

# COMPLIANCE AUDIT

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## City of Scranton Aggregate Pension Fund

Lackawanna County, Pennsylvania  
For the Period  
January 1, 2014 to December 31, 2015

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September 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and City Council  
City of Scranton  
Lackawanna County  
Scranton, PA 18503

We have conducted a compliance audit of the City of Scranton Aggregate Pension Fund for the period January 1, 2014 to December 31, 2015. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. To determine if the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of fund officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligations (MMOs) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing documents and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the plans.
- We determined whether retirement benefits calculated for all 31 of the fund members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for the 1 fund member who elected to vest during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation.

The City of Scranton contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2014, which is available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Scranton Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Scranton Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Failure To Timely Pay The Minimum Municipal Obligation Of The Plans
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

As previously noted, one of the objectives of our audit of the City of Scranton Aggregate Pension Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

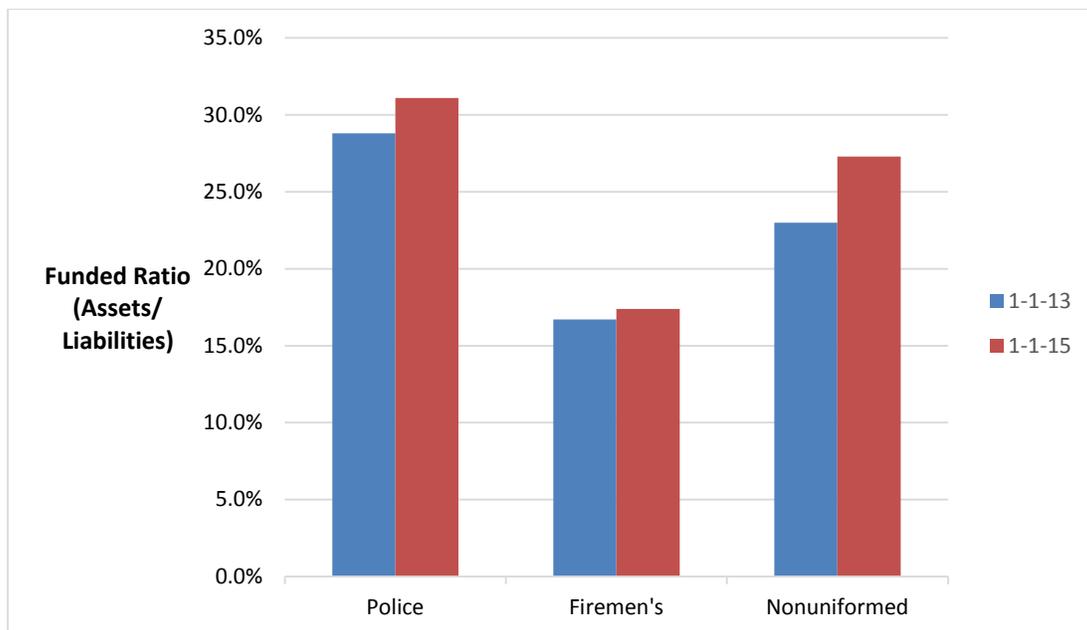
The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The data contained in the schedules of funding progress and from the January 1, 2013 and January 1, 2015 actuarial valuation reports filed with the Public Employee Retirement Commission (PERC) for the city’s police, firemen’s, and non-uniformed pension plans contained the following aggregated funding data:

Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Funding Ratio
01-01-13	\$ 43,762,008	\$ 194,041,288	22.6%
01-01-15	\$ 50,697,276	\$ 209,048,852	24.3%

Based on this information, the City of Scranton remains in Level III severe distress status. While we note the improvement in the aggregate funding status of the city’s plans from the data contained in the plans’ January 1, 2013, actuarial valuation reports, **we continue to be concerned about the funded status of the police, firemen’s, and non-uniformed pension plans which are 31.1%, 17.4%, and 27.3% funded, respectively, as of January 1, 2015.**

