

**CITY OF SCRANTON, PENNSYLVANIA
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2008**

CITY OF SCRANTON, PENNSYLVANIA
 INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE
 AND SINGLE AUDIT ATTACHMENTS
 YEAR ENDED DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

October 20, 2009

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scranton, Pennsylvania (the "City") as of and for the year ended December 31, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Scranton management. 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 of the City of Scranton, Pennsylvania (the "Sewer Authority") which statements reflect total assets of \$63,851,115 at March 31, 2008 and total revenues of \$16,329,528 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$57,813,966 at December 31 2008 and total revenues of \$3,034,331 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$6,314,384 at December 31, 2008 and total revenues of \$5,919,877 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sewer Authority and Parking Authority reflected in the City's Enterprise Funds and Redevelopment Authority reflected in the City's Aggregate Remaining Fund information, is based on the reports of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

The City has determined its actuarial liability for its internal service workmen's compensation fund included in the aggregate remaining fund information at August 31, 2008 instead of December 31, 2008. Accounting principles generally accepted in the United States of America require that liabilities be valued as of the report date. The amount by which this departure would affect the liabilities, fund balance, and expenditures of the aggregate remaining fund information is not reasonably determinable.

In our opinion, except for the effects, if any, of not valuing its actuarial liability as of December 31, 2008 in the aggregate remaining fund information as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the City of Scranton as of December 31, 2008, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, general fund, special revenue fund OECD, sewer authority and municipal parking authority of the City of Scranton as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated October 20, 2009 on our consideration of the City of Scranton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 14 and 72 through 73 are not a required part of the basic financial statements but are supplementary information required by Accounting Principles Generally Accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of opinions on the financial statements that collectively comprise the City of Scranton's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management

and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Scranton. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Robert Ross & CO

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Management's Discussion and Analysis

As management of the City of Scranton, Pennsylvania, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Scranton for the fiscal year ended December 31, 2008. 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

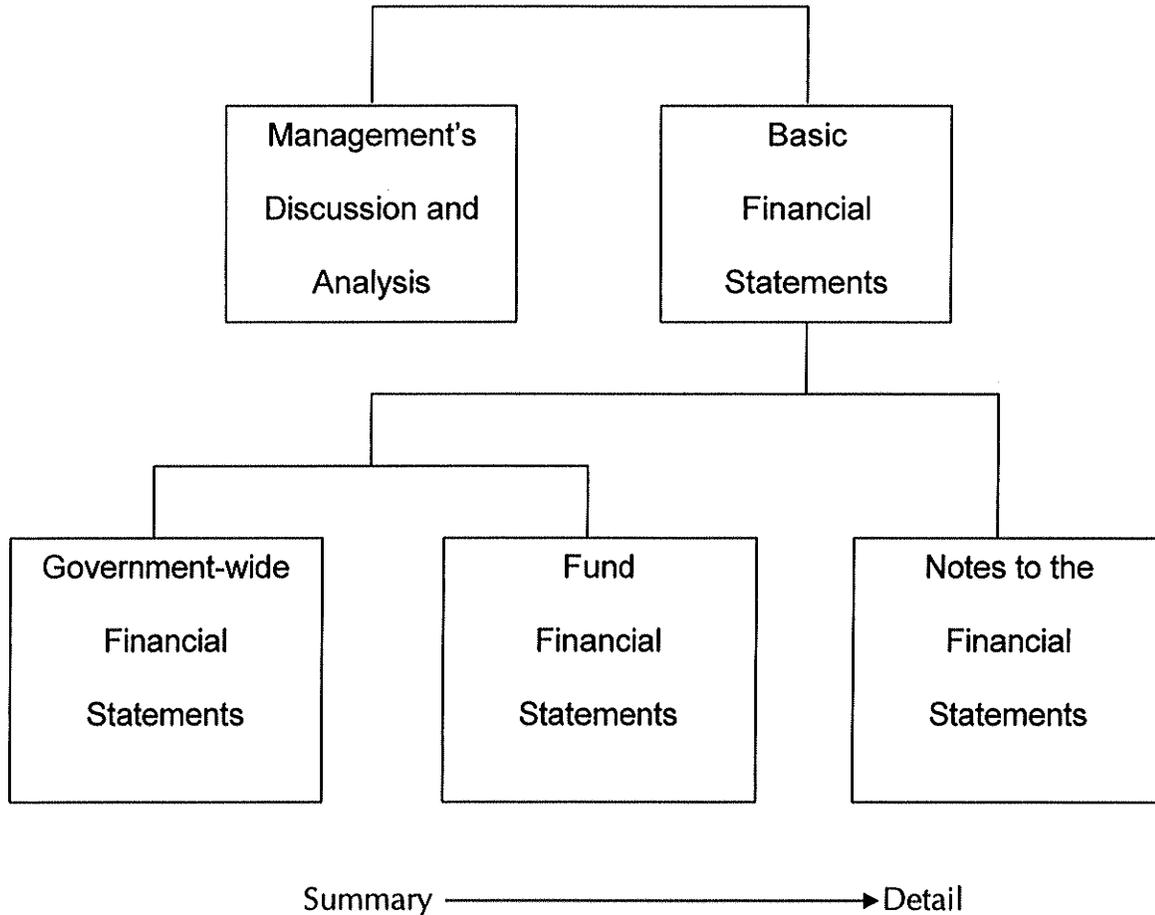
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$48,857,888 (*net assets*).
- The government's total net assets decreased by \$2,839,569.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$13,893,376, a decrease of \$3,871,404 in comparison with the prior year. The largest decrease was in the General Fund and Capital Projects Fund of \$1,881,353 and \$2,644,290 respectively.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Scranton.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 15 through 17) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 18 through 30) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net assets presents the City's assets and liabilities as of the end of the recent fiscal year. The statement of activities shows the City's current year's revenue and expenses as soon as the changes occur, regardless of the timing of the related cash flows (on the accrual basis). Thus, revenue and expenses are reported in this statement for some items that will provide cash flow or use cash flow in a future period. An example of a cash inflow in a future would be when a taxpayer pays a prior year tax or fee in the future (see Taxes and Fees Receivable \$19,150,761). An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$2,031,665). All major corporations use the accrual basis of accounting.

The government-wide financial statements include not only the City's financial information (Governmental Activities), but also the financial information of the Sewer Authority, Municipal Parking Authority, and the Municipal Recreation Authority (Business-Type Activities) and the Redevelopment Authority (Governmental Activities). Financial information for these entities is reported in separate columns.

The government-wide financial statements are on pages 15 through 17.

Fund Financial Statements

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

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

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

CITY OF SCRANTON

The City of Scranton maintains individual government funds. Information in the governmental funds includes a balance sheet and a statement of revenues, expenditures, and changes in fund balances for the General Fund and OECD are considered to be major funds. The data for non-major funds consisting of Liquid Fuels Fund, Capital Projects Fund, Redevelopment Authority, Special Cities, and Debt Service Fund are combined in a single accounting.

Enterprise Funds – The enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Sewer Authority, Parking Authority, and Recreation Authority. The Sewer Authority and Parking Authority are classified as major funds. The Recreation Authority is classified as a non-major fund.

Fiduciary Funds – Fiduciary funds are not accounted for in the government wide financial statements, because the resources of these funds are not available to support the City's own programs. These funds are custodial in nature.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 31 through 71 of this report.

Other Information – This report includes certain other required supplementary information concerning the City, (see pages 72 through 80). A description of the schedules and reports can be found on pages 2 and 3 of the Table of Contents.

Government-Wide Financial Analysis

Net assets are useful indicators of a government's financial position. At the close of the current fiscal year, the City of Scranton's assets exceeded its liabilities by \$48,857,888.

Capital assets (land, buildings, roads, bridges, and equipment) less any outstanding debt issued to acquire these assets comprise a significant portion of the City of Scranton's net assets, \$84,954,022. Although these capital assets assist the City in providing services to its citizens, they are generally not available to fund the operations of future periods.

A portion of the City's net assets, \$23,302,580, is subject to external restrictions as to how they may be used. The remaining component of net assets is the unrestricted net assets, which ended the year with a deficit of \$59,398,714. The governmental activities reported negative unrestricted net assets of \$53,123,348. The business type activities reported negative unrestricted net assets of \$6,275,366.

CITY OF SCRANTON

The City of Scranton, Pennsylvania's Net Assets

Figure 2

	Governmental Activities			Business Type Activities			Total Primary Government		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Current Assets	\$ 95,990,047	\$ 104,745,834	-8%	\$ 10,912,327	\$ 8,472,313	29%	\$ 106,902,374	\$ 113,218,147	-6%
Restricted Assets	2,246,333	234,099	860%	31,101,588	21,135,670	47%	33,347,921	21,369,769	56%
Capital Assets	94,746,951	95,905,784	-1%	79,295,467	74,401,942	7%	174,042,418	170,307,726	2%
Deferred Charges	1,779,754	1,827,379	-3%	2,147,599	2,148,970	0%	3,927,353	3,976,349	-1%
Total Assets	\$ 194,763,085	\$ 202,713,096	-4%	\$ 123,456,981	\$ 106,158,895	16%	\$ 318,220,066	\$ 308,871,991	3%
Current Liabilities	\$ 12,407,106	\$ 14,367,778	-14%	\$ 5,120,427	\$ 17,383,886	-71%	\$ 17,527,533	\$ 31,751,664	-45%
Non-Current Liabilities	163,046,834	163,016,509	0%	88,787,811	62,406,361	42%	251,834,645	225,422,870	12%
Total Liabilities	\$ 175,453,940	\$ 177,384,287	-1%	\$ 93,908,238	\$ 79,790,247	18%	\$ 269,362,178	\$ 257,174,534	5%
Net Assets:									
Invested In Capital Assets									
Net of Related Debt	\$ 69,618,241	\$ 70,699,770	-2%	\$ 15,335,781	\$ 24,085,857	-36%	\$ 84,954,022	\$ 94,785,627	-10%
Restricted	2,814,252	5,603,119	-50%	20,488,328	3,583,581	472%	23,302,580	9,186,700	154%
Unrestricted	(53,123,348)	(50,974,080)	4%	(6,275,366)	(1,300,790)	382%	(59,398,714)	(52,274,870)	14%
Total Net Assets	\$ 19,309,145	\$ 25,328,809	-24%	\$ 29,548,743	\$ 26,368,648	12%	\$ 48,857,888	\$ 51,697,457	-5%

