructure	132,206,565	131,730,492	-	-	132,206,565	131,730,492
Furniture, equipment and vehicles	18,932,763	18,553,787	10,986,256	10,369,390	29,919,019	28,923,177
Construction in progress	346,708	335,054	22,601,110	12,652,453	22,947,818	12,987,507
Accumulated depreciation	(86,178,503)	(80,309,843)	(86,221,223)	(83,342,715)	(172,399,726)	(163,652,558)
Total Capital Assets, Net	\$ 89,591,466	\$ 94,593,423	\$ 69,601,589	\$ 59,759,798	\$ 159,193,055	\$ 154,353,221

Additional information on the City's capital assets can be found in Note 5 on page 47 of this report.

Debt Administration

The City's outstanding debt as of December 31, 2014 and 2013 was as follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Beginning Balance	\$ 132,093,437	\$ 99,389,179	\$ 59,564,683	\$ 84,261,272	\$ 191,658,120	\$ 183,650,451
Issued debt	-	5,828,597	-	1,885,416	-	7,714,013
Accretion and amortization	215,640	27,832	-	-	215,640	27,832
Less: removal of Parking Authority debt	-	-	-	(24,294,463)	-	(24,294,463)
Less: retirements	(7,162,426)	(4,859,065)	(2,328,468)	(2,287,542)	(9,490,894)	(7,146,607)
Ending Balance	\$ 125,146,651	\$ 100,386,543	\$ 57,236,215	\$ 59,564,683	\$ 182,382,866	\$ 159,951,226

The City's total debt decreased by \$9,275,254, during the fiscal year ended December 31, 2014, as a result of scheduled payments of long term debt.

Additional information on the City's long-term debt can be found in Note 7 on pages 49-61 of this report.

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis For the Year Ended December 31, 2014

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 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.

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis For the Year Ended December 31, 2014

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

The following mandates are provisions of the 2015 Recovery Plan:

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

CITY OF SCRANTON, PENNSYLVANIA

Management's Discussion and Analysis For the Year Ended December 31, 2014

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

- 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;
- The life, disability, and dental insurance coverage were subject to a request for proposal and will be awarded in 2015;
- Changes were recently made to the Retiree Prescription program;
- In 2013, enhancements were made to the City of Scranton's on-street parking meters, allowing parkers to utilize credit cards at meters, as well as a pay-by-phone option.
- Further enhancements to the program include a mobile payment application. These enhancements, along with increases to meter rates and citations, will lead to increased parking revenue.

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, 4th Floor, and 340 N. Washington Avenue, Scranton, PA 18503.

CITY OF SCRANTON, PENNSYLVANIA

**Statement of Net Position
As of December 31, 2014**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,936,978	\$ 12,559,155	\$ 18,496,133
Investments	20,195,044	-	20,195,044
Receivables:			
Taxes and fees receivable, net	15,728,623	-	15,728,623
Accounts receivable, net	487,557	6,424,632	6,912,189
Loans receivable	7,317,105	-	7,317,105
Other receivables, net	1,218,269	-	1,218,269
Due from other funds	2,140,095	-	2,140,095
Prepaid assets	1,062,554	-	1,062,554
Other assets	-	519,924	519,924
Property held for resale	98,935	-	98,935
Restricted assets:			
Cash and cash equivalents	2,214,759	156,355	2,371,114
Investments	-	19,826,333	19,826,333
Accounts receivable	-	4,654	4,654
Accounts receivable - assessments	-	386,129	386,129
Total Current Assets	56,399,919	39,877,182	96,277,101
Land	3,485,506	130,029	3,615,535
Buildings	12,098,549	122,105,417	134,203,966
Improvements	8,699,878	-	8,699,878
Infrastructure	132,206,565	-	132,206,565
Vehicles, furniture, and equipment	18,932,763	10,986,256	29,919,019
Construction in progress	346,708	22,601,110	22,947,818
Total capital assets	175,769,969	155,822,812	331,592,781
Less: accumulated depreciation	86,178,503	86,221,223	172,399,726
Capital assets, net	89,591,466	69,601,589	159,193,055
Total Assets	145,991,385	109,478,771	255,470,156
Deferred Outflow of Resources			
Bond insurance cost	53,099	601,168	654,267
Deferred outflows related to pensions	754,093	-	754,093
Total Deferred Outflow of Resources	807,192	601,168	1,408,360

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

CITY OF SCRANTON, PENNSYLVANIA

**Statement of Net Position
As of December 31, 2014**

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Accounts payable	\$ 3,975,346	\$ 638,110	\$ 4,613,456
Accrued liabilities	1,756,122	1,762,891	3,519,013
Due to other funds	6,344,259	-	6,344,259
Current liabilities payable from restricted assets:			
Accrued construction cost	-	961,337	961,337
Revenue bonds/notes payable	-	1,250,000	1,250,000
General obligation bonds payable	-	-	-
Accrued bond interest payable	1,583,841	711,551	2,295,392
Current portion of long term debt:			
Long-term debt obligations	5,146,506	-	5,146,506
Capital lease	1,132,498	-	1,132,498
Refuse trade debt	333,333	-	333,333
Total Current Liabilities	20,271,905	5,323,889	25,595,794
Non-Current liabilities			
Worker's compensation claims payable	20,035,011	-	20,035,011
Long-term debt obligations	101,867,435	55,207,741	157,075,176
Capital lease	16,401,922	-	16,401,922
Refuse trade debt	264,957	-	264,957
Long term court awards payable	22,834,965	-	22,834,965
Other post employment benefits	27,491,926	-	27,491,926
Net pension liability	151,117,707	-	151,117,707
Compensated absences	3,459,809	379,809	3,839,618
Unearned revenue	11,909,526	-	11,909,526
Total Liabilities	375,655,163	60,911,439	436,566,602
NET POSITION			
Net investment in capital assets	72,057,046	14,033,680	86,090,726
Restricted:			
Debt service	2,214,759	16,908,465	19,123,224
Unrestricted (deficit)	(303,128,391)	18,226,355	(284,902,036)
Total Net Position	\$ (228,856,586)	\$ 49,168,500	\$ (179,688,086)

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

CITY OF SCRANTON, PENNSYLVANIA

Statement of Activities
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government and administration	\$ 16,516,856	\$ 10,494,867	\$ 7,498,816	\$ -	\$ 1,476,827	\$ -	\$ 1,476,827
Public safety	45,247,002	-	-	-	(45,247,002)	-	(45,247,002)
Public works	15,639,031	-	-	-	(15,639,031)	-	(15,639,031)
Health and welfare	920,140	-	-	-	(920,140)	-	(920,140)
Community development	3,819,221	312,552	3,140,265	-	(366,404)	-	(366,404)
Culture and recreation	1,159,529	-	-	-	(1,159,529)	-	(1,159,529)
Interest on long term debt	7,649,690	-	-	-	(7,649,690)	-	(7,649,690)
Total Governmental Activities	90,951,469	10,807,419	10,639,081	-	(69,504,969)	-	(69,504,969)
Business-type Activities							
Sewer Authority	15,896,260	24,037,219	-	125,000	-	8,265,959	8,265,959
Total Government	\$ 106,847,729	\$ 34,844,638	\$ 10,639,081	\$ 125,000	(69,504,969)	8,265,959	(61,239,010)
General Revenues							
Taxes							
Property taxes							
					28,018,933	-	28,018,933
Act 511 taxes							
					32,207,528	-	32,207,528
Cable television franchise revenue							
					869,952	-	869,952
Payments in lieu of taxes							
					79,024	-	79,024
Investment earnings							
					173,462	86,168	259,630
Miscellaneous							
					1,150,267	353,224	1,503,491
Rents and concessions							
					10,985	-	10,985
Total General Revenues and Transfers					62,510,151	439,392	62,949,543
Change in Net Position					(6,994,818)	8,705,351	1,710,533
Net position, beginning of year, as restated					(221,861,768)	40,463,149	(181,398,619)
Net Position, End of Year					\$ (228,856,586)	\$ 49,168,500	\$ (179,688,086)

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

CITY OF SCRANTON, PENNSYLVANIA

**Balance Sheet – Governmental Funds
As of December 31, 2014**

	<u>General</u>	<u>OECD</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 248,934	\$ 1,089,971	\$ 4,598,073	\$ 5,936,978
Taxes and fees receivable, net	15,728,623	-	-	15,728,623
Accounts receivable, net	-	307,849	126,753	434,602
Loans receivable, net	-	7,317,105	-	7,317,105
Other receivables, net	1,218,269	-	-	1,218,269
Due from other funds	1,121,595	578,174	369,217	2,068,986
Prepaid assets	1,062,554	-	-	1,062,554
Restricted assets:				
Restricted cash and cash equivalents	-	-	2,214,759	2,214,759
Property held for resale	-	-	98,935	98,935
Total Assets	<u>\$ 19,379,975</u>	<u>\$ 9,293,099</u>	<u>\$ 7,407,737</u>	<u>\$ 36,080,811</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE				
Accounts payable	\$ 3,141,751	\$ 398,553	\$ 261,434	\$ 3,801,738
Accrued liabilities	1,750,955	5,167	-	1,756,122
Due to other funds	4,719,061	-	1,625,198	6,344,259
Unearned revenue	-	8,962,983	2,946,543	11,909,526
Total Liabilities	<u>9,611,767</u>	<u>9,366,703</u>	<u>4,833,175</u>	<u>23,811,645</u>
Deferred Inflows of Resources				
Unavailable revenue	<u>8,287,593</u>	-	<u>100,000</u>	<u>8,387,593</u>
Total Deferred Inflows of Resources	<u>8,287,593</u>	<u>-</u>	<u>100,000</u>	<u>8,387,593</u>
Fund Balance				
Nonspendable	-	-	98,935	98,935
Restricted for debt service	-	-	2,214,759	2,214,759
Restricted for capital projects	-	-	77,936	77,936
Restricted for externally imposed restrictions	-	-	766,469	766,469
Unassigned	<u>1,480,615</u>	<u>(73,604)</u>	<u>(683,537)</u>	<u>723,474</u>
Total Fund Balance	<u>1,480,615</u>	<u>(73,604)</u>	<u>2,474,562</u>	<u>3,881,573</u>
Total Liabilities, Deferred inflows and Fund Balance	<u>\$ 19,379,975</u>	<u>\$ 9,293,099</u>	<u>\$ 7,407,737</u>	<u>\$ 36,080,811</u>

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, 2014**

Total Governmental Fund Balances	\$ 3,881,573
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund statements	89,591,466
Governmental funds report the effects of bond insurance cost when the debt is first issued, whereas these amounts are deferred and amortized.	53,099
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	5,489,821
Refuse fee receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund	2,797,772
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:	110,489
Deferred loans are loans made by SRA to qualified projects that will be repaid in future years but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds	100,000
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	754,093
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	(69,514,166)
General obligation notes payable	(5,689,025)
Governmental notes payable	(900,000)
Accrued interest payable	(1,583,841)
Capitalized lease payable	(17,534,420)
Long term court awards payable	(22,834,965)
Long term refuse trade debt	(598,290)
Compensated absences	(3,459,809)
Other post employment benefits	(27,491,926)
Net pension liability	(151,117,707)
Parking Authority Revenue Bonds	(30,910,750)
Long term liabilities	<u>(331,634,899)</u>
Net Position of Governmental Activities	<u><u>\$ (228,856,586)</u></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, 2014