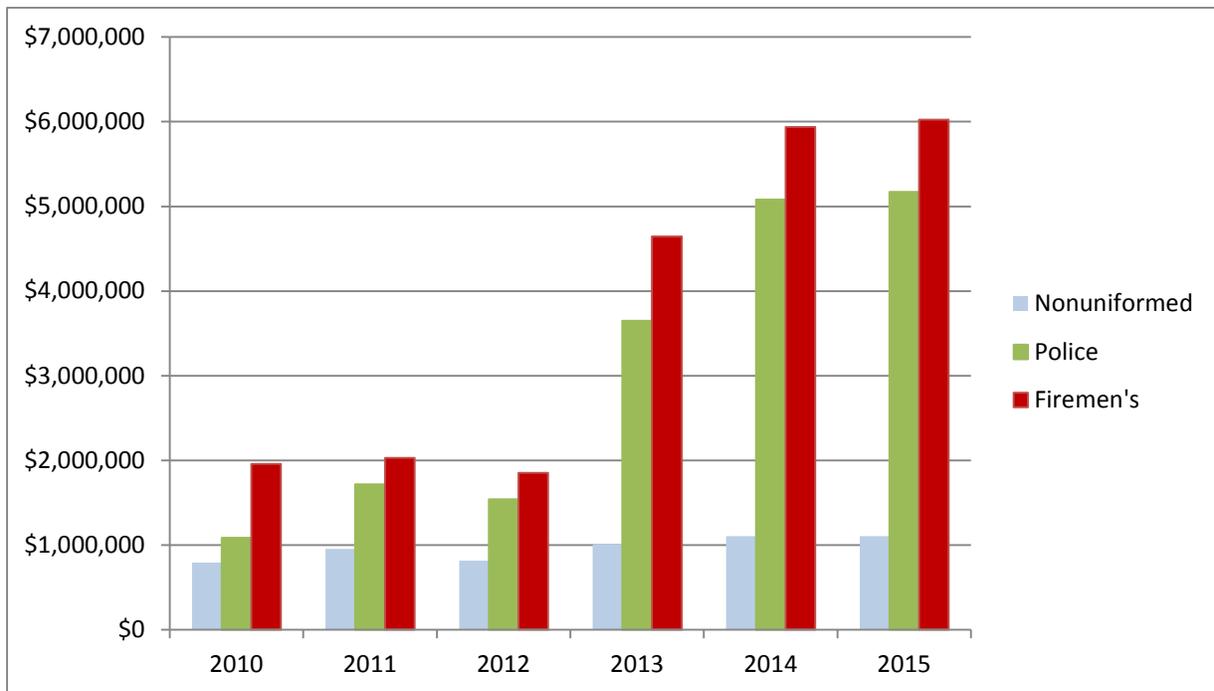
A graphic illustration of the changes in the plans’ funding status since 2013 is presented below:



Pursuant to Act 205 regulations, the actuarial assumption as to interest or investment earnings that may be utilized by municipalities is not less than 5% or more than 9%. As illustrated in the Supplementary Information contained in this report, using the city's current 8% investment return assumptions, the city's reported combined Net Pension Liability for its plans as of December 31, 2015 is \$162,738,448. Using a more conservative 7% assumption, the city's combined Net Pension Liability would increase to \$187,571,230, an increase of \$24,832,782. Therefore, the city's reported Net Pension Liability is dependent on investment earnings at the high-end of the allowable assumptions, which could be difficult to sustain in this current economic environment.

**The city's annual required contribution to the police pension plan has gone from \$1,087,920 in 2010, to \$5,170,761 in 2015, an increase of 375.3%. Similarly, the city's annual required contribution to the firemen's pension plan has gone from \$1,957,996 in 2010 to \$6,023,553 in 2015, an increase of 207.6%. Furthermore, the city's annual contribution to the non-uniformed pension plan has gone from \$794,872 in 2010 to \$1,107,868 in 2015, an increase of 39.4%.**

A graphic illustration of the increase in the city's annual contributions to its pension plans since 2010 is presented below:



Based on the annual benefit payments owed to beneficiaries reported on the respective plans' January 1, 2015, actuarial valuation reports, at current funding levels, based on the plans' current benefit obligations and actuarial assumptions, which include 8.0 percent long-term investment return projections, the police plan only has assets to fund less than 6 years of benefit payments, the firemen's plan only has assets to fund less than 3 years of benefit payments, and the non-uniformed plan only has assets to fund less than 4 years of benefit payments, as illustrated below:

Plan	Actuarial Valuation of Assets 1-1-15	Annual Benefit Payments Owed To Beneficiaries 1-1-15	Years of Benefit Payments That Can Be Funded By Assets Available 1-1-15
Police	\$ 29,702,124	\$ 5,408,747	5.49
Firemen's	\$ 17,619,002	\$ 6,471,441	2.72
Non-Uniformed	\$ 3,376,150	\$ 1,059,827	3.18

As further described in the Comments section included in this report, in part due to the disclosures contained in the prior audit report and the special report detailing double pension benefits being paid to certain retirees of the non-uniformed pension plan, city officials have taken remedial actions to address its pension funding crisis. We encourage city officials to continue their efforts in the development of a long-term strategic plan to address its pension plans' funding crisis to ensure their long-term financial stability.