City of Scranton, Pennsylvania Changes in Net Assets

Figure 3

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Revenues									
Program Revenues									
Fees, Fines & Charges for Services	\$ 7,220,652	\$ 7,809,326	-8%	\$ 19,363,859	\$ 13,281,840	46%	\$ 26,584,511	\$ 21,091,166	26%
Operating Grants & Contributions	21,974,079	18,526,927	19%	0	0	0%	21,974,079	18,526,927	19%
Capital Grants & Contributions	6,290,127	2,684,689	134%	0	0	0%	6,290,127	2,684,689	134%
General Revenues									
Property Taxes	14,378,281	14,372,972	0%	0	0	0%	14,378,281	14,372,972	0%
Act 511 Taxes	30,233,219	28,238,690	7%	0	0	0%	30,233,219	28,238,690	7%
Cable TV Franchise Revenue	745,987	744,410	0%	0	0	0%	745,987	744,410	0%
Payments in Lieu of Taxes	117,500	117,490	0%	0	0	0%	117,500	117,490	0%
Investment Earnings	1,506,613	2,989,135	-50%	1,498,744	459,207	226%	3,005,357	3,448,342	-13%
Donations	0	491,723	-100%	0	0	0%	0	491,723	-100%
Sale of Property	(323,749)	(1,208,712)	-73%	0	0	0%	(323,749)	(1,208,712)	-73%
Miscellaneous	92,317	60,920	52%	768,794	625,574	23%	861,111	686,494	25%
Rents & Concessions	14,050	4,585	206%	0	0	0%	14,050	4,585	206%
Grants, Subsidies, and Contributions	0	900,000	-100%	0	0	0%	0	900,000	-100%
Refund of Prior Year Expenditures	81,060	0	0%	0	0	0%	81,060	0	100%
Interfund Transfer	0	1,500,000	-100%	0	(1,500,000)	-100%	0	0	0%
Settlement Expense	0	0	0%	(216,051)	(10,051,261)	-98%	(216,051)	(10,051,261)	-98%
Settlement Storm Water Maintenance	0	0	0%	0	0	0%	0	0	0%
Intergovernmental Revenues	706,556	0	100%	75,817	959,911	-92%	782,373	959,911	-18%
Total Revenue & Transfers	\$ 83,036,692	\$ 77,232,155	8%	\$ 21,491,163	\$ 3,775,271	469%	\$ 104,527,855	\$ 81,007,426	29%
Expenses									
General Government & Administration	\$ 10,423,607	\$ 11,272,884	-8%	\$ 0	\$ 0	0%	\$ 10,423,607	\$ 11,272,884	-8%
Public Safety	32,816,365	32,520,564	1%	0	0	0%	32,816,365	32,520,564	1%
Public Works	17,647,040	15,016,459	18%	0	0	0%	17,647,040	15,016,459	18%
Health & Welfare	1,172,944	978,238	20%	0	0	0%	1,172,944	978,238	20%
Community Development	19,529,995	14,126,692	38%	0	0	0%	19,529,995	14,126,692	38%
Cultural & Recreation	1,563,190	1,781,810	-12%	0	0	0%	1,563,190	1,781,810	-12%
Other Expenditures	48,331	17,905	170%	0	0	0%	48,331	17,905	170%
Capital Expenditures	0	104,409	-100%	0	0	0%	0	104,409	-100%
Court Award Settlement	0	0	0%	0	0	0%	0	0	0%
Unallocated Depreciation	34,759	34,759	0%	0	0	0%	34,759	34,759	0%
Interest on Long Term Debt	5,820,125	6,330,526	-8%	0	0	0%	5,820,125	6,330,526	-8%
Sewer Authority	0	0	0%	14,037,576	12,523,497	12%	14,037,576	12,523,497	12%
Municipal Recreation Authority	0	0	0%	0	0	0%	0	0	0%
Municipal Parking Authority	0	0	0%	4,273,492	3,912,482	9%	4,273,492	3,912,482	9%
Total Expenses	\$ 89,056,356	\$ 82,184,246	8%	\$ 18,311,068	\$ 16,435,979	11%	\$ 107,367,424	\$ 98,620,225	9%
Change In Net Assets	\$ (6,019,664)	\$ (4,952,091)	22%	\$ 3,180,095	\$ (12,660,708)	-125%	\$ (2,839,569)	\$ (17,612,799)	-84%
Net Assets, Beginning of Year	25,328,809	30,280,900	-16%	26,368,648	39,029,356	-32%	51,697,457	69,310,256	-25%
Net Assets, End of Year	\$ 19,309,145	\$ 25,328,809	-24%	\$ 29,548,743	\$ 26,368,648	12%	\$ 48,857,888	\$ 51,697,457	-5%

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Governmental activities. Governmental activities decreased the City's net assets by \$6,019,664. The City's single greatest source of revenue is its Act 511 taxes. Act 511 taxes consist of the City's Wage Tax, Mercantile Tax, and Emergency Service Tax. The City's Wage Tax is 2.4%. It is commonly incorrectly stated that the rate is 3.4%. The confusion is caused by the fact that the City's Wage Tax of 2.4% is collected along with the Scranton School District's 1% Wage Tax. The taxpayers make a single payment to the Scranton Collector of Taxes. The same collection system is used for the City and School Mercantile and Business Privilege Tax and thus the same type of confusion exists. The City's Mercantile and Business Privilege Tax rate is a flat .1% (.001) no matter what kind of business. The School District has three different rates. The wholesale business rate is .0452% (.00452), the retail rate is .0679% (.000679) and the service business rate is .513% (.00513) or more than five times the City rate.

Business-type activities: Business-type activities increased the City's net assets by \$3,180,095. The largest item contributing to this increase was the \$16,904,747 realized by an increase to restricted assets reserved for the retirement of Long-Term Obligations.

Financial Analysis of the City's Funds

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. The General Fund total revenues were up \$76,393 from the prior year. Total General Fund Revenue was \$56,336,780 for the year 2008 versus \$56,260,387 for the year 2007. There was a \$791,892 increase in Tax collections, which was offset by a decrease of \$376,798 in Investment Income compared to the prior period. The General Fund expenditures for the year 2008 decreased by \$731,951. Total General Fund Expenditures were \$53,855,223 for 2008 versus \$54,587,174 in 2007. The single largest decrease in expenses was in General Government for \$1,077,030. Total General Government Expenditures were \$13,096,778 for 2008 versus \$14,173,808 for 2007.

At December 31, 2008, the Governmental Funds of the City of Scranton reported a combined fund balance of \$13,893,376, a decrease over last year. The fluctuation can be attributed to the decrease in Capital Projects at year-end.

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General Fund Highlights

Revenues and other financing sources were higher than prior year amounts. Overall, the total revenue appears consistent with the prior year, revenue increased by less than 1%.

Overall expenditures decreased by \$731,951 compared to the prior year. General Government recognized a decrease of \$1,077,030. The decrease can be attributed to increased costs incurred under the court awards and settlement account in 2007. Court awards accounted for \$1,644,923 of the total cost for General Government in 2007. The City settled and paid \$1,505,724 to the Police and Fire Unions.

Other Financing Sources decreased significantly compared to the prior year; from (\$1,008,868) in 2007 to (\$4,362,910) in 2008. A large portion of the decrease can be attributed to the sale of delinquent Real Estate Tax in 2007. The City of Scranton recognized \$1,898,657 in the prior year from this transaction. Also the City received \$900,000 from the Scranton Housing Authority in 2007 while recognizing none of this revenue in the current period. In 2008, the Scranton Redevelopment Authority issued a \$5,900,000 Guaranteed Variable Lease Revenue Bond for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. Then the Authority entered into a sublease agreement with the City of Scranton, whereby, the City received and recorded \$5,900,000 while guaranteeing to pay rent to the Authority's Trustee in order to make the applicable debt service payments. These funds were used to pay off a 2005 Revenue Bond.

Capital Assets

The City's capital assets consist of land and land improvements, buildings and building improvements, infrastructure (roads, sewers, etc.), furniture & equipment, vehicles and construction in progress. Also see Footnote numbers 5, 6 and 7 for additional information.

Figure 4

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Land & Land Improvements	\$ 3,485,506	\$ 3,485,506	0%	\$ 1,347,093	\$ 1,033,322	30%	\$ 4,832,599	\$ 4,518,828	7%
Buildings & Building Improvements	18,295,574	17,779,676	3%	133,992,661	132,453,142	1%	152,288,235	150,232,818	1%
Infrastructure	99,895,362	99,218,423	1%	0	0	0%	99,895,362	99,218,423	1%
Furniture, Equipment & Vehicles	15,728,834	14,792,408	6%	7,906,709	8,688,206	-9%	23,635,543	23,480,614	1%
Construction in Progress	10,429,521	8,787,209	19%	12,650,929	5,932,083	113%	23,080,450	14,719,292	57%
Accumulated Depreciation	(53,087,846)	(48,157,438)	10%	(76,601,925)	(73,704,811)	4%	(129,689,771)	(121,862,249)	6%
Total	\$ 94,746,951	\$ 95,905,784	-1%	\$ 79,295,467	\$ 74,401,942	7%	\$ 174,042,418	\$ 170,307,726	2%

**City of Scranton, Pennsylvania's Outstanding Debt
General Obligation and Revenue Bonds**

Figure 5

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Balance January 1, 2008	\$ 95,096,246	\$ 107,146,705	\$ 63,663,860	\$ 31,632,027	\$ 158,760,106	\$ 138,778,732
Debt issued in 2008	6,104,643	2,731,305	28,456,443	33,191,253	34,561,086	35,922,558
Accretion & Amortization	25,665	26,374	0	0	25,665	26,374
Less Retirements	(8,780,726)	(14,808,138)	(1,681,267)	(1,159,420)	(10,461,993)	(15,967,558)
Balance December 31, 2008	\$ 92,445,828	\$ 95,096,246	\$ 90,439,036	\$ 63,663,860	\$ 182,884,864	\$ 158,760,106

CITY OF SCRANTON

The City of Scranton, Pennsylvania has a BBB bond rating from Standard and Poor's. Also, see footnote numbers 6 & 7 for additional information.