	General	OECD	Non-Major Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 58,676,633	\$ -	\$ -	\$ 58,676,633
Intergovernmental	5,601,119	3,140,265	1,897,697	10,639,081
Departmental earnings	1,406,913	-	249,380	1,656,293
Refuse disposal fee	6,461,640	-	-	6,461,640
Licenses and permits	2,279,978	-	-	2,279,978
Cable television franchise revenue	869,952	-	-	869,952
Payments in lieu of taxes	79,024	-	-	79,024
Investment income	-	170,313	3,149	173,462
Other revenues	1,019,827	-	130,440	1,150,267
Rents and concessions	5,500	-	5,485	10,985
Program income	-	312,552	-	312,552
Total Revenues	76,400,586	3,623,130	2,286,151	82,309,867
EXPENDITURES				
Current:				
General government	13,742,457	-	424,855	14,167,312
Public safety	44,654,358	-	-	44,654,358
Public works	10,894,127	-	226,819	11,120,946
Health and welfare	-	-	920,140	920,140
Community development	-	3,772,493	46,728	3,819,221
Culture and recreation	532,204	-	-	532,204
Debt Service:				
Debt service principal	796,144	-	4,174,350	4,970,494
Debt service interest	2,644,402	-	5,005,288	7,649,690
Capital outlay	-	-	604,716	604,716
Total Expenditures	73,263,692	3,772,493	11,402,896	88,439,081
Excess (Deficiency) of Revenues Over Expenditures	3,136,894	(149,363)	(9,116,745)	(6,129,214)
OTHER FINANCING SOURCES (USES):				
Proceeds from:				
Operating transfers in	1,594,349	-	7,629,039	9,223,388
Operating transfers out	(7,629,039)	-	(1,594,349)	(9,223,388)
Total Other Financing Sources (Uses)	(6,034,690)	-	6,034,690	-
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(2,897,796)	(149,363)	(3,082,055)	(6,129,214)
Fund Balances, beginning of year	4,378,411	75,759	5,556,617	10,010,787
Fund Balances, End of Year	\$ 1,480,615	\$ (73,604)	\$ 2,474,562	\$ 3,881,573

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
For the Year Ended December 31, 2014**

Net Changes in Fund Balances - Total Governmental Funds \$ (6,129,214)

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	866,703	
Depreciation	<u>(5,868,660)</u>	(5,001,957)

Because some property taxes will not be collected for several months after the City's year end, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenue increased by this amount this year. 1,549,828

Because some refuse fees will not be collected for several months after the City's year end, they are not considered as "available" revenues in the governmental funds. Unavailable refuse fee revenue increased by this amount this year. 75,081

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: 913,770

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. 11,366

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. (2,790,780)

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

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
For the Year Ended December 31, 2014**

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:

Long term refuse trade debt	320,307	
Repayment of general bond principal	4,764,360	
Repayment of governmental note payable	575,975	
Repayment of capitalized lease principal	490,000	
Repayment of parking authority revenue bond	796,144	
Bond insurance cost, net of amortization	<u>(148,492)</u>	6,798,294

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.

<u>(1,128,661)</u>	(1,128,661)
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Long-term court awards represents accrual for back pay awards for the period January 1, 2014 to December 31, 2014 and settlement of other employee matters. This amount differs from the amount reported in the Governmental Funds because it has not been liquidated with the expendable available resources as of the date of the financial statements.

<u>(1,292,545)</u>

Change in Net Position of Governmental Activities

<u>\$ (6,994,818)</u>

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, 2014**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	
	Major Fund			Sewer Authority	
ASSETS					
Cash and cash equivalents	\$	12,559,155	\$		-
Investments		-		20,195,044	
Accounts receivable, net		6,424,632		52,955	
Due from other funds		-		71,109	
Other current assets		519,924		-	
Restricted assets:					
Restricted cash and cash equivalents		156,355		-	
Restricted investments		19,826,333		-	
Restricted accrued interest receivable		4,654		-	
Accounts receivable - assessments		386,129		-	
Capital assets:					
Land		130,029		-	
Buildings and improvements		122,105,417		-	
Equipment		10,986,256		-	
Construction in progress		22,601,110		-	
Accumulated depreciation		(86,221,223)		-	
Deferred charges, net		601,168		-	
Total Assets		110,079,939		20,319,108	
LIABILITIES AND NET POSITION					
Accounts payable		638,110		173,608	
Accrued liabilities		645,565		-	
Current portion of long term debt		961,337		-	
Current liabilities payable from restricted assets:					
Revenue bonds and notes payable		1,250,000		-	
Accrued expenses		1,117,326		-	
Accrued revenue bonds interest payable		711,551		-	
Noncurrent liabilities:					
Workers' compensation claims payable		-		20,035,011	
Long term debt obligations		55,024,878		-	
Accrued compensated absences		379,809		-	
Deferred bond premium		182,863		-	
Total Liabilities		60,911,439		20,208,619	
Net Position					
Investment in capital assets, net of related debt		14,033,680		-	
Restricted for debt service, capital expenditure, and long term liabilities		16,908,465		-	
Unrestricted		18,226,355		110,489	
Total Net Position		49,168,500		110,489	
Total Liabilities and Net Position	\$	110,079,939	\$	20,319,108	

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, 2014**

	Business-Type Activities - Enterprise Funds	
	Major Fund	
	Sewer Authority	Governmental Activities - Internal Service Funds
REVENUES		
Charges for services	\$ 24,037,219	\$ 3,143,912
Total Revenues	24,037,219	3,143,912
EXPENSES		
Workers' compensation claims	-	2,481,371
Salaries, wages, and fringe benefits	7,144,411	-
Insurance	278,588	-
Depreciation	2,878,508	-
Other	4,872,157	56,389
Total Expenses	15,173,664	2,537,760
Income from Operations	8,863,555	606,152
Non Operating Revenues (Expenses):		
Capital grants	125,000	-
Investment income	86,168	307,618
Interest expense	(699,462)	-
Other revenues	353,224	-
Amortization of deferred charges	(23,134)	-
Total Non Operating Revenues (Expenses)	(158,204)	307,618
Change in Net Position	8,705,351	913,770
Net Position, beginning of year	40,463,149	(803,281)
Net Position, End of Year	\$ 49,168,500	\$ 110,489

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

CITY OF SCRANTON, PENNSYLVANIA

**Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2014**

	Business-Type Activities - Enterprise Funds		Governmental Activities - Internal Service Funds
	Major Fund		
	Sewer Authority		
Cash Flows from Operating Activities			
Cash received from customers and users	\$ 22,680,683	\$ -	
Cash received from other funds for services	-	3,164,247	
Cash paid to employees	(7,035,646)	-	
Cash payments for services and goods	(4,755,584)	(2,528,411)	
Net Cash from Operating Activities	10,889,453	635,836	
Cash Flows from Investment Activities			
Sale of investments	8,309,629	-	
Purchase of investments	(7,999,554)	(2,161,340)	
Interest on cash and investments	106,108	307,618	
Net Cash from Investment Activities	416,183	(1,853,722)	
Cash Flows from Capital and Related Financing Activity Inflows			
Acquisition of capital assets	(11,405,078)	-	
Payment of debt	(2,328,468)	-	
Interest paid on bonds	(2,453,606)	-	
Net Cash from Capital and Related Financing Activity	(16,187,152)	-	
Cash Flows from Noncapital and Related Financing Activity Inflows			
Other revenue received	353,224	-	
Net increase in cash and cash equivalents	(4,528,292)	(1,217,886)	
Cash and cash equivalents, beginning of year	17,243,802	1,217,886	
Cash and cash equivalents, End of Year	\$ 12,715,510	\$ -	
Reconciliation of Operating Income to Net Cash from Operating Activities:			
Operating income	\$ 8,863,555	\$ 606,152	
Depreciation	2,878,508	-	
Effect of changes in non-cash operating assets and liabilities:			
Accounts receivable	(1,070,319)	20,335	
Other assets	(61,185)	-	
Accounts payable	158,129	9,349	
Accrued liabilities	51,424	-	
Accrued compensated absences	69,341	-	
Net Cash from Operating Activities	\$ 10,889,453	\$ 635,836	

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, 2014**

	ASSETS	Pension Trust
Cash and investments		\$ 47,596,435
Receivables:		
Members' contributions		14,698
Due from General fund		4,198,335
Total receivables		<u>4,213,033</u>
Total Assets		<u>51,809,468</u>
TOTAL LIABILITIES AND NET POSITION		
Accrued administrative expenses		<u>64,441</u>
Net Position		
Held in trust for pension benefits		<u><u>\$ 51,745,027</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, 2014**

	Pension Trust
Additions	
Contributions	
Employee	\$ 714,587
Employer	12,449,317
Total Contributions	<u>13,163,904</u>
Investment Income:	
Investment return	2,864,651
Interest income	570
Total Investment Income	<u>2,865,221</u>
Less: Investment Expenses	<u>(298,089)</u>
Net Investment Earnings	<u>2,567,132</u>
Total Additions	<u>15,731,036</u>
Deductions	
Benefit payments	12,994,718
Administrative expenses	54,160
Total Deductions	<u>13,048,878</u>
Change in net position	2,682,158
Net position, beginning of year	<u>49,062,869</u>
Net Position, End of Year	<u><u>\$ 51,745,027</u></u>

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

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 Financial Statements For the Year Ended December 31, 2014

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, 2014.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

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 amounts included in the accompanying government-wide and fund financial statements for the Sewer Authority reflect its operating results for its fiscal year of April 1, 2013 to March 31, 2014. The Sewer Authority is a blended component unit.

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 the year ended December 31, 2014 and no financial statements have been prepared or included in the City's report for the year ended December 31, 2014 as part of its reporting entity. The City communicated their concerns to the receiver/trustee/bond insurers relative to the language in the bond documents requiring an audit of the Parking Authority's operation. The parties did not seek to authorize the completion of an audit. The Parking Authority should be a discretely presented component unit.

As discussed in Note 16, the Parking Authority was placed into receivership by the Court of Common Pleas of Lackawanna County in September 2012.

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 Financial Statements

For the Year Ended December 31, 2014

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 Financial Statements

For the Year Ended December 31, 2014

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 Financial Statements

For the Year Ended December 31, 2014

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.

The Sewer Authority fund is classified as a major fund. The Recreation Authority is classified as a non-major fund.

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 Financial Statements For the Year Ended December 31, 2014

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 term 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 Financial Statements

For the Year Ended December 31, 2014

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.

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.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2014, upon which the 2014 levy was based, was approximately \$395 million. Delinquent taxes for the first year are collected by the Single Tax Office and thereafter are collected by an outside collection agency. The schedule for real estate taxes levied is as follows:

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.

The millage rate at January 1, 2014 was 184.867 mills on the assessed value of land and 40.202 mills on the assessed value of improvements.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable included in the enterprise fund represent amounts outstanding from the Sewer Authority customers reported net of an allowance for doubtful accounts of \$2,595,000 at March 31, 2014. The Authority's policy for providing for uncollectible accounts is to charge current year earnings for accounts receivable considered currently uncollectible, based on the historical collection experience of the Sewer Authority and collection percentages applicable to public utilities.

A major portion of the allowance for doubtful accounts is felt to be collectible in future years because of the Authority's power to convert past due accounts into municipal claims. This procedure is an operation of law and the claims have the status of a legal lien or judgment. There are currently in force municipal claims of approximately \$3.74 million dollars.

Loans Receivable

Loans receivable consist of economic development loans to third parties that are administered by OECD. 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.

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.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets (continued)

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:

	Sewer Authority	Redevelopment Authority	Governmental Funds
	Useful Life	Useful Life	Useful Life
Building and Building Improvements	40 years	N/A	20-50 years
Land Improvements	10 years	N/A	10-15 years
Equipment/Furniture	10 years	15 years	5-7 years
Vehicles	3-6 years	N/A	8-15 years
Extraordinary repairs	20 years (sewer system) / 5 years (equipment)	N/A	N/A
Roadways	N/A	N/A	30-50 years
Traffic Systems	N/A	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.

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 the same as in the government-wide statements.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014, aggregate liability for unused vacation and sick pay was \$3,459,809.

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.

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.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Fund Balances (continued)

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.