The contents of this report were discussed with officials of the City of Scranton and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

August 25, 2016



EUGENE A. DEPASQUALE  
Auditor General

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## BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Scranton Aggregate Pension Fund is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

- Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.
- Act 400 - Second Class A Cities Pension Act, Act of September 23, 1959 (P.L. 970, No. 400), as amended, 53 P.S. § 30551 et seq.

The City of Scranton Police, Firemen's, and Non-Uniformed Pension Plans are single-employer defined benefit pension plans locally controlled by the provisions of Chapter 99 of the Code of the City of Scranton, adopted pursuant to Act 177. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and non-uniformed employees.

## **BACKGROUND – (Continued)**

### Police Pension Plan

The police pension plan was established March 28, 1936. Active members hired on or before June 30, 1987 were required to contribute 4 percent of compensation to the plan in 2014 and 4.5 percent of compensation effective January 2, 2015. Active members hired on or after July 1, 1987 were required to contribute 3.5 percent of compensation to the plan in 2014 and 4 percent of compensation effective January 2, 2015. As of December 31, 2015, the plan had 145 active members, no terminated members eligible for vested benefits in the future, and 178 retirees receiving pension benefits from the plan.

As of December 31, 2015, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Employees hired on or before June 30, 1987, 25 years of service. Employees hired on or after July 1, 1987, age 55 and 25 years of service (see Comments).
Early Retirement	None
Vesting	25 years of service.

#### Retirement Benefit:

Employees hired on or before June 30, 1987, 2% of monthly pay at retirement per year of service (maximum 50%).

Employees hired on or after July 1, 1987, 50% of average monthly pay based on final 36 months of employment.

#### Survivor Benefit:

50% of benefit to surviving spouse.

#### Disability Benefit:

Service Related            50% of salary at time of disability.

Non-Service Related    4% of salary per year of service up to 50% of salary.

## **BACKGROUND – (Continued)**

### Firemen's Pension Plan

The firemen's pension plan was established May 5, 1964. Active members hired on or before June 30, 1987 were required to contribute 4 percent of compensation to the plan in 2014 and 4.5 percent of compensation effective January 30, 2015. Active members hired on or after July 1, 1987 were required to contribute 3.5 percent of compensation to the plan in 2014 and 4 percent of compensation effective January 30, 2015. As of December 31, 2015, the plan had 117 active members, no terminated members eligible for vested benefits in the future, and 220 retirees receiving pension benefits from the plan.

As of December 31, 2015, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Employees hired on or before June 30, 1987, 25 years of service. Employees hired on or after July 1, 1987, age 55 and 25 years of service.
Early Retirement	None
Vesting	25 years of service.

#### Retirement Benefit:

Employees hired on or before June 30, 1987, 50% of salary at retirement plus a service increment of 0.5% per year over 25 years in 5 year multiples (minimum \$4,000 annually).

Employees hired on or after July 1, 1987, 50% of average monthly pay based on final 36 months of employment.

#### Survivor Benefit:

50% of benefit to surviving spouse.

#### Disability Benefit:

Service Related	Benefit is calculated in the same manner as the normal retirement benefit.
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Non-Service Related	5% of salary per year of service up to 50% of salary.
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## **BACKGROUND – (Continued)**

### Non-Uniformed Pension Plan

The non-uniformed pension plan was established February 20, 1922. Active members hired on or before June 30, 1987 are required to contribute \$24 per month to the plan. Active members hired on or after July 1, 1987 are required to contribute \$22 per month to the plan. As of December 31, 2015, the plan had 133 active members, 4 terminated members eligible for vested benefits in the future, and 121 retirees receiving pension benefits from the plan.