Pension Trust Fund

The City sponsors and administers three pension plans. The plans have been designated as severely distressed under Pennsylvania Act 205.

Internal Service Workmen's Compensation

The independent auditors qualified their opinion on the City's financial statements. This is due to the fact that the City determined its workers' compensation actuarial liability as of August 31, 2008 instead of December 31, 2008. This was also the case in 2004 through 2007, and the City received a letter from the actuary addressing this concern. Therefore, the City of Scranton does not view this to be a material or significant issue.

Distressed Municipality Status

Since 1992, the City has been declared a distressed municipality by the Pennsylvania Department of Community and Economic Development. Over the past four years, the City has made significant progress in working to have this label removed. The fact that the City has obtained a BBB rating from Standard & Poor's in 2003 is a sign that the City is truly on it's way to sound fiscal management. There are many new business projects that the City is involved with in downtown Scranton. The City's Park System has also been revitalized.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Stuart Renda, Business Administrator, City Hall, 4th Floor, 340 N. Washington Avenue, Scranton, PA 18503.

CITY OF SCRANTON, PENNSYLVANIA
 GOVERNMENT WIDE STATEMENT OF NET ASSETS
 DECEMBER 31, 2008

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 21,355,167	\$ 4,523,004	\$ 25,878,171
Certificate of Deposit		1,782,650	1,782,650
Investments	11,059,474	0	11,059,474
Receivables:			
Taxes and Fees Receivable, Net	19,150,761	0	19,150,761
Accounts Receivable, Net	1,381,941	4,193,129	5,575,070
Accrued Interest	147,023	6,737	153,760
Loans Receivable	39,587,395	0	39,587,395
Other Receivables, Net	885,075	0	885,075
Due From Other Funds	1,079,057	38,778	1,117,835
Due From Other Governments	875,223	0	875,223
Prepaid Assets	0	33,813	33,813
Other Assets	50,000	334,216	384,216
Property Held For Resale	418,931	0	418,931
Restricted Assets:			
Restricted Cash and Cash Equivalents	2,246,333	25,200,904	27,447,237
Restricted Investments	0	5,436,050	5,436,050
Restricted Accounts Receivable	0	76,834	76,834
Accounts Receivable - Assessments	0	387,800	387,800
Capital Assets:			
Land	3,485,506	1,347,093	4,832,599
Buildings	11,907,443	133,683,616	145,591,059
Improvements	6,388,131	309,045	6,697,176
Infrastructure	99,895,362	0	99,895,362
Vehicles, Furniture & Equipment	15,728,834	7,906,709	23,635,543
Construction In Progress	10,429,521	12,650,929	23,080,450
Accumulated Depreciation	(53,087,846)	(76,601,925)	(129,689,771)
Deferred Charges, Net	1,779,754	2,147,599	3,927,353
TOTAL ASSETS	<u>\$ 194,763,085</u>	<u>\$ 123,456,981</u>	<u>\$ 318,220,066</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 GOVERNMENT WIDE STATEMENT OF NET ASSETS
 DECEMBER 31, 2008

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
LIABILITIES			
Short Term Debt	\$ 0	\$ 794,672	\$ 794,672
Accounts Payable	5,590,275	637,588	6,227,863
Accrued Liabilities	771,982	671,436	1,443,418
Accrued Interest	1,121,145	0	1,121,145
Due to Other Funds	1,117,835	0	1,117,835
Current Liabilities Payable From Restricted Assets:			
Accrued Construction Cost	0	621,915	621,915
Revenue Bonds Payable	0	545,000	545,000
Accrued Revenue Bond Interest Payable	0	684,208	684,208
Current Portion Of Long Term Debt			
Lease Payable	751,741	0	751,741
General Obligation Bonds Payable	2,295,000	0	2,295,000
Notes Payable	759,128	1,165,608	1,924,736
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	20,981,099	0	20,981,099
Deferred Revenues	42,325,523	0	42,325,523
Long-Term Debt Obligations	66,388,386	88,728,428	155,116,814
Deferred Loss On Early Retirement Of Debt	(1,121,484)	(498,596)	(1,620,080)
Governmental Notes Payable	1,704,019	0	1,704,019
Long-Term Liabilities Payable	0	35,162	35,162
Capitalized Lease Debt	20,547,554	0	20,547,554
Termination Benefits Payable	10,190,072	0	10,190,072
Compensated Absences	2,031,665	522,817	2,554,482
TOTAL LIABILITIES	\$ 175,453,940	\$ 93,908,238	\$ 269,362,178
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	\$ 69,618,241	\$ 15,335,781	\$ 84,954,022
Restricted for:			
Debt Service	1,849,584	0	1,849,584
Reserved for Capital Projects	964,668	0	964,668
Reserved for Retirement of Long-Term Obligations	0	20,488,328	20,488,328
Unreserved - Undesignated	(53,123,348)	(6,275,366)	(59,398,714)
TOTAL NET ASSETS	\$ 19,309,145	\$ 29,548,743	\$ 48,857,888

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 GOVERNMENT WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2008

PROGRAM ACTIVITIES	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	FEES, FINES AND CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
Governmental Activities							
General Government and Administration	\$ 10,423,607	\$ 780,122	\$ 480,050	\$ 0	\$ (9,163,435)	\$ 0	\$ (9,163,435)
Public Safety	32,816,365	907,820	2,714,753	0	(29,193,792)	0	(29,193,792)
Public Works	17,647,040	4,105,496	1,637,120	6,290,127	(5,614,297)	0	(5,614,297)
Health & Welfare	1,172,944	0	1,172,944	0	0	0	0
Community Development	19,529,995	1,375,064	15,937,593	0	(2,217,338)	0	(2,217,338)
Culture and Recreation	1,563,190	52,150	0	0	(1,511,040)	0	(1,511,040)
Other Expenditure	48,331	0	31,619	0	(16,712)	0	(16,712)
Unallocated Depreciation	34,759	0	0	0	(34,759)	0	(34,759)
Interest on Long Term Debt	5,820,125	0	0	0	(5,820,125)	0	(5,820,125)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 89,056,356	\$ 7,220,652	\$ 21,974,079	\$ 6,290,127	\$ (53,571,498)	\$ 0	\$ (53,571,498)
Business-Type Activities							
Sewer Authority	\$ 14,037,576	\$ 16,329,528	\$ 0	\$ 0	\$ 0	\$ 2,291,952	\$ 2,291,952
Municipal Parking Authority	4,273,492	3,034,331	0	0	0	(1,239,161)	(1,239,161)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 18,311,068	\$ 19,363,859	\$ 0	\$ 0	\$ 0	\$ 1,052,791	\$ 1,052,791
TOTAL GOVERNMENT	\$ 107,367,424	\$ 26,584,511	\$ 21,974,079	\$ 6,290,127	\$ (53,571,498)	\$ 1,052,791	\$ (52,518,707)
General Revenues:							
Property taxes, levied for general purposes					\$ 14,378,281	\$ 0	\$ 14,378,281
Act 511 Taxes					30,233,219	0	30,233,219
Cable Television Franchise Revenue					745,987	0	745,987
Payments in Lieu of Taxes					117,500	0	117,500
Investment Earnings					1,506,613	1,498,744	3,005,357
Miscellaneous					92,317	768,794	861,111
Loss On Disposal Of Fixed Assets					(323,749)	0	(323,749)
Rents and Concessions					14,050	0	14,050
Refund of Prior Year Expenditures					81,060	0	81,060
Settlement Expense					0	(216,051)	(216,051)
Intergovernmental Revenues					706,556	75,817	782,373
Total General Revenues and Transfers					\$ 47,551,834	\$ 2,127,304	\$ 49,679,138
Change in Net Assets					\$ (6,019,664)	\$ 3,180,095	\$ (2,839,569)
Net Assets, Beginning of Year (As Restated)					25,328,809	26,368,648	51,697,457
NET ASSETS, END OF YEAR					\$ 19,309,145	\$ 29,548,743	\$ 48,857,888

See accompanying notes and independent auditors' report.

CITY OF SCRANTON, PENNSYLVANIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 4,732,138	\$ 1,446,615	\$ 5,416,080	\$ 11,594,833
Taxes and Fees Receivable, Net	17,839,859	0	1,310,902	19,150,761
Accounts Receivable, Net	0	209,299	1,172,642	1,381,941
Loans Receivable	0	38,603,523	983,872	39,587,395
Other Receivables, Net	885,075	0	0	885,075
Due From Other Funds	481,097	474,638	123,322	1,079,057
Due From Other Governments	0	0	875,223	875,223
Other Assets	0	50,000	0	50,000
Restricted Assets:				
Restricted Cash and Cash Equivalents			2,087,135	2,087,135
Property Held for Resale	0	0	418,931	418,931
TOTAL ASSETS	\$ 23,938,169	\$ 40,784,075	\$ 12,388,107	\$ 77,110,351

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 1,829,029	\$ 527,142	\$ 3,047,373	\$ 5,403,544
Other Current Liabilities	771,982	0	0	771,982
Due to Other Funds	138,478	126,023	853,334	1,117,835
Deferred Revenues	<u>11,303,316</u>	<u>40,033,270</u>	<u>4,587,028</u>	<u>55,923,614</u>
TOTAL LIABILITIES	\$ 14,042,805	\$ 40,686,435	\$ 8,487,735	\$ 63,216,975
FUND BALANCES				
Reserve for Debt Service	\$ 0	\$ 0	\$ 1,849,584	\$ 1,849,584
Reserved for Capital Projects	0	0	964,668	964,668
Unreserved - Undesignated	<u>9,895,364</u>	<u>97,640</u>	<u>1,086,120</u>	<u>11,079,124</u>
TOTAL FUND BALANCES	\$ 9,895,364	\$ 97,640	\$ 3,900,372	\$ 13,893,376
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,938,169	\$ 40,784,075	\$ 12,388,107	\$ 77,110,351