Implementation of New Accounting Principles

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As part of GASB 68 the City is required to record its net funded pension liability. The City has adopted these statements and had a material impact on the financial statements. See footnote 18.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Principles (continued)

GASB also issued Statement No. 69, entitled *Government Combinations and Disposals of Government Operation*, and GASB Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Both statements were adopted this fiscal year but had no effect on these accompanying financial statements.

The, GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 73, entitled, *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*; GASB Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*; and GASB Statement No. 77; entitled, *Tax Abatement Disclosures, which will require adoption in the future, if applicable*. These statements may or will have a material effect on the City's financial statements once implemented.

The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their 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.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

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 yearend, the carrying amount of combined deposits was \$20,867,247 and the collected bank balance was \$20,901,402. 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, 2014, the City's deposits were not exposed to custodial credit risk.

Investments

As of December 31, 2014, the City had the following investments:

Types of Investments	Fair Value / Carrying Amount	Cost	Average Credit Quality / Ratings	Weighted Average Days to Maturity
GOVERNMENTAL FUNDS				
Primary Government:				
Internal Service Fund				
Cash and Cash Equivalents	\$ 1,128,177	\$ 1,128,177	N/A	N/A
Corporate Obligations:				
Domestic CD's	4,003,383	4,011,580	N/A	N/A
Domestic Bonds	5,412,107	5,384,224	N/A	N/A
Governmental Securities:				
Federal Farm Credit	2,515,733	2,447,120	Aaa	N/A
Federal Home Loan Bank	3,567,752	3,351,617	Aaa	N/A
Federal Home Loan Mtg Corp	992,991	997,500	Aaa	N/A
Mutual Funds:				
U.S. Agency Equity Funds	2,574,901	2,612,063	N/A	N/A
Total Internal Service Fund	<u>\$ 20,195,044</u>	<u>\$ 19,932,281</u>		
Sewer Authority				
Other Investments:				
Money Market Funds	17,464,372	17,464,372	AAAm/AAAmf	0.23
Governmental Securities:				
U.S. Government Obligations	2,361,961	2,359,500	N/A	3.81
Total Sewer Authority	<u>19,826,333</u>	<u>19,823,872</u>		
Total Business Type Activities	<u>19,826,333</u>	<u>19,823,872</u>		
Total Internal Service Fund and Business Type Expenses	<u>\$ 40,021,377</u>	<u>\$ 39,756,153</u>		

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

Investments (continued)

	<u>Fair Value / Carrying Amount</u>	<u>Cost</u>
FIDUCIARY FUNDS		
Pension Trust Fund		
Mutual Funds:		
Cash and Cash Equivalents	\$ 5,314,218	\$ 5,314,218
Equity Mutual Funds	18,867,159	14,803,853
Bond Mutual Funds	23,415,058	21,745,885
Total Pension Trust Fund	<u>\$ 47,596,435</u>	<u>\$ 41,863,956</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 Financial Statements
For the Year Ended December 31, 2014**

3. TAXES AND FEES RECEIVABLE

Taxes and fees receivable in the general fund consist of the following at December 31, 2014:

Real estate taxes	\$ 10,475,353
Act 511 taxes:	
Earned income	6,041,590
Delinquent refuse disposal fee	5,958,122
Total	<u>22,475,065</u>
Less: Allowance for uncollectible taxes and fees	(6,746,442)
Total Taxes and Fees Receivable, Net	<u><u>\$ 15,728,623</u></u>

4. DUE FROM AND DUE TO OTHER FUNDS

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund		
OECD	\$ -	\$ 80,400
Special Cities	1,121,595	369,217
Pension Fund	-	4,198,335
Insurance fund	-	71,109
Special Cities		
General Fund	369,217	1,121,595
OECD		
Redevelopment Authority	503,603	-
General Fund	80,400	-
Redevelopment Authority		
OECD	-	503,603
Pension		
General Fund	4,198,335	-
Insurance Fund		
General Fund	71,109	-
Total	<u><u>\$ 6,344,259</u></u>	<u><u>\$ 6,344,259</u></u>

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	<u>Balance</u> <u>December 31, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>December 31, 2014</u>
Governmental Activities:				
Land	\$ 3,485,506	\$ -	\$ -	\$ 3,485,506
Construction in progress	335,054	11,654	-	346,708
Building	12,098,549	-	-	12,098,549
Land and building improvements	8,699,878	-	-	8,699,878
Infrastructure	131,730,492	476,073	-	132,206,565
Vehicles, furniture, and equipment	18,553,787	378,976	-	18,932,763
Total	<u>174,903,266</u>	<u>866,703</u>	<u>-</u>	<u>175,769,969</u>
Less: Accumulated depreciation				
Building	(4,668,519)	(251,596)	-	(4,920,115)
Land and building improvements	(5,177,033)	(529,213)	-	(5,706,246)
Infrastructure	(57,084,123)	(4,142,798)	-	(61,226,921)
Vehicles, furniture, and equipment	(13,380,168)	(945,053)	-	(14,325,221)
Total	<u>(80,309,843)</u>	<u>(5,868,660)</u>	<u>-</u>	<u>(86,178,503)</u>
Governmental Activities Capital Assets, Net	<u>\$ 94,593,423</u>	<u>\$ (5,001,957)</u>	<u>\$ -</u>	<u>\$ 89,591,466</u>
Business-Type Activities:				
Land	\$ 130,029	\$ -	\$ -	\$ 130,029
Construction in progress	12,652,453	9,948,657	-	22,601,110
Building and building improvements	119,950,641	2,154,776	-	122,105,417
Equipment	10,369,390	616,866	-	10,986,256
Total	<u>143,102,513</u>	<u>12,720,299</u>	<u>-</u>	<u>155,822,812</u>
Less: Accumulated depreciation				
Building and building improvements	(75,276,933)	(2,346,346)	-	(77,623,279)
Equipment	(8,065,782)	(532,162)	-	(8,597,944)
Total	<u>(83,342,715)</u>	<u>(2,878,508)</u>	<u>-</u>	<u>(86,221,223)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 59,759,798</u>	<u>\$ 9,841,791</u>	<u>\$ -</u>	<u>\$ 69,601,589</u>

Depreciation expense was charged to governmental functions as follows:

General	\$ 130,606
Public Safety	592,644
Public Works	4,518,085
Parks and Recreation	627,325
Total Depreciation Expense	<u>\$ 5,868,660</u>

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

6. SHORT-TERM DEBT

In November 2010, the Sewer Authority renewed a \$4,000,000 line of credit to provide interim financing for a capital improvements program. Interest is payable monthly at a variable rate equal to 70% of the prime rate (2.275% at March 31, 2014). Security for the line of credit is all receipts and accounts receivable. The line of credit matures November 2015. There were no borrowings at March 31, 2014, nor was there any activity for the year ended March 31, 2014.

During the year ended December 31, 2014, the City issued a tax anticipation note for \$12,200,000. The note was repaid during the year for \$12,986,733.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT

Type of Debt	Balance Outstanding December 31, 2013	Additions	Reductions	Balance Outstanding December 31, 2014	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds:					
Emmaus General Authority Series 2002	\$ 5,245,000	\$ -	\$ 270,000	\$ 4,975,000	\$ 280,000
Series A of 2003	520,000	-	520,000	-	-
Series B of 2003	28,200,000	-	880,000	27,320,000	905,000
Series C of 2003	14,625,000	-	430,000	14,195,000	450,000
Series D of 2003	8,170,000	-	645,000	7,525,000	680,000
Series A of 2012	9,080,000	-	1,485,000	7,595,000	775,000
Series C of 2012	9,075,000	-	750,000	8,325,000	805,000
(Amortization) / Accretion	(636,474)	-	215,640	(420,834)	-
Total General Obligation Bonds	<u>74,278,526</u>	<u>-</u>	<u>5,195,640</u>	<u>69,514,166</u>	<u>3,895,000</u>
Guaranteed Revenue Bonds					
Scranton Parking Authority 2004,2006, and 2007	31,706,894	-	796,144	30,910,750	661,506
Total Guaranteed Revenue Bonds	<u>31,706,894</u>	<u>-</u>	<u>796,144</u>	<u>30,910,750</u>	<u>661,506</u>
General Obligation Notes:					
Series B of 2012	1,355,000	-	220,000	1,135,000	115,000
Series A of 2013	4,910,000	-	355,975	4,554,025	375,000
Total General Obligation Notes	<u>6,265,000</u>	<u>-</u>	<u>575,975</u>	<u>5,689,025</u>	<u>490,000</u>
Lease Obligations Payable					
2006 Capitalized Lease Equip Energy System	949,420	-	-	949,420	72,498
2004 Capitalized Lease Buildings	1,615,000	-	480,000	1,135,000	535,000
2006 Capitalized Lease Buildings	9,580,000	-	5,000	9,575,000	520,000
2008 Capitalized Lease Buildings	5,880,000	-	5,000	5,875,000	5,000
Total Lease Obligations Payable	<u>18,024,420</u>	<u>-</u>	<u>490,000</u>	<u>17,534,420</u>	<u>1,132,498</u>
Notes Payable:					
DCED Act 47 Loan	900,000	-	-	900,000	100,000
Total Notes Payable	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>900,000</u>	<u>100,000</u>
Long Term Trade Debt					
Non Interest Bearing Refuse Trade Debt	918,597	-	320,307	598,290	333,333
Total Long Term Trade Debt	<u>918,597</u>	<u>-</u>	<u>320,307</u>	<u>598,290</u>	<u>333,333</u>
Other Long Term Liabilities					
Worker's Compensation claims	19,631,799	2,318,717	1,915,505	20,035,011	-
Compensated absences	3,471,175	-	11,366	3,459,809	-
Other post employment benefits	24,701,146	2,790,780	-	27,491,926	-
Long term court awards	21,542,000	1,292,965	-	22,834,965	-
Net pension liability	149,235,373	1,882,334	-	151,117,707	-
Total Other Long Term Liabilities	<u>218,581,493</u>	<u>8,284,796</u>	<u>1,926,871</u>	<u>224,939,418</u>	<u>-</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 350,674,930</u>	<u>\$ 8,284,796</u>	<u>\$ 9,304,937</u>	<u>\$ 350,086,069</u>	<u>\$ 6,612,337</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds:					
2007 Series	\$ 16,610,000	\$ -	\$ 5,000	\$ 16,605,000	\$ 5,000
2011 Series A	20,420,000	-	960,000	19,460,000	790,000
2011 Series B	7,495,000	-	440,000	7,055,000	455,000
Total Revenue Bonds	<u>\$ 44,525,000</u>	<u>\$ -</u>	<u>\$ 1,405,000</u>	<u>\$ 43,120,000</u>	<u>\$ 1,250,000</u>
Notes Payable:					
2000 Series Pennvest	\$ 2,712,104	\$ -	\$ 240,254	\$ 2,471,850	\$ 247,674
2002 Series Pennvest	2,843,190	-	216,525	2,626,665	222,608
2003 Series Pennvest	1,555,186	-	112,607	1,442,579	115,770
2004 Series Pennvest	2,626,561	-	150,528	2,476,033	155,187
2007 Series Pennvest	3,417,226	-	203,554	3,213,672	191,664
2012 Series Pennvest	1,885,416	-	-	1,885,416	28,434
Total Notes Payable	<u>\$ 15,039,683</u>	<u>\$ -</u>	<u>\$ 923,468</u>	<u>\$ 14,116,215</u>	<u>\$ 961,337</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 59,564,683</u>	<u>\$ -</u>	<u>\$ 2,328,468</u>	<u>\$ 57,236,215</u>	<u>\$ 2,211,337</u>
TOTAL LONG TERM DEBT	<u>\$ 410,239,613</u>	<u>\$ 8,284,796</u>	<u>\$ 11,633,405</u>	<u>\$ 407,322,284</u>	<u>\$ 8,823,674</u>

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

A summary of long-term debt outstanding at December 31, 2014 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, 2014, was 2.45%.