As of December 31, 2015, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Age 55 with 15 years of service and 20 years of contributions.
Early Retirement	Age 55 with 10 years of service and 20 years of contributions.
Vesting	10 years of service.

#### Retirement Benefit:

Employees hired on or before June 30, 1987, 75% of average monthly pay based on final 5 years of employment with a maximum of \$600 per month after 20 years, \$650 per month between 21 and 30 years, and \$700 per month after 31 years.

Employees hired on or after July 1, 1987, 75% of average monthly pay based on final 60 months of employment with a maximum of \$550 per month after 20 years, \$600 per month between 21 and 30 years, and \$650 per month after 31 years.

#### Survivor Benefit:

None

#### Disability Benefit:

70% of average monthly salary after 10 years of service and age 55.

CITY OF SCRANTON AGGREGATE PENSION FUND  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

The City of Scranton has partially complied with the prior audit recommendation concerning the following:

- Failure To Timely Pay The Minimum Municipal Obligation Of The Plans

As noted in our prior audit report, the city did not timely pay the full amount of the 2013 minimum municipal obligations (MMOs) that were due to the police and firemen's pension plans by December 31, 2013, as required by Act 205. During the current audit period, the city deposited the remaining MMO balance of \$2,000,000 into the fund on January 31, 2014, and on May 28, 2014, the city paid \$185,300 for the interest due to the police and firemen's pension plans for the late payment of the 2013 MMOs.

In 2014, the city again failed to timely pay the full amount of the MMOs due to the police and firemen's pension plans, as disclosed in Finding No. 1 contained in this report.

CITY OF SCRANTON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To Timely Pay The Minimum Municipal Obligation Of The Plans**

Condition: As disclosed in the prior audit report, the city did not timely pay the full amount of the 2013 minimum municipal obligations (MMOs) that were due to the police and firemen’s pension plans by December 31, 2013 as required by Act 205. On January 31, 2014, the city deposited the remaining \$2,000,000 into the fund; however, the city failed to pay the interest due on the late deposit. On May 28, 2014, the city paid \$185,300 for the interest due on the late deposit in accordance with Act 205 requirements.

During the current audit period, the city paid the 2015 MMOs by the December 31, 2015 deadline; however, plan officials failed to fully pay the 2014 MMOs that were due to the police and firemen’s pension plans by December 31, 2014 as required by Act 205, which required that the city pay \$322,906 of interest on the delinquent contributions due, as illustrated below:

	<u>Police</u>	<u>Firemen’s</u>
2014 Total MMO due	\$ 5,082,761	\$ 5,935,833
State aid deposit 10/14/14	\$ (1,107,586)	\$ (1,006,897)
City contribution 12/30/14	\$ (2,327,918)	\$ (2,700,763)
City contribution 1/2/15	<u>\$ (1,647,257)</u>	<u>\$ (2,228,173)</u>
MMO balance 1/2/15	<u>\$ -</u>	<u>\$ -</u>
Interest payment 1/6/15	<u>\$ 137,253</u>	<u>\$ 185,653</u>

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

CITY OF SCRANTON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The city did not have the funds available to ensure that the 2014 MMOs were fully paid by December 31, 2014, in accordance with Act 205 requirements.

Effect: Due to the city's failure to pay the 2014 MMOs by the December 31, 2014 deadline, the city was required to pay \$322,906 in interest charges that would not have been necessary had the MMOs been paid timely in accordance with Act 205 requirements.

Recommendation: We recommend that city officials ensure the plans' MMOs continue to be paid timely in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

**Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The city failed to certify two eligible non-uniformed employees (2 units) and understated payroll by \$73,706 on the Certification Form AG 385 filed in 2015. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205 at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

CITY OF SCRANTON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city's state aid allocation was based on unit value, the city received an underpayment of state aid of \$7,842 as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2015	Non-Uniformed	2	\$ 3,921	\$ 7,842

Although the city will be reimbursed for the underpayment of state aid due to the city's certification error, the full amount of the 2015 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