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
DECEMBER 31, 2008

Total Fund Balance - Total Governmental Funds	\$	13,893,376
Amounts Reported for Governmental Activities in the statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 147,834,797. and the accumulated depreciation is \$ 53,087,846.		94,746,951
Governmental funds report the effects of bond issuance cost when the debt is first issued, whereas these amounts are deferred and amortized .		1,779,754
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.		8,033,919
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.		4,580,300
Internal service fund is used by management to charge the cost of the workmen's compensation insurance fund to various departments. The net revenue of the internal service fund is reported with governmental activities.		
Change in net assets is as follows:		
Cash and cash equivalents	\$	9,760,334
Investments		11,059,474
Accrued Interest		147,023
Restricted Cash & Cash Equivalents		159,198
Accounts Payable		(186,731)
Workers' Compensation Claims Payable		<u>(20,981,099)</u>
Decrease In Net Assets		(41,801)
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.		983,872
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	\$	(68,683,386)
Governmental notes payable		(2,463,147)
Accrued interest payable		(1,121,145)
Capitalized Lease payable		(21,299,295)
Compensated absences		(2,031,665)
Termination Benefits		(10,190,072)
Deferred loss on early retirement of debt		<u>1,121,484</u>
Increase in Long Term Liabilities		<u>(104,667,226)</u>
Net Assets of Governmental Activities	\$	<u>19,309,145</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:				
Taxes	\$ 44,523,282	\$ 0	\$ 446,677	\$ 44,969,959
Intergovernmental	2,852,511	8,429,828	14,294,084	25,576,423
Departmental Earnings	1,915,199	0	31,960	1,947,159
Refuse Disposal Fee	4,298,613	0	0	4,298,613
Licenses and Permits	1,345,271	0	0	1,345,271
Cable Television Franchise Revenue	745,987	0	0	745,987
Payments in Lieu of Taxes	117,500	0	0	117,500
Investment Income	411,330	6,240	187,382	604,952
User Fee	52,150	0	0	52,150
Other Revenues	74,237	0	1,206,020	1,280,257
Rents and Concessions	700	0	13,350	14,050
Program Income	0	2,248,717	0	2,248,717
Total Revenues	\$ 56,336,780	\$ 10,684,785	\$ 16,179,473	\$ 83,201,038
Expenditures:				
Current:				
General Government	\$ 13,096,778	\$ 0	\$ 550,399	\$ 13,647,177
Public Safety	27,983,679	0	0	27,983,679
Public Works	11,009,809	0	2,034,742	13,044,551
Health and Welfare	0	0	1,172,944	1,172,944
Community Development	531,320	10,917,074	7,978,146	19,426,540
Culture and Recreation	1,233,637	0	0	1,233,637
Other Expenditures	0	0	48,331	48,331
Debt Service				
Debt Service-Principal	0	0	8,425,929	8,425,929
Debt Service-Interest	0	0	4,652,295	4,652,295
Capital Outlay	0	0	3,045,383	3,045,383
Total Expenditures	\$ 53,855,223	\$ 10,917,074	\$ 27,908,169	\$ 92,680,466
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,481,557	\$ (232,289)	\$ (11,728,696)	\$ (9,479,428)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):				
Lease Proceeds	\$ 204,643	\$ 0	\$ 0	\$ 204,643
Sale Of Property	0	0	17,640	17,640
Proceeds From 2008 Borrowings	5,900,000	0	0	5,900,000
Proceeds From Tax Anticipation Note	14,500,000	0	0	14,500,000
Delinquent Tax Filing Fees	0	0	75,327	75,327
Refund of Prior Year Expenditures	0	0	81,060	81,060
Operating Transfers In	2,617,323	0	13,891,922	16,509,245
Operating Transfers Out	(12,414,230)	0	(4,095,015)	(16,509,245)
Bond Closing Fees	(238,337)	0	0	(238,337)
Repayment of Tax Anticipation Note	<u>(14,932,309)</u>	<u>0</u>	<u>0</u>	<u>(14,932,309)</u>
Net Other Financing Sources (Uses)	<u>\$ (4,362,910)</u>	<u>\$ 0</u>	<u>\$ 9,970,934</u>	<u>\$ 5,608,024</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ (1,881,353)</u>	<u>\$ (232,289)</u>	<u>\$ (1,757,762)</u>	<u>\$ (3,871,404)</u>
Fund Balances, Beginning of Year	<u>11,776,717</u>	<u>329,929</u>	<u>5,658,134</u>	<u>17,764,780</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,895,364</u>	<u>\$ 97,640</u>	<u>\$ 3,900,372</u>	<u>\$ 13,893,376</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Net Changes in Fund Balances - Total Governmental Funds \$ (3,871,404)

Amounts Reported for Governmental Activities in the statement of activities are different because:

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$	4,354,446	
Loss On Disposal Of Fixed Assets		(341,389)	
Depreciation		<u>(5,171,890)</u>	(1,158,833)

Because some property taxes will not be collected for several months after the City's year end they are not considered as "available" revenues in the governmental funds. Deferred tax revenue decreased by this amount this year. (433,786)

Because some refuse fees will not be collected for several months after the City's year end they are not considered as "available" revenues in the governmental funds. Deferred refuse fee revenue increased by this amount this year. (429,321)

Internal service fund is used by management to charge the cost of the workmen's compensation insurance fund to various departments. The net revenue of the internal service fund is reported with governmental activities.

Change in revenue and expenditures is as follows:

Investment Income	\$	901,661	
Elimination of expenditure on general fund and revenue on internal service fund		4,018,325	
Recording on expenditures on internal service fund in governmental activities		<u>(7,446,266)</u>	(2,526,280)

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. (35,538)

In the statement of activities compensated absences are measured by the amounts earned during the year. In governmental funds however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. 37,566

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2008

In the statement of activities GASB 47 Post Retirement Benefits are measured by the amounts earned during the year. In governmental funds however, expenditures for these items are measured by the amount of financial resources used.

This Amount represents the difference between the amount earned versus the amount used.

219,033

Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also governmental funds reports the effect of issuance cost, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Advance refunding of prior debt is an expenditure in the governmental funds, whereas the difference between the carrying amount and advance refunding is deferred and amortized in the statement of net assets. The effect of these transactions in the statement of activities is shown below:

Bond Proceed Relative to Capitalized Lease	\$	(204,643)	
Proceeds Relative To Long Term Debt		(5,900,000)	
Bond Discount, Net of Amortization		(25,665)	
Deferred Loss on Early Retirement of Debt, Net of Amortization		(453,126)	
Repayment of General Bond Principal		2,235,000	
Repayment of Governmental Note Payable		360,929	
Repayment of Capitalized Lease Principal		6,184,797	
Bond Issuance Cost, Net of Amortization		<u>(47,625)</u>	2,149,667

Interest on Long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.

29,232

Change in Net Assets of Governmental Activities

\$ (6,019,664)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2008

ASSETS	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR			
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY			
Cash and Cash Equivalents	\$ 3,894,685	\$ 625,806	\$ 2,513	\$ 4,523,004	\$ 9,760,334	
Certificate of Deposit	0	0	1,782,650	1,782,650	0	
Investments	0	0	0	0	11,059,474	
Accounts Receivable, Net	3,940,578	252,551	0	4,193,129	0	
Accrued Interest	0	0	6,737	6,737	147,023	
Due From Other Funds	0	38,778	0	38,778	0	
Prepaid Assets	0	33,813	0	33,813	0	
Other Current Assets	334,216	0	0	334,216	0	
Restricted Assets:						
Restricted Cash and Cash Equivalents	14,815,248	10,385,656	0	25,200,904	159,198	
Restricted Investments	1,589,290	3,846,760	0	5,436,050	0	
Restricted Accrued Interest Receivable	49,258	27,576	0	76,834	0	
Accounts Receivable - Assessments	387,800	0	0	387,800	0	
Capital Assets:						
Land	130,029	1,217,064	0	1,347,093	0	
Land Improvements	0	309,045	0	309,045	0	
Buildings and Improvements	92,900,574	40,783,042	0	133,683,616	0	
Equipment	7,506,482	400,227	0	7,906,709	0	
Construction In Progress	6,676,164	5,974,765	0	12,650,929	0	
Accumulated Depreciation	(68,594,209)	(8,007,716)	0	(76,601,925)	0	
Deferred Charges, Net	221,000	1,926,599	0	2,147,599	0	
TOTAL ASSETS	\$ 63,851,115	\$ 57,813,966	\$ 1,791,900	\$ 123,456,981	\$ 21,126,029	

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR				
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY				
LIABILITIES							
Short-Term Debt	\$ 251,558	\$ 543,114	\$ 0	\$ 0	\$ 794,672	\$ 0	0
Current Portion Of Long Term Debt	1,165,608	0	0	0	1,165,608	0	0
Accounts Payable	471,136	166,452	0	0	637,588	186,731	0
Accrued Liabilities	579,271	92,165	0	0	671,436	0	0
Current Liabilities Payable From Restricted Assets:							
Revenue Bonds Payable	5,000	540,000	0	0	545,000	0	0
Accrued Construction Cost	0	621,915	0	0	621,915	0	0
Accrued Revenue Bond Interest Payable	270,381	413,827	0	0	684,208	0	0
Noncurrent Liabilities:							
Workers' Compensation Claims Payable	0	0	0	0	0	0	20,981,099
Long-Term Debt Obligations	36,958,428	51,770,000	0	0	88,728,428	0	0
Deferred Loss On Early Retirement Of Debt	0	(498,596)	0	0	(498,596)	0	0
Long-Term Liabilities Payable	35,162	0	0	0	35,162	0	0
Accrued Compensated Absences	522,817	0	0	0	522,817	0	0
TOTAL LIABILITIES	\$ 40,259,361	\$ 53,648,877	\$ 0	\$ 0	\$ 93,908,238	\$ 21,167,830	
NET ASSETS							
Investment in Capital Assets, Net of Related Debt	\$ 17,048,446	\$ (1,712,665)	\$ 0	\$ 0	\$ 15,335,781	\$ 0	0
Restricted for:							
Reserved for Retirement of Long-Term Obligations	16,178,415	4,309,913	0	0	20,488,328	(41,801)	0
Unreserved - Undesignated	(9,635,107)	1,567,841	1,791,900	0	(6,275,366)	0	0
TOTAL NET ASSETS	\$ 23,591,754	\$ 4,165,089	\$ 1,791,900	\$ 0	\$ 29,548,743	\$ (41,801)	