General Obligation Bonds, Series A 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 \$5,025,000, of 1.00% to 3.50% General Obligation Bonds, Series A of 2003 to provide funds to advance refund the City's General Obligation Bonds, Series of 2001 A, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2014. The bonds maturing after September 1, 2006, are subject to extraordinary mandatory redemption prior to maturity on March 1, 2006 at the direction of the City at 100% to the extent that there are available amounts generated in the preceding fiscal year as determined under IRC section 1.148-6(d)(3)(iii) of the 1986 code. The bonds maturing on or after September 1, 2004, are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013, at a redemption price of 100%.

General Obligation Bonds, Series B of 2003: On August 1, 2003, the City of Scranton in accordance with the local 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%.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

General Obligation Bonds, Series C of 2003: On August 1, 2003, the City of Scranton in accordance with the local 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%.

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%.

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.

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

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

General Obligation Bonds, Series C 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.

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

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

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.

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

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

General Obligation Notes, Series A 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.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

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

Extraordinary Redemption: The Notes maturing on and after September 1, 2014, are subject to extraordinary mandatory redemption prior to maturity, as whole or in part at any time, on or after March 30, 2014, at the discretion of the City, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest thereon to the date fixed for such mandatory redemption to the extent that there are “available amounts” generated in the preceding fiscal year of the City. “Available amounts” shall be equal to the available amounts as determined under section 1.148-6(d)(3)(iii) of the Internal Revenue Code of 1986, as amended. The Notes are general obligations of the City, secured by a pledge of its full faith, credit, and taxing powers.

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

Long Term Trade Debt: In 2013, the City entered into a temporary forbearance agreement with Keystone Sanitary Landfill. The parties agreed that for calendar year 2013 only, the City shall pay tipping fees to Keystone until the City has paid the sum of \$417,500. Once paid, all remaining tipping fees for 2013 shall be deferred. The agreement estimated that \$1,000,000 forbearance would be required. Beginning on January 15, 2014, the City shall, in addition to its contractually bound per ton tipping fees, the amount of \$27,778 for 36 consecutive months ending December 15, 2016. Since the agreement is an estimating, the 36th payment will be adjusted to reflect the actual deferred amount. The actual amount of the temporary forbearance agreement was \$918,597. Based upon actual forbearance, the City will make 33 payments of \$27,778 and will pay for the forbearance in October 2016.

Sewer Authority

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

Sewer Authority (continued)

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

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

Sewer Authority 2000 Series (PENNVEST Loan): The balance outstanding at March 31, 2013, amounted to \$2,712,104. The loan is secured by the gross revenues of the Sewer Authority and the guarantee of the City of Scranton. Interest only was payable on advances until July 1, 2013, when monthly principal and interest payments are due up to and including January 2023. Interest is at 1.522% for the first 5 months and 3.045% thereafter. Legal fees relating to obtaining the financing amounted to \$44,338, and have been recorded as deferred charges.

Sewer Authority 2002 Series (PENNVEST Loan): The balance outstanding at March 31, 2013, amounted to \$2,843,190. This loan closed in October 2002 in the amount of \$4,947,000. The security is the same as above. Interest only is payable on advances until August 1, 2004, when monthly principal and interest payments are due up to and including July 1, 2024. Interest is at 1.387% for the first 81 months and 2.774% thereafter.

Sewer Authority 2003 Series (PENNVEST Loan): This loan closed in December 2003, in the amount of \$2,806,264. The balance outstanding at March 31, 2013 amounted to \$1,555,186. The security is the same as above. Interest only is payable on advances until February 1, 2005, when monthly principal and interest payments are due up to and including January 1, 2025. Interest is at 1.387% for the first 73 months and 2.774% thereafter.

Sewer Authority 2004 Series (PENNVEST Loan): In December 2004, the Sewer Authority closed on a fourth loan in the amount of \$3,690,127. The balance outstanding at March 31, 2013 was \$2,626,561. The security is the same as above. Monthly principal and interest payments began June 2007 and are due up to and including May 2027. Interest is at 1.942% for the first 60 months and 3.052% thereafter.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

Sewer Authority (continued)

Sewer Authority 2007 Series (PENNVEST Loan): In November 2007, the Sewer Authority closed on a fifth loan in the amount of \$4,329,181. The balance outstanding at March 31, 2013 was \$3,417,226. The security is the same as above. Monthly principal and interest payments began May 1, 2009 and are due up to and including April 2029. Interest is at 1.214% for the first 60 months and 2.428% thereafter.

Sewer Authority 2012 Series (PENNVEST Loan): In March 2012, the Sewer Authority closed on a Pennvest loan in the amount of \$11,256,361. The proceeds will be utilized primarily for Wastewater Treatment Plant Improvements. The loan is secured by the gross revenues of the Sewer Authority. Interest only is payable on advances for 36 months at a rate of 1%. Interest is 1.51% thereafter, when monthly principal and interest payments are due for another 204 months. The Sewer Authority drew \$1,885,416, on the loan as of March 31, 2013. The balance outstanding at March 31, 2014 is \$1,885,416.

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

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

Optional Redemption: The Series A of 2011 bonds maturing on or after December 1, 2022, are subject to optional redemption prior to maturity, at the option of the Sewer Authority in any order of maturity either as a whole or in part, at any time on or after December 1, 2021, and if in part, by lot within a maturity, at a redemption price equal to 100% of the principal amount, together with accrued interest to the dates fixed for redemption.

Mandatory Redemption: The Series A of 2011 maturing on after December 1, 2031 and on December 1, 2035, are subject to mandatory redemption, in part, prior to maturity, by lot within maturity, at a redemption price equal to 100% of the principal amount, together with accrued interest to the redemption dates fixed for redemption, on December 1 of the years per the Bond documents.

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

Sewer Authority (continued)

Optional Redemption: The 2011 Series B of 2011 bonds maturing on or after December 1, 2025, are subject to optional redemption prior to maturity, at the option of the Sewer Authority in any order of maturity either as a whole or in part, at any time on or after December 1, 2021, at a redemption price equal to 100% of the principal amount, together with accrued interest to the dates fixed for redemption.

Mandatory Redemption: The Series B of 2011 maturing on after December 1, 2025, are subject to mandatory redemption, in part, prior to maturity, by lot within a maturity, at a redemption price equal to 100% of the principal amount, together with accrued interest to the redemption dates fixed for redemption, on December 1 of the years per the Bond documents.

Capitalized Lease Obligation: On December 22, 2004, the Sewer Authority issued \$4,000,000 5.99% Guaranteed Lease Revenue Bonds for the benefit of the City of Scranton pursuant to a sale/lease back agreement entered into between the Sewer Authority and the City. The Sewer Authority purchased the new DPW complex located on Popular Street and leased the complex back to the City at the same terms as the Guaranteed Lease Revenue Bonds. The City will purchase the complex for \$1 at the end of the lease term. The amount outstanding on the bonds at December 31, 2013, was \$1,615,000. Interest is payable on June 15th and December 15th each year with final maturity on December 15, 2016. Principal is payable annually starting on December 15, 2006. The City has guaranteed the Sewer Authority Debt.

On December 1, 2006, the Redevelopment Authority issued \$10,000,000 6.10% Federally Taxable Guaranteed Lease Revenue Bonds, Series of 2006, for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The bonds and the lease agreement expire on November 1, 2024. The Redevelopment Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Redevelopment Authority's Trustee as to permit the Trustee to pay the principal and interest on the bonds. The Redevelopment Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the bonds at December 31, 2013, was \$9,580,000. Interest is payable on May 1st and November 1st each year, starting on May 1, 2008. Principal is payable annually starting on November 1, 2008.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

7. LONG-TERM DEBT (continued)

Sewer Authority (continued)

On November 1, 2008, the Redevelopment Authority issued \$5,900,000 Guaranteed Variable Lease Revenue Bonds, Series of 2008, for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The bonds and the lease agreement expire on November 1, 2026. The Redevelopment Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Redevelopment Authority's Trustee as to permit the Trustee to pay the principal and interest on the bonds. The Redevelopment Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the bonds at December 31, 2013, was \$5,880,000.

Interest is payable monthly based upon whether the bonds are on the weekly mode or term rate mode. If interest is on the weekly rate, interest shall be computed based upon 365 or 366 days as applicable for the number of days actually elapsed. Interest under the term mode will be calculated on a 30/360 basis. The remarketing advisor shall determine the current rate on the immediately preceding weekly rate calculation date. If the remarketing agent does not determine a weekly rate, the rate shall be the 30 day taxable commercial paper rate published for that weekly rate period by Munifacts Wire System, Inc. or a replacement publisher designated in writing by the issuer to the trustee and the remarketing agent. The bonds are subject to mandatory redemption starting on November 1, 2010. Interest rate at December 31, 2013 is 0.19%.

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

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

Non-Exchange Financial Guarantee

The City has recognized a financial guarantee related to the Scranton Parking Authority, a legally separate entity in accordance with GASB 70. The amount of the liability recognized was approximately 65% of the present value of the outstanding principal balance. This liability is reflected in page 80, with a maturity date of 2039. The City determined it was more likely than not, to pay approximately 65% of the remaining portion of the Authority's debt based on the underlying guarantee by the City.

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

7. LONG-TERM DEBT (continued)

Future debt service requirements as of December 31, 2014 were as follows:

For the Years Ending December 31,	Governmental Activities General Obligation Bonds		
	Principal	Interest	Total
2015	\$ 3,895,000	\$ 3,887,175	\$ 7,782,175
2016	4,400,000	3,663,485	8,063,485
2017	4,510,000	3,398,398	7,908,398
2018	4,965,000	3,127,247	8,092,247
2019	5,260,000	2,836,180	8,096,180
2020-2024	23,625,000	9,216,341	32,841,341
2025-2029	15,935,000	4,148,818	20,083,818
2030-2033	7,345,000	788,900	8,133,900
Total	\$ 69,935,000	\$ 31,066,544	\$ 101,001,544

For the Years Ending December 31,	Governmental Activities General Obligation Notes		
	Principal	Interest	Total
2015	\$ 490,000	\$ 412,250	\$ 902,250
2016	530,000	398,887	928,887
2017	570,000	359,900	929,900
2018	610,000	316,887	926,887
2019	660,000	270,850	930,850
2020-2024	2,829,025	546,050	3,375,075
Total	\$ 5,689,025	\$ 2,304,824	\$ 7,993,849

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

7. LONG-TERM DEBT (continued)

For the Years Ending December 31,	Governmental Activities Notes Payable		
	Principal	Interest	Total
2015	\$ 100,000	\$ -	\$ 100,000
2016	100,000	-	100,000
2017	100,000	-	100,000
2018	100,000	-	100,000
2019	100,000	-	100,000
2020-2023	400,000	-	400,000
Total	\$ 900,000	\$ -	\$ 900,000

For the Years Ending December 31,	Governmental Activities Long Term Trade Debt		
	Principal	Interest	Total
2015	\$ 333,333	\$ -	\$ 333,333
2016	264,957	-	264,957
Total	\$ 598,290	\$ -	\$ 598,290

For the Years Ending December 31,	Business-Type Activities Sewer Authority Revenue Bonds and Notes Payable		
	Principal	Interest	Total
2015	\$ 2,211,337	\$ 2,467,379	\$ 4,678,716
2016	1,894,012	2,413,657	4,307,669
2017	1,947,271	2,357,170	4,304,441
2018	2,006,327	2,296,187	4,302,514
2019	2,071,203	2,229,101	4,300,304
2020-2024	9,914,555	9,966,019	19,880,574
2025-2029	10,340,333	7,635,909	17,976,242
2030-2034	13,539,589	4,554,024	18,093,613
2035-2038	13,311,588	853,327	14,164,915
Total	\$ 57,236,215	\$ 34,772,773	\$ 92,008,988

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

7. LONG-TERM DEBT (continued)

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

For the Years Ending December 31,	Principal	Interest	Total
2015	\$ 1,204,996	\$ 874,141	\$ 2,079,137
2016	984,996	804,877	1,789,873
2017	1,264,996	747,823	2,012,819
2018	1,064,996	672,323	1,737,319
2019	1,119,996	608,191	1,728,187
2020-2024	7,154,440	1,999,229	9,153,669
2025-2028	4,740,000	196,500	4,936,500
Total	\$ 17,534,420	\$ 5,903,085	\$ 23,437,505

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

The cost of the assets are	\$ 5,659,519
The accumulated depreciation expense through December 31, 2014 is	1,865,187
The net book value of the capitalized leased building and vehicles is	<u>\$ 3,794,332</u>

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

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.