CITY OF SCRANTON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 9 through 14 reflect the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 1,093,850	\$ 1,238,801
Interest	7,050,809	7,519,247
Difference between expected and actual experience	-	(218,430)
Changes of assumptions	-	3,149,169
Benefit payments, including refunds of member contributions	<u>(5,385,989)</u>	<u>(5,343,755)</u>
Net Change in Total Pension Liability	2,758,670	6,345,032
Total Pension Liability - Beginning	<u>89,734,257</u>	<u>92,492,927</u>
Total Pension Liability - Ending (a)	<u>\$ 92,492,927</u>	<u>\$ 98,837,959</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 5,082,761	\$ 5,170,561
Contribution - member	350,984	420,859
Net investment income	1,754,307	115,460
Benefit payments, including refunds of member contributions	(5,385,989)	(5,343,755)
Administrative expense	<u>(44,009)</u>	<u>(42,686)</u>
Net Change in Plan Fiduciary Net Position	1,758,054	320,439
Plan Fiduciary Net Position - Beginning	<u>28,664,956</u>	<u>30,423,010</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 30,423,010</u>	<u>\$ 30,743,449</u>
Net Pension Liability - Ending (a-b)	<u>\$ 62,069,917</u>	<u>\$ 68,094,510</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	32.9%	31.1%
Estimated Covered Employee Payroll	\$ 8,700,000	\$ 9,700,000
Net Pension Liability as a Percentage of Covered Employee Payroll	713.4%	702.0%

**Notes to Schedule:**

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

CITY OF SCRANTON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

POLICE PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, calculated using the discount rate of 8.0%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability	\$ 80,113,213	\$ 68,094,510	\$ 58,055,442

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution*	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2010	\$ 1,087,920	\$ 1,087,920	\$ -	\$ 6,200,000	17.5%
2011	1,466,328	1,719,673	(253,345)	6,800,000	25.3%
2012	1,541,840	1,541,840	-	6,900,000	22.3%
2013	3,648,077	3,648,077	-	7,700,000	47.4%
2014	5,082,761	5,082,761	-	8,700,000	58.4%
2015	5,170,561	5,170,761	-	9,700,000	53.3%

\* The actuarially determined contributions for the years 2011 through 2015 reflect the 25 percent reduction of the amortization contributions the city was permitted to defer pursuant to Act 44 of 2009. The city's 2016 actuarially determined contribution also reflects a 25 percent reduction of the amortization contribution which will be the final year that this remedy will be available to the city.

CITY OF SCRANTON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

FIREMEN'S PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 877,594	\$ 951,152
Interest	7,523,591	7,914,310
Difference between expected and actual experience	-	(784,286)
Changes of assumptions	-	3,694,635
Benefit payments, including refunds of member contributions	<u>(6,483,409)</u>	<u>(6,518,785)</u>
Net Change in Total Pension Liability	1,917,776	5,257,026
Total Pension Liability - Beginning	<u>96,408,993</u>	<u>98,326,769</u>
Total Pension Liability - Ending (a)	<u>\$ 98,326,769</u>	<u>\$ 103,583,795</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 5,935,836	\$ 6,023,553
Contribution - member	325,302	378,642
Net investment income	1,031,379	67,227
Benefit payments, including refunds of member contributions	(6,483,409)	(6,518,785)
Administrative expense	<u>(50,368)</u>	<u>(42,078)</u>
Net Change in Plan Fiduciary Net Position	758,740	(91,441)
Plan Fiduciary Net Position - Beginning	<u>17,165,793</u>	<u>17,924,533</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 17,924,533</u>	<u>\$ 17,833,092</u>
Net Pension Liability - Ending (a-b)	<u>\$ 80,402,236</u>	<u>\$ 85,750,703</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	18.2%	17.2%
Estimated Covered Employee Payroll	\$ 7,800,000	\$ 9,000,000
Net Pension Liability as a Percentage of Covered Employee Payroll	1,030.8%	952.8%

**Notes to Schedule:**

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

CITY OF SCRANTON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

FIREMEN'S PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, calculated using the discount rate of 8.0%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability	\$ 97,510,932	\$ 85,750,703	\$ 75,818,564

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution*	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2010	\$ 1,957,996	\$ 1,957,996	\$ -	\$ 5,900,000	33.2%
2011	1,731,004	2,030,078	(299,074)	6,200,000	32.7%
2012	1,854,942	1,854,942	-	6,200,000	29.9%
2013	4,643,813	4,643,813	-	6,800,000	68.3%
2014	5,935,833	5,935,833	-	7,800,000	76.1%
2015	6,023,553	6,023,553	-	9,000,000	66.9%

\* The actuarially determined contributions for the years 2011 through 2015 reflect the 25 percent reduction of the amortization contributions the city was permitted to defer pursuant to Act 44 of 2009. The city's 2016 actuarially determined contribution also reflects a 25 percent reduction of the amortization contribution which will be the final year that this remedy will be available to the city.