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 16,329,528	\$ 3,034,331	\$ 0	\$ 19,363,859	\$ 4,018,325
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,402,933
Salaries, Wages, and Fringe Benefits	5,213,897	631,272	0	5,845,169	0
Insurance	158,302	223,227	0	381,529	0
Depreciation	3,121,371	968,423	0	4,089,794	0
Other	4,239,233	511,406	50	4,750,689	43,333
Total Operating Expenses	\$ 12,732,803	\$ 2,334,328	\$ 50	\$ 15,067,181	\$ 7,446,266
Income (Loss) from Operations	\$ 3,596,725	\$ 700,003	\$ (50)	\$ 4,296,678	\$ (3,427,941)
Non Operating Revenues (Expenses):					
Investment Income	\$ 495,733	\$ 929,424	\$ 73,637	\$ 1,498,794	\$ 901,661
Interest Expense	(1,298,746)	(1,882,665)	0	(3,181,411)	0
Bond Discount	0	(11,723)	0	(11,723)	0
State Grant Revenue	12,529	63,288	0	75,817	0
Other Revenues	780,517	0	0	780,517	0
Settlement Expense	(216,051)	0	0	(216,051)	0
Amortization of Deferred Charges	(6,027)	(56,499)	0	(62,526)	0
Total Non operating Revenues (Expenses)	\$ (232,045)	\$ (958,175)	\$ 73,637	\$ (1,116,583)	\$ 901,661
Change in Net Assets	\$ 3,364,680	\$ (258,172)	\$ 73,587	\$ 3,180,095	\$ (2,526,280)
Net Assets at Beginning of Year	20,227,074	4,423,261	1,718,313	26,368,648	2,484,479
NET ASSETS AT END OF YEAR	\$ 23,591,754	\$ 4,165,089	\$ 1,791,900	\$ 29,548,743	\$ (41,801)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Cash Flows From Operating Activities:					
Cash Received from Customers	\$ 14,233,733	\$ 2,909,158	\$ 0	\$ 17,142,891	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	3,643,427
Cash Payments to Vendors	(9,375,953)	(1,238,384)	(50)	(10,614,387)	(4,581,395)
Net Cash Provided by (Used In) Operating Activities	\$ 4,857,780	\$ 1,670,774	\$ (50)	\$ 6,528,504	\$ (937,968)
Cash Flows From Non Capital Financing Activities:					
Settlement Expense	\$ (9,667,417)	\$ 0	\$ 0	\$ (9,667,417)	\$ 0
Other Revenue Received	202,911	0	0	202,911	0
Net Cash Used in Non Capital Financing Activities	\$ (9,464,506)	\$ 0	\$ 0	\$ (9,464,506)	\$ 0
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (2,242,928)	\$ (5,499,891)	\$ 0	\$ (7,742,819)	\$ 0
Proceeds from Issuance of Debt	24,894,120	0	0	24,894,120	0
Repayment on Line of Credit	0	(140,057)	0	(140,057)	0
Grant Income	18,180	55,321	0	73,501	0
Interest Paid on Bonds	(773,208)	(2,908,893)	0	(3,682,101)	0
Retirement of Bonds	(943,300)	(550,000)	0	(1,493,300)	0
Net Cash Provided by (Used in) Capital and Related Financing Activities	\$ 20,952,864	\$ (9,043,520)	\$ 0	\$ 11,909,344	\$ 0
Cash Flow From Investing Activities:					
Sale of Investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,471,625
Purchase Of Investments	(1,589,290)	0	0	(1,589,290)	(7,281,282)
Maturity of Certificates of Deposit	2,777,027	0	0	2,777,027	0
Purchase of Certificates of Deposit	0	0	(94,026)	(94,026)	0
Interest on Cash and Investments	505,059	267,094	94,026	866,179	862,508
Net Cash (Used In) Provided By Investing Activities	\$ 1,692,796	\$ 267,094	\$ 0	\$ 1,959,890	\$ (2,947,149)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 18,038,934	\$ (7,105,652)	\$ (50)	\$ 10,933,232	\$ (3,885,117)
Cash and Cash Equivalents, Beginning of Year	670,999	18,117,114	2,563	18,790,676	13,804,649
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 18,709,933	\$ 11,011,462	\$ 2,513	\$ 29,723,908	\$ 9,919,532

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Reconciliation Of Income from Operations to Net Cash Provided by Operating Activities:					
Income from Operations	\$ 3,596,725	\$ 700,003	\$ (50)	\$ 4,296,678	\$ (3,427,941)
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities					
Depreciation	3,121,371	968,423	0	4,089,794	0
Change in Assets and Liabilities:					
(Increase) Decrease in:					
Accounts Receivable	(1,933,484)	(48,558)	0	(1,982,042)	0
Due From Other Funds				0	50,000
Other Assets	59,035	(21,870)	0	37,165	0
Increase (Decrease):	(29,944)	78,275	0	48,331	17,237
Accounts Payable	34,698	(5,499)	0	29,199	0
Accrued Liabilities	9,379	0	0	9,379	0
Accrued Workers' Compensation Claims Payable	0	0	0	0	2,422,736
Net Cash Provided by (Used In) Operating Activities	\$ 4,857,780	\$ 1,670,774	\$ (50)	\$ 6,528,504	\$ (937,968)
Reconciliation of Total Cash and Cash Equivalents					
Current Assets - Cash and Cash Equivalents	\$ 3,894,685	\$ 625,806	\$ 2,513	\$ 4,523,004	\$ 9,760,334
Restricted Assets - Cash and Cash Equivalents	14,815,248	10,385,656	0	25,200,904	159,198
TOTAL CASH AND CASH EQUIVALENTS	\$ 18,709,933	\$ 11,011,462	\$ 2,513	\$ 29,723,908	\$ 9,919,532

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
DECEMBER 31, 2008

ASSETS

Receivables:		
Members' Contributions	\$	<u>17,697</u>
Total Receivables	\$	17,697
Investments at Contract Value		<u>49,488,950</u>
TOTAL ASSETS		<u>\$49,506,647</u>

LIABILITIES & NET ASSETS

Liabilities		
Accrued Investment Expenses	\$	<u>59,010</u>
TOTAL LIABILITIES	\$	<u>59,010</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		<u>\$49,447,637</u>

"See Accompanying Notes and Independent Auditors' Report."

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The City complies with generally accepted accounting principles in the United States of America applicable to state and local governments (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity: The City of Scranton, Pennsylvania (the "City") was incorporated in 1866 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. The City is a class 2A city, as defined by the state statutes. The City operates under a mayor-council form of government and provides the following services: public safety, roads, sanitation, health, culture and recreation, and general government services.

The City has evaluated its relationship with the following organizations to determine if these organizations should be included in the annual government-wide and fund-financial statements of the City.

Sewer Authority of the City of Scranton, Pennsylvania
Parking Authority of the City of Scranton, Pennsylvania
Scranton Municipal Recreation Authority
Redevelopment Authority of the City of Scranton
Scranton Housing Authority
Scranton School District
Scranton Lackawanna Health and Welfare Authority
Municipal Industrial Development Authority of Scranton
Joint Zoo Authority of the City of Scranton and the County of Lackawanna
Scranton Public Library
Single Tax Office

As required by Governmental Accounting Standards Board Statements No. 14, these entities have been placed in one of the following categories:

- 1) Component Unit - A legally separate organization for which elected officials of the City are financially accountable. This type of entity may then be reported in one of the two following manners:

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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.

The criteria used to determine how these organizations should be categorized in the government-wide and fund-financial statements of the City were: a) financial interdependency; b) selection of governing authority; c) designation of management; d) ability to significantly influence operations; e) accountability for fiscal matters; f) scope of public service; and g) special financing relationships.

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, 2008.

Sewer Authority of the City of Scranton, Pennsylvania: The Sewer Authority of the City of Scranton, Pennsylvania (the "Sewer Authority") owns the sewer system that provides waste water treatment services to the City and nearby communities. The City appoints all Sewer Authority members and guarantees its bonded debt. The Sewer Authority reports its financial position and its operating activities on a fiscal year of April 1 to March 31. The amounts included in the accompanying government-wide and fund financial statements for the Sewer Authority reflects its operating results for its fiscal year of April 1, 2007 to March 31, 2008.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Parking Authority of the City of Scranton, Pennsylvania: The Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") operates parking facilities within the City. The City appoints all Parking Authority members and the City guaranteed its bonded debt.

Scranton Municipal Recreation Authority: The Scranton Municipal Recreation Authority (the "Recreation Authority") operated the City's municipal golf course. The City appoints all Recreation Authority members and guaranteed its debt.

Redevelopment Authority of the City of Scranton: The Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") operates for the purpose of promoting the elimination of blighted areas by declaring acquisition, sound replanning and redevelopment of such areas to be for the promotion of health, safety, convenience, and welfare for the general public good, through contract with private redevelopers and public authorities for redevelopment. The City appoints all Redevelopment Authority members and assigned repayment on seven loans receivable related to Urban Development Action Grants, Enterprise Development Zone Grants, and Commercial Industrial Loans toward repayment of the Redevelopment Authority's debt and is financially dependent upon the city.