At December 31, 2014, the City's self-insured retention limits are as follows:

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

Accrued Worker's Compensation Claims

The accrued worker's compensation claim loss reserve of \$20,035,011 as of December 31, 2014, was determined by an actuary and represents the discounted present value of expected losses using a 3.50% interest factor. The actuarial value was determined as of February 25, 2014. The amount of Worker's Compensation Claims operating expense for the Internal Service fund for the year ended December 31, 2014 is calculated as follows:

Claims and Cost Paid	\$ 1,915,525
Increase In Actuarial Discounted Loss Reserves	403,192
Worker's Compensation Claims	<u><u>\$ 2,318,717</u></u>

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

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:

Calendar Year Ended	Balance Beginning of Calendar Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance End of Calendar Year
12/31/2012	\$ 21,191,810	\$ 3,410,848	\$ 2,774,229	\$ 21,828,429
12/31/2013	21,828,429	(158,589)	2,038,041	19,631,799
12/31/2014	19,631,799	2,318,717	1,915,505	20,035,011

9. INTERFUND TRANSFERS

Interfund transfers during the year ended December 31, 2014, were as follows:

Operating Transfers	In	Out
General Fund		
Debt Service Fund	\$ -	\$ 7,024,323
Liquid Fuels Fund	1,594,349	-
Special Cities	-	604,716
Capital Projects Fund		
General Fund	604,716	-
Debt Service		
General Fund	7,024,323	-
Liquid Fuels		
General Fund	-	1,594,349
Total	\$ 9,223,388	\$ 9,223,388

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

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.

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

Defined Benefit Plans (continued)

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, 2014. 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 \$12,126,412 to the three plans for the year 2014. As of December 31, 2014, \$3,875,430 was not contributed by the City and is reflected in the due to/due from accounts along with accrued interest of \$322,190, for not funding the pension plans in according with applicable requirements.

Contributions, based on the MMO, in 2014 consisted of the following:

	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
City/Commonwealth	\$ 5,082,761	\$ 6,255,287	\$ 1,107,818	\$ 12,445,866
Employees	350,984	329,302	37,752	718,038
Total	\$ 5,433,745	\$ 6,584,589	\$ 1,145,570	\$ 13,163,904

The pension benefit obligations were determined as part of an actuarial valuation at December 31, 2014. The actuarial cost method used is the Entry Age Normal Cost Valuation Method. Significant assumptions used include a rate of return on investment of present and future assets of 8% per year net of investment expenses, projected salary increases of 5% per year and cost of living increases of 5% for members hired before July 1, 1987 and 2.5% per year for disabled members and widows of members hired after June 30, 1987 for the Police and Fire. Significant assumptions used include a rate of return on investment of present and future assets of 8% per year net of investment expenses, projected salary increases of 5% per year for the Non-Uniformed. Plan assets are valued using a five year smoothing method described in Internal Revenue Service Procedure 2000-40, Approval 16. The unfunded actuarial liability is being amortized as a level percentage of future payroll based upon a 4% annual increase in covered payroll assumption.

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.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

The Sewer Authority contributes to the Central Pennsylvania Teamsters Pension Fund, a defined contribution plan covering substantially all of its full time employees. Employees become eligible after they have been on the payroll for thirteen weeks. Contributions made by the Sewer Authority were \$407 per month for the year ended March 31, 2014 for each covered employee; contributions vest according to the Plan's schedule.

Effective January 1, 2006, the Sewer Authority adopted a money purchase pension plan for employees who meet age and service requirements and are not members of the Union. Employer contributions are 4% of eligible compensation and employees must contribute 2%. Employees are also permitted to make additional contributions up to the maximum allowed by law. For the year ended March 31, 2014, employer contributions totaled \$22,107 and the employee contributions totaled \$17,170.

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, 2014 is below.

<u>Asset Class</u>	<u>Target</u>	<u>Long Term Expected Real Rate of Return</u>
Large Cap Domestic Stocks	28.00%	5.10%
Mid Cap Domestic Stocks	9.00%	5.80%
Small Cap Domestic Stocks	5.00%	6.20%
International Stocks	8.00%	4.90%
Intermediate Credit Fixed Income	30.00%	2.60%
High Yield Fixed Income	10.00%	4.20%
Absolute Return Fixed Income	10.00%	3.30%
Total Net Blended Return		3.73%*

* - Excludes 2.20% inflation assumption and 0.45% investment expense assumption.

For the year ended December 31, 2014, the annual money weighted rate of return on pension plan investments, net of investment expense was 6.57%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

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 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Net Pension Liability	\$ 72,946,955	\$ 62,069,917	\$ 52,951,810

	Firemen's Pension Plan		
	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Net Pension Liability	\$ 91,215,038	\$ 80,402,236	\$ 71,238,369

	Non-Uniformed Pension Plan		
	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Net Pension Liability	\$ 9,667,108	\$ 8,645,554	\$ 7,756,672

As of December 31, 2014, the City reported deferred outflows of resources related to the Police, Firemen's and Non-Uniformed Pension Plan from the following sources:

	Deferred Outflows of Resources		
	Police Pension Plan	Firemen's Pension Plan	Non-Uniformed Pension Plan
Net difference between projected and actual earnings on pension plan investments	\$ 431,112	\$ 273,508	\$ 49,473

The above amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Police Pension Plan	Firemen's Pension Plan	Non-Uniformed Pension Plan
2015	\$ 107,778	\$ 68,377	\$ 12,368
2016	107,778	68,377	12,368
2017	107,778	68,377	12,368
2018	107,778	68,377	12,368
Total	\$ 431,112	\$ 273,508	\$ 49,472

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

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 2013 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 \$495,000, have been projected to increase at an annual rate of 8.5% for 2014 and decreasing by 0.5% per year to an ultimate level of 5% per year and have been discounted to 4.25% estimated yield on investments expected to be used to figure the benefits.

Beginning of year net present value	\$	7,421,691
Payment benefits made during the year		-
Change in net present value of benefits		-
End of Year Present Value	\$	7,421,691

Post-Employment Healthcare Plan

The City administers a single-employer plan that covers current and former employees as follows:

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

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 retire as of January 1, 2013 or after, all other retirees must contribute 50% of the amount an active employee pays for the same coverage. As of January 1, 2013, that amount is 1.5% of the base pay of a second year firefighter and patrolman. Non-uniform union employees, management, and non-union retirees pay a contribution equal to active employees. For 2013, a single retiree's contribution is \$1,196 per year and a married retiree's is \$1,456 per year.

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

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

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

Post-Employment Healthcare Plan (continued)

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 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, 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.

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 assumptions were made:

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

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

Post-Employment Healthcare Plan (continued)

The assumed rate for increase for non-Medicare medical and prescription drug cost has been changed from assuming 8.5% in 2014 reduced by 0.5% per year to an ultimate level of 5% per year, to 3.25% in 2014 followed by 8% in 2015 reduced by 0.5% per year to an ultimate level of 5%.

The assumed rate for increase for Medicare medical and prescription drug cost has been changed from assuming 6.5% in 2014 reduced by 0.5% per year to an ultimate level of 5% per year, to 2.27% in 2014 and 5% thereafter.

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

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

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

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

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

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

Retirement: Fire fighters retirement is assumed to occur at age 57 with 25 years of service. Police retirement is assumed to occur at age 55 with 25 years of service. Non-uniformed retirement is assumed to occur at age 60 with 20 years of service.

Mortality: Uniformed – RP – 2000 Tables with Blue Collar Adjustments for Males and Females. Non-uniformed RP – 2000 Tables for Males and Females.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

Post-Employment Healthcare Plan (continued)

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: Employees' salaries are assumed to increase at the rate of 5.35% during 2014 and 2.25% per year thereafter. The rate is based upon increases in recent contract settlement plus additional 0.5% per year for merit increases and promotions.

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

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

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

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

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

Annual Required Contribution	\$12,341,275
Interest on Net OPEB Obligation	666,888
Adjustment to Annual Required Contribution	<u>(1,020,981)</u>
Annual OPEB Cost (Expense)	\$11,987,182
Interest On Employer Contributions	-
Contributions Made	<u>(8,589,144)</u>
Increase in Net OPEB Obligation	3,398,038
Net OPEB Obligation- Beginning of Year	16,672,197
Net OPEB Obligation- End of Year	<u><u>\$ 20,070,235</u></u>

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

10. PENSION PLANS/OTHER POSTEMPLOYMENT BENEFITS (continued)

Post-Employment Healthcare Plan (continued)

Fiscal Year Ending	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
12/31/2012	\$ 15,920,842	57%	\$ 13,364,587
12/31/2013	11,854,877	72%	16,672,197
12/31/2014	11,987,182	72%	20,070,235

Schedule of Funding Process

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	Ratio of UAL to Payroll
01/01/11	\$ -	\$ 225,539,050	\$ 225,539,050	0.00%	\$ 24,963,173	903.49%
01/01/12	-	227,990,268	227,990,268	0.00%	25,481,647	894.72%
01/01/13	-	184,941,503	184,941,503	0.00%	27,259,944	678.44%

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 2014. 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 \$30.4 million, of tax revenues on behalf of the City in 2014.

13. COMMITMENTS AND CONTINGENCIES

Litigation

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

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

13. COMMITMENTS AND CONTINGENCIES

Litigation (continued)

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

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

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

On or before June 30, 2013, the City shall pay all back pay damages and interest arising from the application of the terms of the Act 111 Awards between the parties for 2003-2007 and 2008-2014 to all current and former members of the bargaining unit, including the adjustment of the pensions as a result of the increase in base wages. Such damages shall include interest computed from the date initially payable to June 30, 2013, at 6%, compounded in accordance with the procedures established by the Pennsylvania Labor Relations Board and confirmed by the Commonwealth Court. In the event that any delay should occur beyond June 30, 2013, interest shall be computed to date of actual payment.

The City has estimated the damages to be \$22,834,965 including accrued interest through December 31, 2014 and will pay the damages out of a future borrowing and has been accrued in the Government Wide Financial Statements for active employees. The liability for adjustments of the pension as a result of the increases will be paid out the City Pension Fund and future city contributions under its required municipal minimum obligation will materially increase. As of the date of these financial statements, the City has not paid any amounts arising under the terms of the agreement.

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

13. COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

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

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

Collective Bargaining Agreements

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

Landmark Community Bank filed a suit against the Authority and the City of Scranton over repayment of the 2011 Revenue Note. The loan agreement details repayment of debt exclusively from the funds earned from managing the parking meters of the City of Scranton, which was cancellable and has since been cancelled. The City of Scranton now runs the On-Street Parking Program and does not pay the Authority management fees, since September 2012. The revenue source to pay the 2011 Revenue Note no longer exists to the Authority, and therefore it is the position of the Authority and its counsel that the debt should belong to the City of Scranton.

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

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

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

13. COMMITMENTS AND CONTINGENCIES (continued)

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.