CITY OF SCRANTON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

NON-UNIFORMED PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 81,737	\$ 78,511
Interest	937,975	954,216
Difference between expected and actual experience	-	13,368
Changes of assumptions	-	267,267
Benefit payments, including refunds of member contributions	<u>(1,110,468)</u>	<u>(1,077,747)</u>
Net Change in Total Pension Liability	(90,756)	235,615
Total Pension Liability - Beginning	<u>12,198,189</u>	<u>12,107,433</u>
Total Pension Liability - Ending (a)	<u>\$ 12,107,433</u>	<u>\$ 12,343,048</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 1,107,818	\$ 1,107,868
Contribution - member	37,752	37,141
Net investment income	200,183	12,956
Benefit payments, including refunds of member contributions	(1,110,468)	(1,077,747)
Administrative expense	<u>(48,723)</u>	<u>(92,284)</u>
Net Change in Plan Fiduciary Net Position	186,562	(12,066)
Plan Fiduciary Net Position - Beginning	<u>3,275,317</u>	<u>3,461,879</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,461,879</u>	<u>\$ 3,449,813</u>
Net Pension Liability - Ending (a-b)	<u>\$ 8,645,554</u>	<u>\$ 8,893,235</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	28.6%	27.9%
Estimated Covered Employee Payroll	\$ 5,300,000	\$ 5,300,000
Net Pension Liability as a Percentage of Covered Employee Payroll	163.1%	167.8%

**Notes to Schedule:**

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

CITY OF SCRANTON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

NON-UNIFORMED PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, calculated using the discount rate of 8.0%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability	\$ 9,947,085	\$ 8,893,235	\$ 7,977,499

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution*	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2010	\$ 794,872	\$ 794,872	\$ -	\$ 5,200,000	15.3%
2011	815,883	956,847	(140,964)	5,800,000	16.5%
2012	818,603	818,603	-	5,800,000	14.1%
2013	1,013,260	1,013,260	-	5,800,000	17.5%
2014	1,107,818	1,107,818	-	5,300,000	20.9%
2015	1,107,868	1,107,868	-	5,300,000	20.9%

\* The actuarially determined contributions for the years 2011 through 2015 reflect the 25 percent reduction of the amortization contributions the city was permitted to defer pursuant to Act 44 of 2009. The city's 2016 actuarially determined contribution also reflects a 25 percent reduction of the amortization contribution which will be the final year that this remedy will be available to the city.

CITY OF SCRANTON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2009, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 33,821,763	\$ 61,223,688	\$ 27,401,925	55.2%
01-01-11	31,766,013	74,540,015	42,774,002	42.6%
01-01-13	25,144,389	87,159,259	62,014,870	28.8%
01-01-15	29,702,124	95,423,666	65,721,542	31.1%

Note: The market values of the plan’s assets at 01-01-09, 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF SCRANTON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 27,051,826	\$ 64,840,397	\$ 37,788,571	41.7%
01-01-11	24,750,951	86,648,557	61,897,606	28.6%
01-01-13	15,793,866	94,604,548	78,810,682	16.7%
01-01-15	17,619,002	101,237,118	83,618,116	17.4%

Note: The market values of the plan’s assets at 01-01-09, 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF SCRANTON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

NON-UNIFORMED PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 3,408,337	\$ 12,007,430	\$ 8,599,093	28.4%
01-01-11	3,230,235	12,192,578	8,962,343	26.5%
01-01-13	2,823,753	12,277,481	9,453,728	23.0%
01-01-15	3,376,150	12,388,068	9,011,918	27.3%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF SCRANTON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

CITY OF SCRANTON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	16 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF SCRANTON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	23 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF SCRANTON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

NON-UNIFORMED PENSION PLAN

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	11 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF SCRANTON AGGREGATE PENSION FUND  
COMMENTS