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

BASIS OF PRESENTATION

Government-wide Financial Statements: The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

1) Governmental Fund Types

- a) The General Fund is the general operating fund of the City and is always classified as a major fund. It accounts for all revenues and expenditures of the City not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in the fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.
- b) Special Revenue Funds are utilized to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) used to finance specific activities as required by law or administrative regulation. The following funds included in the accompanying government-wide and fund-financial statements are accounted for as Special Revenue Funds: Special City, Liquid Fuels, Office of Economic and Community Development (OECD), and Redevelopment Authority of the City of Scranton.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

The OECD is classified as a major fund. Liquid Fuels, Redevelopment Authority of the City of Scranton, and Special Cities are classified as non-major funds.

- c) Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest, and related costs on general long-term debt. The fund balance of the Debt Service Fund is reserved to signify the amounts are restricted exclusively for Debt Service Expenditure, and is classified as a non-major fund.
- d) Capital Project Fund is used to account for the acquisition or construction of capital facilities being financed from general obligation bond proceeds, or transfers from other funds and is classified as a non-major fund.

2. Proprietary Fund Types:

- a) Internal Service Funds: The Internal Service Fund is used to account for the financing of goods or services provided by one department to other departments on a cost reimbursement basis. The City accounts for its self-insurance of worker's compensation claims in this fund. These are Proprietary Funds reported within governmental activities in the government-wide financial statements.
- b) Enterprise Funds: The enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Sewer Authority, Parking Authority, and Recreation Authority.

The Sewer Fund and Parking Authority are classified as major funds. The Recreation Authority is classified as a non-major fund.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses from the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

- c) Fiduciary Fund Type: Fiduciary Funds are used to account for assets held by the City in a trustee capacity or an agent for individuals, private organizations, other governmental units and/or other funds. The Pension Trust Funds consist of the Police Pension Fund, Firemen Pension Fund, and Nonuniformed Pension Fund. These funds are accounted for within a single aggregate fund.

Management Focus and Basis of Accounting. The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers property tax revenues to be available if they are collected within 60 days of the end of the calendar year. Expenditures are recorded when the related fund liability is incurred except for general obligation bond principal and interest which are reported as expenditures in the year due.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Major revenue sources susceptible to accrual include: Act 511 Taxes, property taxes, refuse disposal fee, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The City reports deferred revenue on its government-wide and fund financial balance sheet. Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying Expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Budgetary Process: The City follows these procedures in developing the budgetary data reflected in the accompanying financial statements:

The preparation of the annual operating budget begins by September 15 for the subsequent budget year. By November 15, the Mayor submits to City Council a proposed budget for the General Fund for the fiscal year commencing January 1. City Council publishes, in one or more newspapers of general circulation within the City, a summary of the budget and a notice that the budget is available for public inspection. A public hearing takes place by December 1, at which time City Council may adopt the budget with or without amendment. In amending the budget, City Council may delete, increase or decrease programs or amounts, except for expenditures required by law or for debt service. If a change in a program or a budgetary item exceeds 10% of the Mayor's proposed budget, another public hearing must take place within 72 hours to justify the change. In no case can an amendment increase authorized expenditures to an amount greater than total estimated funds available. City Council must adopt an annual budget by December 15. If City Council fails to adopt a budget by December 15, the Mayor's proposed budget becomes the official budget for the City for the ensuing year.

Cash, Cash Equivalents and Investments: For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Investments: City investments are stated at fair value based on quoted market prices. Fair value is the amount at which a financial investment could be exchanged in a current transaction between willing parties.

Real Estate Taxes: Real Estate Taxes are based upon assessed valuations provided by Lackawanna County. The elected tax collector bills and collects real estate taxes. The assessed value at January 1, 2008, upon which the 2008 levy was based, was approximately \$388 million. Delinquent taxes 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 1/2% discount period
March 1 - April 30	2% discount period
May 1 - June 30	Face payment period
July 1 - January 15	10% penalty period
January 16	Lien date

In addition, City taxes may be paid in four installments in which the first two quarterly payments aggregating 50% of the face amount are due by June 30. The third and fourth quarterly payments are due on August 31 and October 31, respectively. Any delinquent installment is subject to a penalty of 10%.

The millage rate at January 1, 2008 was 103.145 mills on the assessed value of land and 22.432 mills on the assessed value of improvements.

Real Estate Taxes Receivable: The City utilizes the reserve method for writing off uncollectible real estate taxes.

Allowance for Doubtful Accounts: Accounts Receivable included in the Enterprise Fund represent amounts outstanding from Sewer Authority customer's reported net of an allowance for doubtful accounts of \$1,300,000 at March 31, 2008. 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 two million dollars.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

The Parking Authority utilizes the direct write off method and historically they have been immaterial to the financial statements.

Loans Receivable: Loans receivable consist of economic development loans to third parties that are administered by OECD and the Redevelopment Authority. Most of these loans bear interest, usually at a very low rate. These loans receivable, are reported at the gross principal outstanding. The outstanding loans are considered deferred revenue until collection of the principal is received, Interest income is recorded when received.

Interfund Receivables and Payables: During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Grant Funds are considered to be earned to the extent of expenditures made under the provision of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

Fixed Assets: The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to December 31, 2002.

Depreciation of all exhaustible fixed assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

	<u>Sewer Authority Useful Life</u>	<u>Parking Authority Useful Life</u>
Building and Building Improvements		10-50 years
Sewer treatment plant	40 years	
Land improvements	10 years	10-15 years
Operating equipment	10 years	3-10 years
Vehicles	3- 6 years	
Extraordinary repairs:		
Sewer system	20 years	
Equipment	5 years	
	<u>Redevelopment Authority Useful Life</u>	<u>Governmental Funds</u>
Equipment	15 years	
Building and Building Improvements		20-50 years
Land Improvements		10-15 years
Operating Equipment		05-07 years
Vehicles		08-15 years
Roadways		30-50 years
Traffic Systems		15 years

GASB No. 34 required the City to report and depreciate new infrastructure assets effective with implementation of GASB-34. Infrastructure assets include roads, bridges, underground pipe (other than related utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation had been historically reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2008. The City implemented the retroactive infrastructure provisions in the fiscal year ending December 31, 2007.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds and notes payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Bond issuance cost in the Government-wide and Proprietary are amortized over the terms of the respective bonds using the straight line method. Bond discounts, premium, the reacquisition price, and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The Government Fund Financial Statements recognizes the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences: The City's vacation policy generally provides that unused vacation benefits lapse at year-end. Unused vacation may be carried over only with the approval of the department head. Unused sick pay accumulates to varying maximum amounts for the various classes of City employees. At December 31, 2008 aggregate liability for unused vacation and sick pay is \$2,031,665.

Note 2 Cash and Cash Equivalents and Investments

Pennsylvania Statutes provide for investment of governmental funds into certain authorized investment types including U. S. Treasury bills, other short-term U.S. and Commonwealth of Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2008, \$52,859,637 of the government's bank balance of \$55,510,140 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 9,760,334
Uninsured and collateral held by pledging banks' trust department not in the city's name	<u>43,099,303</u>
Total	<u>\$ 52,859,637</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2008, the City had the following Investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings (1)	Average Months To Maturity (2)
GOVERNMENTAL FUNDS				
Primary Government:				
Internal Service Fund				
Corporate Obligations:				
Domestic	\$ 1,550,449	\$ 1,545,355	A 1	41.06
Domestic	3,269,453	3,288,210	A A A	51.59
Domestic	1,472,863	1,504,230	A 2	33.45
Domestic	252,185	246,393	A 3	22.80
Domestic	50,293	53,564	A A 3	2.00
Domestic	788,521	797,006	B A A 1	26.33
Domestic	229,968	234,573	B A A 2	73.53
Domestic	249,238	257,465	B A A 3	4.50
Governmental Securities:				
Federal Agency Bonds	1,039,944	1,007,719	A A A	40.41
Federal Agency Notes	<u>2,156,560</u>	<u>2,013,359</u>	A A A	57.80
Total Internal Service Fund	<u>\$ 11,059,474</u>	<u>\$ 10,947,874</u>		
TOTAL PRIMARY GOVERNMENT	<u>\$ 11,059,474</u>	<u>\$ 10,947,874</u>		
BUSINESS TYPE ACTIVITIES				
Sewer Authority				
Governmental Securities:				
U.S. Government Obligations	<u>\$ 1,589,290</u>	<u>\$ 1,589,290</u>		2.00
Total Sewer Authority	<u>\$ 1,589,290</u>	<u>\$ 1,589,290</u>		
Parking Authority				
Other Obligations				
Interest Earnings Investment				
Contract (At Cost)	\$ 1,173,528	\$ 1,173,528		189.00
Governmental Securities:				
U.S. Government Obligations	<u>2,673,232</u>	<u>2,673,232</u>		329.00
Total Parking Authority	<u>\$ 3,846,760</u>	<u>\$ 3,846,760</u>		
TOTAL BUSINESS TYPE ACTIVITIES	<u>\$ 5,436,050</u>	<u>\$ 5,436,050</u>		
TOTAL INVESTMENTS	<u>\$ 16,495,524</u>	<u>\$ 16,383,924</u>		
Fiduciary Funds				
Pension Trust Fund				
Mutual Funds				
Equity Funds	\$ 39,491,648	\$ 39,491,648		
Cash and Cash Equivalents	355,527	355,527		
Fixed Income	<u>9,641,775</u>	<u>9,641,775</u>		
Total Pension Trust Fund	<u>\$ 49,488,950</u>	<u>\$ 49,488,950</u>		

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

The Composition of pension trust fund is shown in the following table.

	Total
Mutual Funds	
EB Daily Value Active Index Plus Fund	\$ 5,493,455
EB DV ENH Mid Cap Core Fund	2,983,577
EB FPA Core Large Cap Stock Fund	12,172,179
EB Mellon Total Return Fund	9,641,775
EB NCML EAFE Plus Fund	5,298,570
EB Small Cap Stock Fund	3,052,854
EB Temporary Investment FD Leh Var RT	534
EB Temporary Investment Fund	354,625
TBC Small Mid Cap Growth Fund	2,500,758
TBC Small Mid Cap Value Fund	2,556,388
TBC 130-30 Large Cap Core Fund	5,433,867
 Total	 \$49,488,582

- (1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.
- (2) Interest Rate Risk is estimated weighted average months to maturity.