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

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

14. DISTRESSED MUNICIPALITY STATUS (continued)

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 will continue to pursue the monetization of the Scranton Parking Authority assets and the on-street parking franchise;
- The City will continue to pursue discussions with the Scranton Sewer Authority regarding a Monetization of Authority assets to reduce the City's unfunded pension liabilities;
- The City of Scranton will review the divestiture of other non-essential assets not directly related to the provision of services;
- The City of Scranton will continue to work with its financial advisors and consultants to develop a strategy to restore its credit rating and refinance a portion of its \$132.9 million in general obligation and lease rental debt obligations;
- The Recovery Coordinator will prepare an analysis on the impact of the implementation of a payroll preparation tax. The tax would replace the Business Privilege and Mercantile taxes;
- The City will continue its review of health care and related programs to reduce the rate of increase in employee health care costs;
- Representatives of the City of Scranton and Scranton Housing Authority will meet to determine levels of financial assistance in addition to the lieu of payments provided by the Authority;

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements

For the Year Ended December 31, 2014

14. DISTRESSED MUNICIPALITY STATUS (continued)

- The City of Scranton will continue to use its real estate taxing authority to eliminate operating deficits projected to occur through 2020 if the implementation of the Plan's comprehensive mandates are not authorized;
- The City of Scranton will undertake an analysis of the status of properties presently exempt from taxation;
- With the reductions of staff over the past five years, the City will seek greater efficiencies in departmental 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;
- The life, disability, and dental insurance coverage were subject to a request for proposal and will be awarded in 2015;
- Changes were recently made to the Retiree Prescription program;
- In 2013, enhancements were made to the City of Scranton's on-street parking meters, allowing parkers to utilize credit cards at meters, as well as a pay-by-phone option.
- Further enhancements to the program include a mobile payment application. These enhancements, along with increases to meter rates and citations, will lead to increased parking revenue.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

15. REAL ESTATE TAXES COLLECTED

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	\$ 92,731,414	\$ 305,690,268	\$ 398,421,682
Millage Rates	184.867	40.202	225.069
Total Original Taxes Levied	17,142,978	12,289,360	29,432,338.466
Add: Additions	24,796	69,898	94,694
Less: Abatements	51,210	66,090	117,300
Real Estate Taxes To be Collected At Face	17,116,564	12,293,168	29,409,732.466
Add: Penalties Collected			176,802
Total Before Deductions			29,586,534
Less: Discounts Taken			467,628
Less: Home Vouchers			3,126
Less: KOZ Credits			72,893
Less: Delinquent Taxes Returned			3,484,667
Less: Other Miscellaneous			80,803
Total Real Estate Taxes Collected			\$ 25,477,417

16. SCRANTON PARKING AUTHORITY

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

The Parking Authority has significant annual debt service payments and limited ability to increase operating revenues, creating substantial projected cash flow deficiencies. Based on historical shortfalls of the Parking Authority, the annual projected deficit is approximately between \$1,500,000 and \$2,000,000, primarily due to the large debt service requirements on the revenue bonds and notes. The Parking Authority will have to rely on the guarantee of the City of Scranton to provide the funds needed for the Parking Authority's debt service payments. The Lease Agreements, the Official Statements of the Guaranteed Parking Revenue Bonds, Series of 2004, 2006, and 2007 state that in the event of insufficiency of parking revenues for such payments, such payments are payable from the tax and other general revenues of the City of Scranton. The Parking Authority has no taxing power. Due to the current financial status of the City of Scranton, the method and timing of receiving the funds is uncertain.

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

16. SCRANTON PARKING AUTHORITY (continued)

During 2014, funds were transferred by the City totaling \$2,653,813, to cover approximately 78% of the debt service requirements. The City of Scranton has budgeted \$2,900,000 for 2015 Parking Authority debt service payments.

The following is a summary of the Parking Authority of the City of Scranton Debt not included in the audit report under the heading Long Term Debt as was provided in the last audit completed as of December 31, 2013:

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

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

16. SCRANTON PARKING AUTHORITY (continued)

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

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

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

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

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

For the Years Ending December 31,	Principal	Interest	Total
2015	\$ 1,005,000	\$ 2,387,340	\$ 3,392,340
2016	1,045,000	2,342,240	3,387,240
2017	1,090,000	2,294,970	3,384,970
2018	1,130,000	2,245,248	3,375,248
2019	1,170,000	2,195,248	3,365,248
2020-2024	6,455,000	10,380,500	16,835,500
2025-2029	8,125,000	8,631,425	16,756,425
2030-2034	10,335,000	6,334,481	16,669,481
2035-2039	17,200,000	127,575	17,327,575
Total	\$ 47,555,000	\$ 36,939,027	\$ 84,494,027

CITY OF SCRANTON, PENNSYLVANIA

Notes to Financial Statements For the Year Ended December 31, 2014

17. OPERATIONS

As of December 31, 2014, the City's governmental activities net position was a deficit of \$228,856,586. During the year ended December 31, 2014, the City implemented GASB 68, which reduced net position by \$149,235,373. Additionally, the City recorded its guaranteed obligation for the Scranton Parking Authority debt of \$31,706,894. The remaining deficit of approximately \$42 million, represents the cumulative effect of excess liabilities over assets. The City made governmental activities debt service payments of \$12,620,184 during 2014 and is expected to make payments of \$11,322,779 during 2015, compared to total governmental revenue of \$76,400,586 for 2014. Total property and ACT 511 taxes were \$60,226,461, compared to a net deficit of \$228,856,586 for 2014 in the governmental activities. In 2014, the City paid approximately 68% of the required contributions to the pension plans and do not expect to increase funding in the near future. The City expects to contribute to pay 65% of the debt service of the Parking Authority in the near term. The City's total general fund revenues were \$76,400,586 of which \$25,150,491 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.

18. PRIOR YEAR RESTATEMENTS

The City has restated the accompanying govern-wide statements as of December 31, 2014, for the following items:

	Government Activities
Net position previously reported	\$ (41,139,051)
Restatement for guaranteed Parking Authority debt	(31,706,894)
Restatement for pension	(149,235,373)
Special cities	219,550
Net position as of December 31, 2013	\$ (221,861,768)

	Business Type Activities
Net position previously reported	\$ 41,063,489
Restatement of GASB 65	(600,340)
Net position as of December 31, 2013	\$ 40,463,149

Fund balance previously reported	\$ 6,129,214
Special cities	219,550
Net position as of December 31, 2013	\$ 6,348,764

CITY OF SCRANTON, PENNSYLVANIA

**Notes to Financial Statements
For the Year Ended December 31, 2014**

18. PRIOR YEAR RESTATEMENTS (continued)

The restatement for the guaranteed Parking Authority debt was due to the implementation of GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The restatement for pension was due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pension* and related to GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* in recording the beginning net pension liability and the beginning deferred outflow of resources for all the defined benefit pension plans. The special cities fund was restated for certain revenue transactions.

The city has restated the accompanying governmental fund statements as of December 31, 2014, for the following:

Fund balance previously reported	\$ 6,129,214
Special cities	<u>219,550</u>
Net position as of December 31, 2013	<u><u>\$ 6,348,764</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Changes in Pension Fund Net Pension Liability and Related Ratios - Police
December 31, 2014**

	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 1,093,850
Interest	7,050,809
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments, Including Refunds of Member contributions	(5,385,989)
Net Change in Total Pension Liability	<u>2,758,670</u>
Total Pension Liability - Beginning	<u>89,734,257</u>
Total Pension Liability - Ending	<u><u>\$ 92,492,927</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 3,975,175
Contributions - State Aid	1,107,586
Contributions - Member	350,984
Net Investment Income	1,754,307
Benefit Payments, Including Refunds of Member Contributions	(5,385,989)
Administrative Expense	(44,009)
Net Change in Plan Fiduciary Net Position	<u>1,758,054</u>
Plan Net Position - Beginning	<u>28,664,956</u>
Plan Net Position - Ending	<u><u>\$ 30,423,010</u></u>
Plan's Net Pension Liability	<u><u>\$ 62,069,917</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	32.9%
Covered Employee Payroll	\$ 8,700,000
Plan's Net Pension Liability as a Percentage of the Covered Employee Payroll	713.4%
Annual money-weighted rate of return, net of investment expense	6.57%

Notes to Schedules:

None.

This information is not available for previous years.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Employer Contributions - Police
December 31, 2014**

	<u>2014</u>
Actuarially determined contribution	\$ 5,082,761
Contributions made	<u>3,435,504</u>
Contribution deficiency (excess)	\$ 1,647,257 **
Covered-employee payroll	\$ 8,700,000
Contributions as a percentage of covered-employee payroll	58.4%

* This schedule will be presented on a prospective basis.

** The remaining contribution of \$1,647,257 was deposited on January 2, 2015.

Notes to schedule

Actuarial Measurement Date	As of December 31, 2014
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	22 years
Asset Valuation Method	5 year smoothing method described in internal revenue procedure 2000-40 approval 16.
Assumptions:	
Inflation	2.25%
Salary Increases	5.00%
Investment Rate of Return	8.00% (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, 2014**

	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 877,594
Interest	7,523,591
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments, Including Refunds of Member contributions	(6,483,409)
Net Change in Total Pension Liability	<u>1,917,776</u>
Total Pension Liability - Beginning	<u>96,408,993</u>
Total Pension Liability - Ending	<u>\$ 98,326,769</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 4,928,939
Contributions - State Aid	1,006,897
Contributions - Member	325,302
Net Investment Income	1,031,379
Benefit Payments, Including Refunds of Member Contributions	(6,483,409)
Administrative Expense	(50,368)
Net Change in Plan Fiduciary Net Position	<u>758,740</u>
Plan Net Position - Beginning	<u>17,165,793</u>
Plan Net Position - Ending	<u>\$ 17,924,533</u>
Plan's Net Pension Liability	<u>\$ 80,402,236</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	18.2%
Covered Employee Payroll	\$ 7,800,000
Plan's Net Pension Liability as a Percentage of the Covered Employee Payroll	1030.8%
Annual money-weighted rate of return, net of investment expense	6.57%

Notes to Schedules:

None.

This information is not available for previous years.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Employer Contributions - Firemen
December 31, 2014**

	<u>2014</u>
Actuarially determined contribution	\$ 5,935,833
Contributions made	<u>3,707,660</u>
Contribution deficiency (excess)	\$ 2,228,173 **
Covered-employee payroll	\$ 7,800,000
Contributions as a percentage of covered-employee payroll	76.1%

* This schedule will be presented on a prospective basis.

** The remaining contribution of \$2,228,173 was deposited on January 2, 2015.

Notes to schedule

Actuarial Measurement Date	As of December 31, 2014
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	5.00%
Investment Rate of Return	8.00% (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, 2014**

	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 81,737
Interest	937,975
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments, Including Refunds of Member contributions	(1,110,468)
Net Change in Total Pension Liability	<u>(90,756)</u>
Total Pension Liability - Beginning	12,198,189
Total Pension Liability - Ending	<u>\$ 12,107,433</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 271,319
Contributions - State Aid	836,499
Contributions - Member	37,752
Net Investment Income	200,183
Benefit Payments, Including Refunds of Member Contributions	(1,110,468)
Administrative Expense	(48,723)
Net Change in Plan Fiduciary Net Position	<u>186,562</u>
Plan Net Position - Beginning	3,275,317
Plan Net Position - Ending	<u>\$ 3,461,879</u>
Plan's Net Pension Liability	<u>\$ 8,645,554</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	28.6%
Covered Employee Payroll	\$ 5,300,000
Plan's Net Pension Liability as a Percentage of the Covered Employee Payroll	163.1%
Annual money-weighted rate of return, net of investment expense	6.57%

Notes to Schedules:

None.