POLICE PENSION PLAN NORMAL RETIREMENT BENEFIT ELIGIBILITY

The city is currently involved in an arbitration proceeding with the police union regarding whether there is a minimum age requirement in order to be eligible for normal retirement. The city's firemen's and non-uniformed plans have a minimum age requirement of 55 for employees hired after July 1, 1987, pursuant to ordinances adopted in 1987. The police pension plan's governing ordinance did not contain the minimum age requirement, although a minimum retirement age of 55 for police officers hired after July 1, 1987, has been included in the plan's prior actuarial valuation reports. The city maintains that the omission of an age requirement from the plan's governing ordinance was a clerical omission and during the current audit period, the city adopted File of the Council No. 87 of 2015 to establish a minimum retirement age of 55 for police officers hired after July 1, 1987. A decision on the matter is currently pending. It was noted during the current audit period there were no police officers hired after July 1, 1987, who retired on non-disability pensions that were under the age of 55.

SETTLEMENT OF POLICE AND FIREFIGHTER BACK PAY JUDGMENTS

Subsequent to the current audit period in March of 2016, the city reached agreements with the police and firefighter unions to satisfy back pay awards due to active and retired police officers and firefighters pursuant to a 2011 Pennsylvania Supreme Court Decision. The agreements stipulated that interest payments would be waived to the retirees and that based on an interest reduction from 6 percent to 3 percent of the interest due to active members from January of 2014 to March of 2016, the city would deposit the savings into the police and firemen's pension funds. On July 1, 2016, a total of \$1.6 million was deposited into the pension funds. Additional member contributions that were due based on the back pay awards were deposited to the funds on July 13, 2016. In addition, pursuant to the agreements, in January of 2017, the city's pension funds will be managed by a new third-party administrator, PFM Asset Management LLC, and disability pension determinations will be made by a single specialist physician whose determination will be final.

PROPOSED EARNED INCOME TAX

Our prior audit report disclosed that on July 31, 2014, the City of Scranton enacted a 0.75 percent Act 205 earned income tax on certain non-city residents who work in the city. The revenue from the tax was to be used solely to fund the city's distressed pension plans. It was anticipated the tax revenue would generate \$5 million annually. The tax was scheduled to be implemented on October 1, 2014. It was noted that the collection and effect of this tax on the city's pension plans would be reviewed during our next audit.

Subsequent to the release of the prior audit report, a judge ruled that the City of Scranton could not impose a commuter tax unless it levied the same tax on its residents; consequently, the proposed Act 205 earned income tax was never implemented.

CITY OF SCRANTON AGGREGATE PENSION FUND  
COMMENTS

SPECIAL REPORT ON DOUBLE PENSION BENEFITS PAID TO NON-UNIFORMED PLAN MEMBERS

On June 23, 2015, the Department of the Auditor General issued a special report which reviewed activities surrounding a retirement incentive (double-pension payments) offered in 2002 and 2007 by the City of Scranton for its non-uniformed employees who met certain eligibility criteria. The total additional annual cost of the double benefits for these 35 retirees was determined to be \$266,880, which represented almost 25% of the \$1,076,140 annual benefit payments payable to all beneficiaries of the non-uniformed pension plan as of January 1, 2013, according to the Department's audit report for the City of Scranton's Aggregate Pension Fund, dated August 2014.

Twenty-five employees retired during 2002, 19 of them on December 31, 2002. Fifteen of these retirees would begin receiving double-pension payments in August 2003, and 10 more in October 2003. They were all paid retroactively to January 1, 2003. Then in 2007, 10 more retirees began receiving the double-pension payments, bringing the total number of double-pension benefit recipients to 35.

The Department's review of the transactions surrounding the doubling of pension payments revealed a disregard for the applicable laws governing the pension plan by the officials charged with fiduciary responsibility for the Plan including the Mayor, City Council, and the Pension Board, specifically finding no authorization or city ordinance to support any double-pension payments to City of Scranton non-uniformed employees who retired in either 2002 or 2007. This incentive and how it was implemented is of concern not only because of the dire financial condition of the City's non-uniformed pension plan, but also because of the failure of responsible plan officials to provide appropriate fiscal oversight of this incentive.

The report recommended that the Pension Board and the City complete its comprehensive review of the pension benefits being paid to the 2002 and 2007 affected retirees and determine:

- a. Who was actually eligible for the retirement incentive.
- b. Whether it is obligated to continue paying the double-pension benefits to each of the 2002 and 2007 retirees.
- c. Whether any amounts paid to these retirees should be recouped by the City.