The City did not have a formal investment policy. Investments are monitored through an investment advisor. In 2008, the City entered into an investment policy with PNC Advisors to provide for current income and preservation of capital for risk tolerance.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. To extent practical, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer.

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 3 Taxes and Fees Receivable

Taxes and fees receivable in the General Fund consist of the following at December 31, 2008:

Current Real Estate Taxes	\$ 427,137
Delinquent Real Estate Taxes	11,554,647
Act 511 taxes:	
Earned Income	5,156,061
Local Service Tax	417,040
Business privilege/mercantile	44,932
Delinquent refuse disposal fee	<u>8,103,168</u>
Total	<u>\$25,702,985</u>
Less allowance for uncollectible taxes and fees	<u>(7,863,126)</u>
Net	<u>\$17,839,859</u>

Of the above, the receivables not expected to be collected within one year are \$6,200,000 delinquent real estate taxes and \$4,000,000 delinquent refuse disposal fee after provision for uncollectible taxes and fees.

Note 4 Due From and Due to Other Funds

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2008 is as follows:

	Due From	Due To Other
General Fund		
OECD	\$ 114,664	\$ 0
Special Cities	341,907	99,700
Capital Projects	24,526	0
Parking Authority	0	38,778
Special Cities		
General Fund	99,700	341,907
OECD	11,359	0
Capital Projects	0	12,263
OECD		
Redevelopment Authority	474,638	0
General Fund	0	114,664
Special Cities	0	11,359
Redevelopment Authority		
OECD	0	474,638
Capital Projects Fund		
Special Cities	12,263	0
General Fund	0	24,526
Parking Authority		
General Fund	<u>38,778</u>	<u>0</u>
	<u>\$ 1,117,835</u>	<u>\$ 1,117,835</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance at January 1, 2008	Additions	Disposals	Balance at December 31, 2008
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 3,485,506	\$ 0	\$ 0	\$ 3,485,506
Construction in Progress	<u>8,787,209</u>	<u>2,290,936</u>	<u>(648,624)</u>	<u>10,429,521</u>
Total Capital Assets Not Being Depreciated	<u>\$ 12,272,715</u>	<u>\$ 2,290,936</u>	<u>\$ (648,624)</u>	<u>\$ 13,915,027</u>
Capital assets being depreciated				
Building	\$ 12,240,729	\$ 0	\$ (333,286)	\$ 11,907,443
Land & Building Improvements	5,538,947	859,678	(10,494)	6,388,131
Infrastructure	99,218,423	676,939	0	99,895,362
Vehicles, Furniture & Equipment	<u>14,792,408</u>	<u>1,175,517</u>	<u>(239,091)</u>	<u>15,728,834</u>
Total Capital Assets being Depreciated	<u>\$ 131,790,507</u>	<u>\$ 2,712,134</u>	<u>\$ (582,871)</u>	<u>\$ 133,919,770</u>
Totals at Historical Cost	<u>\$ 144,063,222</u>	<u>\$ 5,003,070</u>	<u>\$ (1,231,495)</u>	<u>\$ 147,834,797</u>
Less: Accumulated Depreciation				
Building	\$ (3,273,856)	\$ (242,210)	\$ 71,565	\$ (3,444,501)
Land & Building Improvements	(1,565,484)	(492,280)	0	(2,057,764)
Infrastructure	(35,902,913)	(3,275,469)	0	(39,178,382)
Vehicles, Furniture & Equipment	<u>(7,415,185)</u>	<u>(1,161,931)</u>	<u>169,917</u>	<u>(8,407,199)</u>
Total Accumulated Depreciation	<u>\$ (48,157,438)</u>	<u>\$ (5,171,890)</u>	<u>\$ 241,482</u>	<u>\$ (53,087,846)</u>
Governmental Activities Capital Assets, Net	<u>\$ 95,905,784</u>	<u>\$ (168,820)</u>	<u>\$ (990,013)</u>	<u>\$ 94,746,951</u>
Business - Type Activities:				
Capital assets not being depreciated				
Land	\$ 1,033,322	\$ 313,771	\$ 0	\$ 1,347,093
Construction in Progress	<u>5,932,083</u>	<u>6,917,230</u>	<u>(198,384)</u>	<u>12,650,929</u>
Total Capital Assets Not Being Depreciated	<u>\$ 6,965,405</u>	<u>\$ 7,231,001</u>	<u>\$ (198,384)</u>	<u>\$ 13,998,022</u>
Capital assets being depreciated				
Land Improvements	\$ 309,045	\$ 0	\$ 0	\$ 309,045
Building & Building Improvements	132,144,097	1,654,058	(114,539)	133,683,616
Equipment	<u>8,688,206</u>	<u>330,973</u>	<u>(1,112,470)</u>	<u>7,906,709</u>
Total Capital Assets being Depreciated	<u>\$ 141,141,348</u>	<u>\$ 1,985,031</u>	<u>\$ (1,227,009)</u>	<u>\$ 141,899,370</u>
Totals at Historical Cost	<u>\$ 148,106,753</u>	<u>\$ 9,216,032</u>	<u>\$ (1,425,393)</u>	<u>\$ 155,897,392</u>
Less: Accumulated Depreciation				
Land Improvements	\$ (300,909)	\$ (2,841,739)	\$ 0	\$ (3,142,648)
Building & Building Improvements	(65,943,335)	(942,966)	80,210	(66,806,091)
Equipment	<u>(7,460,567)</u>	<u>(305,089)</u>	<u>1,112,470</u>	<u>(6,653,186)</u>
Total Accumulated Depreciation	<u>\$ (73,704,811)</u>	<u>\$ (4,089,794)</u>	<u>\$ 1,192,680</u>	<u>\$ (76,601,925)</u>
Business - Type Capital Assets, Net	<u>\$ 74,401,942</u>	<u>\$ 5,126,238</u>	<u>\$ (232,713)</u>	<u>\$ 79,295,467</u>

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 163,891
Public Safety	506,446
Public Works	3,881,747
Parks & Recreation	585,047
Unallocated	<u>34,759</u>
Total Depreciation Expense	<u>\$ 5,171,890</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 5 Capital Assets (Continued)

Governmental Activities:

Construction in progress of \$10,429,521 consists of expenditures relating to the construction of flood control projects and improvement to various city roads and bridges. Commitments at December 31, 2008 totaled approximately \$12,000,000.

Business Type Activities:

At March 31, 2008, expenditures amounting to \$1,035,185 are recorded as construction in progress. The Pennvest Application for this project was approved in April 2008 in the amount of \$4,703,000. The terms are similar to other Pennvest applications with interest rates of 1.214% and 2.428%. No disbursements were received for this project from Pennvest at March 31, 2008.

In December, 2002, the Environmental Protection Agency issued a compliance order requiring the Sewer Authority to make certain capital improvements. Initial costs are estimated to be approximately \$5,500,000 for the planning phase of the project. The total cost of the capital improvements cannot be estimated until the planning phase is complete. The Sewer Authority expects to obtain funding for this project through a bond issue and available grant funding.

During the year ended March 31, 2004, the Sewer Authority entered into a subgrant agreement with Lackawanna County as partial funding for the project. The total amount of the subgrant is \$4,178,295, as amended, with the Sewer Authority responsible for 45%. For the year ended March 31, 2008, the County invoiced the Sewer Authority for \$9,863 resulting in the recording of \$12,055 as grant revenue and \$21,918 as construction-in-progress. Total construction in progress for this project at March 31, 2008 amounted to \$5,141,981.

Note 6 Short-Term Debt

The following summarizes the changes in short-term debt of the Enterprise Fund for the year ended December 31, 2008:

	<u>Balance</u> <u>01/01/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/08</u>
Sewer Authority:				
Line of Credit	\$ 254,598	\$ 0	\$ (3,040)	\$ 251,558
Loan	3,357,257	0	(3,357,257)	0
Parking Authority:				
Line of Credit	683,171	0	(140,057)	543,114
	<u>\$4,295,026</u>	<u>\$ 0</u>	<u>\$(3,500,354)</u>	<u>\$ 794,672</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 6 Short-Term Debt (Continued)

Sewer Authority

Line of Credit: In August 2005, the Sewer Authority renewed a \$4,000,000 line of credit to provide interim financing for a capital improvement program. Interest is payable monthly at a variable rate equal to 70% of the prime rate (3.675% at March 31, 2008). Security for the line of credit is all receipts and accounts receivable. The line of credit matures sixty months after the closing date of the long-term financing. The balance drawn down on the line of credit at March 31, 2008 amounted to \$251,558.

Parking Authority

During 2007, the Parking Authority drew on an available line of credit at Pennstar Bank for working capital purposes. The maximum borrowing capacity is \$1,000,000 and the line bears interest at a rate of prime plus 1% (5.00% at December 31, 2008).