This information is not available for previous years.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Employer Contributions – Non-Uniformed
December 31, 2014**

	<u>2014</u>
Actuarially determined contribution	\$ 1,107,818
Contributions made	<u>1,107,818</u>
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 5,300,000
Contributions as a percentage of covered-employee payroll	20.9%

* This schedule will be presented on a prospective basis.

Notes to schedule

Actuarial Measurement Date	As of December 31, 2014
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	10 years
Asset Valuation Method	5 year smoothing method described in internal revenue procedure 2000-40 approval 16.
Assumptions:	
Inflation	2.25%
Salary Increases	5.00%
Investment Rate of Return	8.00% (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, 2014**

<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>
01/01/11	\$ -	\$ 225,539,050	\$ 225,539,050	0.00%	\$ 24,963,173	903.49%
01/01/12	-	227,990,268	227,990,268	0.00%	25,481,647	894.72%
01/01/13	-	184,941,503	184,941,503	0.00%	27,259,944	678.44%

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Employer Contributions – Other Post Employment Benefits
December 31, 2014**

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2012	\$ 15,920,842	57%	\$ 13,364,587
12/31/2013	11,854,877	72%	16,672,197
12/31/2014	11,987,182	72%	20,070,235

SUPPLEMENTARY INFORMATION

CITY OF SCRANTON, PENNSYLVANIA

**Supplemental Schedule of Revenue and Expenditures -
Budget and Actual - General Fund
For the Year Ended December 31, 2014**

	Budget Amounts		Actual	Variance from Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 63,761,967	\$ 63,761,967	\$ 58,676,633	\$ (5,085,334)
Intergovernmental	4,976,090	4,976,090	5,601,119	625,029
Departmental earnings	1,735,000	1,735,000	1,406,913	(328,087)
Refuse disposal fees	7,000,000	7,000,000	6,461,640	(538,360)
Licenses & permits	3,678,900	3,678,900	2,279,978	(1,398,922)
Cable television franchise revenue	1,175,000	1,175,000	869,952	(305,048)
Payments in lieu of taxes	300,000	300,000	79,024	(220,976)
Other revenues	400,560	400,560	1,019,827	619,267
Rents and concessions	25,000	25,000	5,500	(19,500)
TOTAL REVENUE	\$ 83,052,517	\$ 83,052,517	\$ 76,400,586	\$ (6,651,931)
EXPENDITURES				
General government	\$ 23,606,202	\$ 23,606,202	16,396,270	\$ 7,209,932
Public safety	44,115,646	44,115,646	44,654,358	(538,712)
Public works	10,806,619	10,806,619	10,894,127	(87,508)
Culture and recreation	609,520	609,520	532,204	(77,316)
TOTAL EXPENDITURES	\$ 79,137,987	\$ 79,137,987	\$ 72,476,959	\$ 6,506,396
Excess of Revenues Over (Under) Expenditures	\$ 3,914,530	\$ 3,914,530	\$ 3,923,627	\$ (13,158,327)
Other Financing Sources (Uses)				
Proceeds from tax anticipation notes	16,000,000	16,000,000	12,200,000	(3,800,000)
Repayments from tax anticipation notes	(17,000,000)	(17,000,000)	(12,986,733)	4,013,267
Court Award	(22,200,000)	(22,200,000)	-	22,200,000
Bond issuance	28,000,000	28,000,000	-	(28,000,000)
Operating transfers in	3,484,441	3,484,441	1,594,349	(1,890,092)
Operating transfers out	(11,857,626)	(11,857,626)	(7,629,039)	4,228,587
Net Other Financing Sources (Uses)	(3,573,185)	(3,573,185)	(6,821,423)	(3,248,238)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 341,345	\$ 341,345	\$ (2,897,796)	\$ (16,406,565)
Fund Balance, Beginning of Year	9,406,057	9,406,057	4,378,411	(5,027,646)
Fund Balance, End of Year	\$ 9,747,402	\$ 9,747,402	\$ 1,480,615	\$ (21,434,211)

CITY OF SCRANTON, PENNSYLVANIA

**Supplemental Schedule of Revenue and Expenditures -
Budget and Actual - General Fund
For the Year Ended December 31, 2014**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Act 511:				
Wage	\$ 23,400,000	\$ 23,400,000	\$ 24,543,594	\$ 1,143,594
Non-Resident Wage Tax	500,000	500,000	128,252	(371,748)
Delinquent Wage Tax	750,000	750,000	171,573	(578,427)
Real Estate Transfer	2,520,000	2,520,000	2,798,780	278,780
Mercantile	1,424,064	1,424,064	815,963	(608,101)
Business Privilege	1,000,000	1,000,000	1,347,530	347,530
Local Service Tax	1,650,000	1,650,000	1,698,910	48,910
Delinquent Mercantile	60,000	60,000	(7,444)	(67,444)
Delinquent Business Privilege	100,000	100,000	98,052	(1,948)
Total Act 511	<u>31,404,064</u>	<u>31,404,064</u>	<u>31,595,210</u>	<u>191,146</u>
Current Real Estate	21,988,334	21,988,334	23,783,649	1,795,315
Current Real Estate Tax Land	3,855,568	3,855,568	1,365,122	(2,490,446)
Delinquent Real Estate	2,100,000	2,100,000	1,720	(2,098,280)
Public Utility	61,000	61,000	63,797	2,797
Parking Tax	250,000	250,000	126,214	(123,786)
Delinquent TSF Tax	2,520,000	2,520,000	1,318,613	(1,201,387)
Amusement Tax	300,000	300,000	298,446	(1,554)
Penalties & Interest	124,100	124,100	123,862	(238)
Other Taxes	1,158,901	1,158,901	-	(1,158,901)
Total Taxes	<u>63,761,967</u>	<u>63,761,967</u>	<u>58,676,633</u>	<u>(5,085,334)</u>
Intergovernmental				
Supplemental State Assisted Pension	3,006,493	3,006,493	2,950,982	(55,511)
OECD Reimbursement Demoliton Program	368,835	368,835	-	(368,835)
Fire Safety Grant	1,600,000	1,600,000	2,650,137	1,050,137
ACT13 Gas Well Fund Usage	762	762	-	(762)
Total Intergovernmental	<u>4,976,090</u>	<u>4,976,090</u>	<u>5,601,119</u>	<u>625,029</u>
Departmental Earnings				
Parking Meeters	1,375,000	1,375,000	1,068,543	(306,457)
Pave Cuts	200,000	200,000	169,413	(30,587)
Report Copies Fire & Police	20,000	20,000	-	(20,000)
Alarm Fees	120,000	120,000	149,982	29,982
Zoning	20,000	20,000	18,975	(1,025)
Total Departmental Earings	<u>1,735,000</u>	<u>1,735,000</u>	<u>1,406,913</u>	<u>(328,087)</u>

CITY OF SCRANTON, PENNSYLVANIA

**Supplemental Schedule of Revenue and Expenditures -
Budget and Actual - General Fund
For the Year Ended December 31, 2014**

Refuse Disposal Fees	7,000,000	7,000,000	6,461,640	(538,360)
Total Refuse Disposal Fees	<u>7,000,000</u>	<u>7,000,000</u>	<u>6,461,640</u>	<u>(538,360)</u>
Licenses and Permits	3,678,900	3,678,900	2,279,978	(1,398,922)
Total Licenses and Permits	<u>3,678,900</u>	<u>3,678,900</u>	<u>2,279,978</u>	<u>(1,398,922)</u>
Cable Television Franchise Revenue	1,175,000	1,175,000	869,952	(305,048)
Total Cable Television Franchise Revenue	<u>1,175,000</u>	<u>1,175,000</u>	<u>869,952</u>	<u>(305,048)</u>
Payments in Lieu of Taxes	300,000	300,000	79,024	(220,976)
Total Payments in Lieu of Taxes	<u>300,000</u>	<u>300,000</u>	<u>79,024</u>	<u>(220,976)</u>
Rents and Concessions	25,000	25,000	5,500	(19,500)
Total Rents and Concessions	<u>25,000</u>	<u>25,000</u>	<u>5,500</u>	<u>(19,500)</u>
Other Revenues				
Interest Income	10,000	10,000	204	(9,796)
User Fees	60,500	60,500	55,534	(4,966)
Fines and Forfeits	329,060	329,060	958,840	629,780
Donations	1,000	1,000	5,250	4,250
Total Other Revenues	<u>400,560</u>	<u>400,560</u>	<u>1,019,827</u>	<u>619,267</u>
TOTAL REVENUES	<u>\$ 83,052,517</u>	<u>\$ 83,052,517</u>	<u>\$ 76,400,586</u>	<u>\$ (6,651,931)</u>
EXPENDITURES				
General Government:				
Salaries and Wages	2,320,351	2,320,351	2,325,648	(5,297)
Employee Benefits	3,765,794	3,765,794	3,924,085	(158,291)
Worker's Compensation Claims	3,621,082	3,621,082	3,025,542	595,540
General Insurance	-	-	-	-
Office Supplies and Expense	304,390	304,390	298,146	6,244
Professional Fees	656,250	656,250	580,788	75,462
Telephone	97,400	97,400	98,193	(793)
Equipment	55,802	55,802	55,803	(1)
Other	96,074	96,074	94,422	1,652
Boards and Commissions	317,955	317,955	-	317,955
Utilities	1,019,439	1,019,439	846,185	173,254
Courts Awards & Settlements	1,005,410	1,005,410	867,687	137,723
Parking Authority Ticket Issuers	659,786	659,786	783,094	(123,308)
Parking Authority Debt payments	2,653,813	2,653,813	2,653,813	-
Other	7,032,656	7,032,656	842,864	6,189,792
Total General Government	<u>23,606,202</u>	<u>23,606,202</u>	<u>16,396,270</u>	<u>7,209,932</u>

CITY OF SCRANTON, PENNSYLVANIA

**Supplemental Schedule of Revenue and Expenditures -
Budget and Actual - General Fund
For the Year Ended December 31, 2014**

Public Safety:				
Salaries and Wages	21,430,844	21,430,844	22,193,835	762,991
Employee Benefits	22,371,407	22,371,407	22,210,156	(161,251)
Supplies	55,522	55,522	47,858	(7,664)
Equipment	161,500	161,500	115,105	(46,395)
Training	32,500	32,500	30,868	(1,632)
Professional Fees	63,873	63,873	56,536	(7,337)
Total Public Safety	44,115,646	44,115,646	44,654,358	(538,712)
Public Works				
Salaries and Wages	4,074,901	4,074,901	3,835,633	(239,268)
Employee Benefits	2,545,090	2,545,090	3,117,086	571,996
Supplies	183,716	183,716	181,810	(1,906)
Professional Fees	77,572	77,572	70,661	(6,911)
Equipment	1,103,213	1,103,213	1,046,089	(57,124)
Landfill Fees	1,681,911	1,681,911	1,639,567	(42,344)
Salt	307,228	307,228	301,760	(5,468)
Flood Protection	30,538	30,538	2,892	(27,646)
Street Lighting	802,450	802,450	698,629	(103,821)
Total Public Works	10,806,619	10,806,619	10,894,127	(87,508)
Culture and Recreation				
Salaries and Wages	472,200	472,200	435,524	(36,676)
Employee Benefits	2,520	2,520	2,415	(105)
Supplies	71,800	71,800	42,813	(28,987)
Programs	23,000	23,000	21,133	(1,867)
Equipment	40,000	40,000	30,319	(9,681)
Total Culture and Recreation	609,520	609,520	532,204	(77,316)
TOTAL EXPENDITURES	\$ 79,137,987	\$ 79,137,987	\$ 72,476,959	\$ 6,506,396
Excess of Revenues Over (Under) Expenditures	3,914,530	\$ 3,914,530	\$ 3,923,627	\$ (13,158,327)
Other Financing Sources (Uses)				
Proceeds from Tax Anticipation Notes	16,000,000	16,000,000	12,200,000	(3,800,000)
Repayments of tax anticipation notes	(17,000,000)	(17,000,000)	(12,986,733)	4,013,267
Court award	(22,200,000)	(22,200,000)	-	22,200,000
Bond issuance	28,000,000	28,000,000	-	(28,000,000)
Operating Transfers out	(11,857,626)	(11,857,626)	(7,629,039)	4,228,587
Operating Transfers in from:				
Liquid Fuels Fund	3,482,441	3,482,441	1,594,349	(1,888,092)
Other Funds	2,000	2,000	-	(2,000)
Net Other Financing Sources (Uses)	(3,573,185)	(3,573,185)	(6,821,423)	(3,248,238)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	341,345	341,345	(2,897,796)	(16,406,565)
Fund Balance, Beginning of Year	9,406,057	9,406,057	4,378,411	(5,027,646)
Fund Balance, End of Year	\$ 9,747,402	\$ 9,747,402	\$ 1,480,615	\$ (21,434,211)