On July 22, 2015, the City's Non-Uniformed Pension Board voted to hold hearings to determine whether 34 individuals who retired in 2002 and 2007 were erroneously receiving a double pension benefit pursuant to a retirement incentive offered by the City. The Board opted not to pursue a case involving a retiree who died.

CITY OF SCRANTON AGGREGATE PENSION FUND  
COMMENTS

Through the date of this audit report, 12 of the retirees have settled their cases agreeing to have their pension benefits reduced prospectively to the amounts authorized by the plan's governing ordinance. Pursuant to the settlement agreements, any previous payments to the retirees would not be recouped by the City.

Thirteen of the retirees filed a lawsuit requesting an order enjoining the Non-Uniformed Pension Board from proceeding with scheduled hearings to determine the retirees' continued eligibility to receive the double pension benefits and an order enjoining the modification, correction, or reduction of the retirees' pension benefits. On June 30, 2016, the requests for relief were dismissed. The hearings for the 22 retirees who had not settled their cases were held on July 11 and 12 of 2016. The attorneys were given a 45-day period to submit proposed findings of fact and conclusions of law; thereafter, a final decision will be rendered.

Regarding future benefit modification proposals, the report recommended:

In the future, in order for Plan and City officials to make informed decisions about the financial impact of benefit modification proposals, they should first obtain and properly document their review and analysis of cost studies prior to approving such proposals in accordance with Act 205.

The Pension Board and the City should ensure all pension benefit provisions are documented clearly and specifically through properly executed plan documents, including ordinances, resolutions, collective bargaining agreements, and board minutes.

The Pension Board and the City should ensure the Plan's Consultant and Custodian are provided with adequate supporting documentation authorizing all benefit modifications.

During the current audit period, there were no benefit modifications made to the City's non-uniformed pension plan.

The report contained two recommendations regarding pension benefit determinations:

The Pension Board should ensure all pension benefit determinations are reviewed in a timely manner for accuracy and compliance with the Plan's governing documents.

The Pension Board and the City should ensure only employees who meet required qualifications receive benefits.

During the current audit period, pension benefits were determined in accordance with the benefit provisions contained in the plan's governing document and approved by the Pension Board.

CITY OF SCRANTON AGGREGATE PENSION FUND  
COMMENTS

The final recommendation contained in the special report was the City should continue its efforts to develop a long-term strategic plan addressing the non-uniformed pension plan's severely distressed status and future benefit modifications need to be carefully considered to assess their long-term effects on the City and its taxpayers. In addition, the prior audit report for the City of Scranton Aggregate Pension Fund encouraged city officials to continue its efforts in the development of a long-term strategic plan to address its pension plans' funding crisis to ensure their long-term financial stability.

Subsequent to the release of the above-mentioned reports, the City of Scranton has taken the following actions to address its pension funding crisis:

The Mayor and City Council recommended to the respective pension boards that the administration of the City's pension plans be transferred to the Pennsylvania Municipal Retirement System (PMRS). Although the City was unable to reach an agreement with PMRS concerning a gradual implementation of a reduction in the plans' investment return assumptions, the City will continue to monitor the feasibility of joining PMRS if legislation addressing the City's concerns is adopted.

The City reached a settlement for the back pay owed to police officers and firefighters, as previously noted in this report.

The City reached agreements with its police officers and firefighters through the collective bargaining process to increase member contributions for police officers and firefighters beginning in 2015, as noted in the Background section of this report.

The City has reached an agreement for the sale of the Scranton Sewer Authority for \$195 million. The agreement is pending administrative review by the Public Utility Commission and the Department of Environmental Protection. The proceeds from the sale will be distributed 80 percent to the City of Scranton and 20 percent to the Borough of Dunmore. It is estimated that after compensation to the Borough of Dunmore, the retirement of Authority debt, and transaction fees, the city could realize an estimated \$96 million from the sale. An undetermined portion of the sales proceeds will be deposited into the city's pension plans to reduce their unfunded liabilities. The sale is expected to be finalized in the fall of 2016.

Furthermore, no benefit modifications were considered by the City during the current audit period other than File of the Council No. 87 of 2015, previously referenced in these Comments.

The City of Scranton's continued efforts to address its pension funding crisis will be evaluated during our next audit of the plans.

CITY OF SCRANTON AGGREGATE PENSION FUND  
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This report was initially distributed to the following:

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