CITY OF SCRANTON, PENNSYLVANIA

**Combining Balance Sheet – Non-Major Governmental Funds
For the Year Ended December 31, 2014**

	<u>Liquid Fuels</u>	<u>Capital Projects</u>	<u>Redevelopment Authority</u>	<u>Special Cities</u>	<u>Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 266,358	\$ 103,463	\$ 502,651	\$ 3,725,601	\$ -	\$ 4,598,073
Accounts receivable, net	18	-	89,474	37,261	-	126,753
Loans receivable	-	-	-	-	-	-
Due from other funds	-	-	-	369,217	-	369,217
Restricted assets:						
Restricted cash and cash equivalents	-	-	-	-	2,214,759	2,214,759
Property held for resale	-	-	98,935	-	-	98,935
Total Assets	<u>\$ 266,376</u>	<u>\$ 103,463</u>	<u>\$ 691,060</u>	<u>\$ 4,132,079</u>	<u>\$ 2,214,759</u>	<u>\$ 7,407,737</u>
LIABILITIES AND FUND BALANCE						
Accounts payable	\$ -	\$ 25,527	\$ 3,435	\$ 232,472	\$ -	\$ 261,434
Due to other funds	-	-	503,603	1,121,595	-	1,625,198
Unearned revenue	-	-	32,074	2,914,469	-	2,946,543
Total Liabilities	<u>-</u>	<u>25,527</u>	<u>539,112</u>	<u>4,268,536</u>	<u>-</u>	<u>4,833,175</u>
Deferred Inflow of Resources						
Unavailable revenues	-	-	100,000	-	-	100,000
Total Deferred Inflow of Resources	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Fund Balance						
Nonspendable	-	-	98,935	-	-	98,935
Restricted for debt service	-	-	-	-	2,214,759	2,214,759
Restricted for capital projects	-	77,936	-	-	-	77,936
Restricted for externally imposed restrictions	266,376	-	500,093	-	-	766,469
Unassigned	-	-	(547,080)	(136,457)	-	(683,537)
Total Fund Balance	<u>266,376</u>	<u>77,936</u>	<u>51,948</u>	<u>(136,457)</u>	<u>2,214,759</u>	<u>2,474,562</u>
Total Liabilities and Fund Balance	<u>\$ 266,376</u>	<u>\$ 103,463</u>	<u>\$ 691,060</u>	<u>\$ 4,132,079</u>	<u>\$ 2,214,759</u>	<u>\$ 7,407,737</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, 2014**

	Liquid Fuels	Capital Projects	Redevelopment Authority	Special Cities	Debt Service	Total Non-Major Governmental Funds
REVENUES						
Intergovernmental	\$ 1,656,452	\$ -	\$ 10,526	\$ 230,719	\$ -	\$ 1,897,697
Departmental earnings	-	-	-	249,380	-	249,380
Interest income	491	32	-	815	1,811	3,149
Other revenues	-	-	263	130,177	-	130,440
Rents and concessions	-	-	5,485	-	-	5,485
Total Revenues	1,656,943	32	16,274	611,091	1,811	2,286,151
EXPENDITURES						
Current:						
General government	-	-	-	424,855	-	424,855
Public works	-	-	-	226,819	-	226,819
Health and welfare	-	-	-	920,140	-	920,140
Community development	-	-	46,728	-	-	46,728
Debt Service:						
Debt service principal	-	-	-	-	4,174,350	4,174,350
Debt service interest	-	-	60	-	5,005,228	5,005,288
Capital Outlay	-	604,716	-	-	-	604,716
Total Expenditures	-	604,716	46,788	1,571,814	9,179,578	11,402,896
Excess (Deficiency) of Revenues Over Expenditures	1,656,943	(604,684)	(30,514)	(960,723)	(9,177,767)	(9,116,745)
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	604,716	7,024,323	7,629,039
Operating transfers out	(1,594,349)	-	-	-	-	(1,594,349)
Total Other Financing Sources (Uses)	(1,594,349)	-	-	604,716	7,024,323	6,034,690
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	62,594	(604,684)	(30,514)	(356,007)	(2,153,444)	(3,082,055)
Fund Balances, beginning of Year	203,782	682,620	82,462	219,550	4,368,203	5,556,617
Fund Balances, End of Year	\$ 266,376	\$ 77,936	\$ 51,948	\$ (136,457)	\$ 2,214,759	\$ 2,474,562

SINGLE AUDIT REPORT



S B & COMPANY, LLC
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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 4, 2016. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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 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 described as item 2004-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as items 2014-001, 2014-002, 2014-004, 2014-05.

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.

Hunt Valley, Maryland
March 4, 2016



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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 OMB CIRCULAR A-133**

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 compliance of the City of Scranton (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major Federal programs for the year ended December 31, 2014. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City'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.



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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, 2014.

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 OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-06 and 2014-07. 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 programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hunt Valley, Maryland
March 4, 2016

SB & Company, LLC

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
CDBG - Entitlement Grants		
Community Development Block Grant/Entitlement Grants	14.218	\$ 2,142,029
Emergency Solutions Grants Program	14.231	279,853
Home Investment Partnerships Program	14.239	<u>235,646</u>
 <u>Pass-through the PA Department of Community & Economic Development</u>		
Neighborhood Stabilization Program	14.228	<u>1,454</u>
Total U.S. Department of Housing and Urban Development		<u>2,658,982</u>
 U.S. Department of Justice		
COPS Hiring Program	16.710	<u>88,722</u>
 U.S. Department of Transportation		
<u>Pass-through Pennsylvania Department of Transportation</u>		
Rockwell Avenue Bridge Replacement Project	20.205	51,630
Central Business District Signalization Improvement Project	20.205	
Incurred in 2014 Received in 2014		476,073
Incurred in 2014 Received in 2015		<u>43,465</u>
Total U.S. Department of Transportation		<u>571,168</u>
 U.S. Environmental Protection Agency		
Brownfield Assessment & Cleanup Cooperative Agreements Recovery Act	66.818	<u>735</u>
 U.S. Department of Homeland Security		
Staffing for Adequate Fire and Emergency Response Hiring Program	97.083	<u>2,207,844</u>
 U.S. General Service Administration		
Donation of Federal Surplus Property Program	39.003	<u>30,487</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 5,557,938</u></u>

The accompanying notes are in integral part of this schedule.

CITY OF SCRANTON, PENNSYLVANIA

**Notes to the Schedule of Expenditures of Federal Awards
December 31, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of the City of Scranton (the City) are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 Compliance Supplement. Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant program noted below. The programs on the Schedule of Expenditures of Federal awards represent all Federal award programs and other grants with fiscal year 2014 cash or non-cash expenditure activities. For our single audit testing, we tested the Federal award program below with fiscal year 2014 cash and non-cash expenditures in excess of \$300,000 to ensure coverage of at least 50% of Federally granted funds. Our actual coverage was 83%.

<u>Major Programs</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Community Development Block Grant/Entitlement Grants	14.218	\$ 2,142,029
Emergency Solutions Grants Program	14.231	279,853
Staffing for Adequate Fire and Emergency Response Hiring Program	97.083	2,207,844
		<u>\$ 4,629,726</u>

2. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal awards has been accounted for on the accrual basis of accounting.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

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?	Yes
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 Reported
Noncompliance material to the financial statements noted?	No
Audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of Major Program:

<u>Major Programs</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Community Development Block Grant/Entitlement Grants	14.218	\$ 2,142,029
Emergency Solutions Grants Program	14.231	279,853
Staffing for Adequate Fire and Emergency Response Hiring Program	97.083	2,207,844
		<u>\$ 4,629,726</u>
Threshold for distinguishing between Type A and B programs		\$ 300,000
Did the City qualify as a low risk auditee?		No

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

Section II – Financial Statement Findings

Finding 2014 – 001

Segregation of Duties

Condition:

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

Criteria:

Internal controls should be in place that provide reasonable assurance that one person is not responsible for matching invoices to purchase orders, enters invoices into the general ledger, processes checks for payment, has access to the signature machine, and mails the checks to vendors.

Cause:

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

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2014 – 002

Processing of Transactions on Certain Funds

Condition:

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

Criteria:

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

Cause:

The City’s previous Finance Manager left in December 2013 and for most of its 2014 the City was without a Finance Manager to make sure that all transactions and all account reconciliations were being completed for all funds.

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2014 – 003

Account Reconciliations

Condition:

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

Criteria:

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

Cause:

The City's previous Finance Manager left in December 2013 and for most of its 2014 the City was without a Finance Manager to make sure that all transactions and all account reconciliations were being completed for all funds.

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2014 – 004

Processing & Recording of transactions for Current and Delinquent Receivables

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2014 – 005

Approval of Timesheets

Condition:

Timesheets should be authorized and signed according to the City's policies.

Criteria:

The City has a process for reviewing and authorizing time sheets prior to the drawdown request from the awarding agency/

Cause:

The City did not document its authorization of timesheet approval for a sample of selected pay periods.

Effect:

The timesheets did not show the proper authorization to note that the payroll was properly charged to the grant.

Questioned Costs:

Unknown.

Recommendation:

Procedures should be reviewed to insure that timesheets are authorized for each pay period.

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.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

Section III – Federal Award Findings

Finding 2014 – 006

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 90 days after the entity's year end.

Cause:

Because of change over in administration and the Business Office being short staffed for most of 2014, 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 of 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.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2014 – 007

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.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2013 – 001

Segregation of Duties

Condition:

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

Criteria:

Internal controls should be in place that provide reasonable assurance that one person is not responsible for matching invoices to purchase orders, enters invoices into the general ledger, processes checks for payment, has access to the signature machine, and mails the checks to vendors.

Cause:

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

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

Current Year Status:

See current year finding 2014-001.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2013 – 002

Processing of Invoices

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

Current Year Status:

Based on tested performed during 2014, the finding is resolved.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2013 – 003

Processing of Transactions on Certain Funds

Condition:

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

Criteria:

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

Cause:

The City’s previous Finance Manager left in December 2013 and for most of its 2014 the City was without a Finance Manager to make sure that all transactions and all account reconciliations were being completed for all funds.

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

Current Year Status:

See current year finding 2014-002.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2013 – 004

Account Reconciliations

Condition:

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

Criteria:

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

Cause:

The City's previous Finance Manager left in December 2013 and for most of its 2014 the City was without a Finance Manager to make sure that all transactions and all account reconciliations were being completed for all funds.

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

Current Year Status:

See current year finding 2014-003.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2013 – 005

Processing & Recording of transactions for Current and Delinquent Receivables

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Questioned Costs:

Unknown.

Recommendation:

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

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.

Current Year Status:

See current year finding 2014-004.

CITY OF SCRANTON, PENNSYLVANIA

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2014**

Finding 2013 – 006

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 90 days after the entity's year end.

Cause:

Because of change over in administration and the Business Office being short staffed for most of 2014, 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 of 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.

Current Year Status:

See current year findings 2014-006.