Note 7 Long-Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2008:

	Balance 01/01/08	Additions	(Amortization) Accretion	Retirements	Balance 12/31/08	Due With In One Year
GOVERNMENTAL ACTIVITIES						
General Obligations Bonds:						
Emmaus General Authority Series 2002	\$ 6,690,000	\$ 0	\$ 0	\$ 220,000	\$ 6,470,000	\$ 230,000
Series A of 2003	3,340,000	0	0	440,000	2,900,000	450,000
Series B of 2003	32,870,000	0	0	725,000	32,145,000	735,000
Series C of 2003	16,860,000	0	0	340,000	16,520,000	350,000
Series D of 2003	11,535,000	0	0	510,000	11,025,000	530,000
(Amortization) / Accretion	(402,279)	0	25,665	0	(376,614)	0
Total General Obligation Bonds	\$ 70,892,721	\$ 0	\$ 25,665	\$ 2,235,000	\$ 68,683,386	\$ 2,295,000
Lease Obligations Payable						
2005 Capitalized Lease Vehicles	\$ 135,614	\$ 0	\$ 0	\$ 66,308	\$ 69,306	\$ 69,306
2005 Capitalized Lease Vehicles	161,732	0	0	29,403	132,329	42,417
2006 Capitalized Lease Vehicles	118,275	0	0	73,308	44,967	44,967
2007 Capitalized Lease Vehicles	377,359	0	0	77,958	299,401	69,414
2007 Capitalized Lease Vehicles	57,376	0	0	18,039	39,337	19,110
2008 Capitalized Lease Vehicles	0	204,643	0	16,591	188,052	64,569
2006 Capitalized Lease Equipment Energy System	1,449,093	0	0	73,190	1,375,903	76,958
2004 Capitalized Lease Buildings	3,590,000	0	0	245,000	3,345,000	270,000
2005 Capitalized Lease Buildings	5,490,000	0	0	5,490,000	0	0
2006 Capitalized Lease Buildings	10,000,000	0	0	95,000	9,905,000	95,000
2008 Capitalized Lease Buildings	0	5,900,000	0	0	5,900,000	0
Total Lease Obligations Payable	\$ 21,379,449	\$ 6,104,643	\$ 0	\$ 6,184,797	\$ 21,299,295	\$ 751,741
Redevelopment Authority:						
Note Payable	\$ 527,506	\$ 0	\$ 0	\$ 115,734	\$ 411,772	\$ 118,400
Note Payable	2,296,570	0	0	245,195	2,051,375	640,728
Total Redevelopment Authority	\$ 2,824,076	\$ 0	\$ 0	\$ 360,929	\$ 2,463,147	\$ 759,128
TOTAL GOVERNMENTAL ACTIVITIES	\$ 95,096,246	\$ 6,104,643	\$ 25,665	\$ 8,780,726	\$ 92,445,828	\$ 3,805,869

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

	Balance 01/01/08	Additions	(Amortization) Accretion	Retirements	Balance 12/31/08	Due With In One Year
BUSINESS-TYPE ACTIVITIES						
Revenue Bonds:						
Major Enterprise Fund:						
Parking Authority						
2004 Series	\$ 15,290,000	\$ 0	\$ 0	\$ 195,000	\$ 15,095,000	\$ 195,000
2006 Series	5,275,000	0	0	260,000	5,015,000	275,000
2007 Series	32,295,000	0	0	95,000	32,200,000	70,000
Sewer Authority						
2007 Series	0	16,810,000	0	0	16,810,000	5,000
Total Revenue Bonds	\$ 52,860,000	\$ 16,810,000	\$ 0	\$ 550,000	\$ 69,120,000	\$ 545,000
Notes Payable:						
Major Enterprise Fund:						
Sewer Authority	\$ 30,144	\$ 0	\$ 0	\$ 27,918	\$ 2,226	\$ 2,226
Sewer Authority	101,404	0	0	52,020	49,384	49,384
Sewer Authority	137,976	0	0	57,148	80,828	59,967
Sewer Authority	198,863	0	0	71,507	127,356	75,039
Sewer Authority	130,098	0	0	42,752	87,346	44,663
Sewer Authority	0	8,000,000	0	193,838	7,806,162	250,411
2000 Series Pennvest	4,043,682	0	0	227,597	3,816,085	683,918
2002 Series Pennvest	4,074,203	0	0	202,235	3,871,968	0
2003 Series Pennvest	2,087,490	125,221	0	115,441	2,097,270	0
2004 Series Pennvest	0	3,521,222	0	140,811	3,380,411	0
	\$ 10,803,860	\$ 11,646,443	\$ 0	\$ 1,131,267	\$ 21,319,036	\$ 1,165,608
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 63,663,860	\$ 28,456,443	\$ 0	\$ 1,681,267	\$ 90,439,036	\$ 1,710,608
TOTAL LONG-TERM DEBT	\$ 158,760,106	\$ 34,561,086	\$ 25,665	\$ 10,461,993	\$ 182,884,864	\$ 5,516,477

A summary of long-term debt outstanding at December 31, 2008 is as follows:

Emmaus General Authority Series 2002:

Variable rate demand bonds, Series of 1996 of Emmaus General Authority, due in annual principal installments of \$190,000 to \$440,000 commencing August 2004 through August 2028. Monthly payments of interest based upon a pro rata share of the interest accrued on the variable rate bonds calculated by the administrator based on the interest rates determined by the remarketing agent for the current month plus interest at the rate estimated by the administrator for the remaining portion of the month which has not been determined by the Remarketing Agent, plus 55 basis points. Interest rate at December 31, 2008 is 3.803%.

General Obligation Bonds, Series A of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$5,025,000. Of 1.00% to 3.50% General Obligation Bonds, Series A of 2003 to provide funds to advance refund the City's General Obligation Bonds, Series of 2001 A, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2014. The bonds maturing after September 1, 2006 are subject to extraordinary mandatory redemption prior to

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

maturity on March 1, 2006 at the direction of the City at 100% to the extent that there are available amounts generated in the preceding fiscal year as determined under IRC section 1.148-6(d)(3)(iii) of the 1986 code. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

General Obligation Bonds, Series B of 2003:

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

General Obligation Bonds, Series C of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$18,145,000. Of 1.40% to 5.60% Federally Taxable General Obligation Bonds Pension Funding, Series C of 2003 to pay off pension management termination fee, fund the pension actuarial accrued liability, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2033. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

General Obligation Bonds, Series D of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$13,480,000. Of 1.40% to 5.50% Federally Taxable General Obligation Bonds, Series D of 2003 to fund the actuarial accrued workmen's compensation liability, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2023. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Redevelopment Authority:

Note Payable: the Authority has a note payable with a Fidelity Deposit and Discount Bank with maximum borrowings of \$2,500,000, dated November 1998, maturing in August of 2012. The note carries an interest rate that will adjust every five years to a rate equal to 51.65 percent of the New York Prime Rate on each adjustment date and not to exceed 8% and matures in January 2012. The rate was adjusted in November, 2008 to 2.066%. The outstanding debt is secured by the assignment of the repayments on seven loans held by the City of Scranton related to certain grant programs. The note is payable in monthly installments of \$3,500, including principal and interest, and an annual principal installment of \$84,000. The balance of the loan at December 31, 2008 was \$411,772. Interest payments in 2008 totaled \$10,266.

Note Payable: During 2007, the Authority obtained a note payable with Pennstar Bank in the amount of \$2,296,570 for the purpose of purchasing delinquent taxes from the City of Scranton. The note has an interest rate equal to the New York prime rate, not to exceed 8%, and matures in January 2012. The interest rate on December 31, 2008 was 3.25%. Interest payments on the note are due on a monthly basis commencing in February 2008. Principal payments are due quarterly beginning in April 2008 in an amount based on the available funds from the collection of delinquent taxes. The note is secured by the delinquent taxes along with all proceeds received from redemptions. The City of Scranton has an obligation to reacquire the unpaid delinquent taxes at the maturity date of the note payable in an amount necessary to satisfy the balance of the note. The Authority has no obligation beyond the repayments of the delinquent taxes and the proceeds from the City of Scranton for the reacquisition of the unpaid delinquent taxes. The balance of the loan at December 31, 2008 was \$2,051,375. Interest payments in 2008 totaled \$112,281.

Parking Authority:

2004 Parking Revenue Bonds:

On January 1, 2004, the Authority issued \$16,145,000 of Guaranteed Parking Revenue Bonds through the Third Supplemental Trust Indenture. The Bonds carry interest rates of 1.1% to 5.0%. The proceeds from the issue were used to acquire, construct and equip a new parking facility, renovate existing parking facilities, redeem the remaining 1969 Series Bonds outstanding and establish an escrow account to advance refund \$4,580,000 of the 1995 Series Bonds. The loss resulting from these transactions amounted to \$772,656 and has been recorded as a deferred charge. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$55,545 for the year ended December 31, 2008.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

The 2004 Bonds stated to mature on September 15, 2025 (the "2025 Bonds"), September 15, 2028 (the "2028 Bonds"), and September 15, 2033 (the "2033 Bonds"), are subject to mandatory redemption by the Authority prior to maturity, in part by lot, on September 15th of the years 2024 through 2033, inclusive, from monies in the Series of 2004 Sinking Fund, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the redemption date. The Authority covenants and directs the Trustee to redeem according to the bond document the principal amount of 2004 Series Bonds.

2006 Parking Revenue Bonds:

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

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

2007 Parking Revenue Bonds:

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

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

The 2007 Bonds stated to mature on June 1, 2017 (the "2017 Bonds"), June 1, 2022 (the "2022 Bonds"), June 1, 2027 (the "2027 Bonds"), June 1, 2034 (the "2034 Bonds"), and June 1, 2039 (the "2039" Bonds) are subject to mandatory redemption by the Authority prior to maturity, in part by lot, on June 1st of the years 2016 through 2039, inclusive, from the monies in the Series 2008 Sinking Fund, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the redemption date.

Sewer Authority:

2007 Revenue Bonds Payable:

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

Original Redemption:

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

Mandatory Redemption:

The Bonds stated to mature on December 1, 2004, December 1, 2032, and December 1, 2036 are subject to mandatory redemption prior to maturity on December 1 of each of the years set forth below, in each case at a redemption price equal to 100% the principal amount thereof to be redeemed plus accrued interest to the redemption date, from funds to be deposited in the Sinking Fund, on or before December 1 of each year.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Sewer Authority Notes Payable:

The Sewer Authority has five (5) equipment notes payable outstanding at March 31, 2008 amounting to \$347,140. Interest rates range between 2.86% and 4.74% with monthly payments totaling \$22,756. Maturities range between March 2008 and March 2010.

In 2008 the Sewer Authority received an \$8,000,000 note payable with monthly payments \$52,576 including interest at 4.95% through May 2017, when all remaining principal is due. The balance outstanding at March 31, 2008 was \$7,806,162.

Sewer Authority 2000 Series (PENNVEST Loan):

The balance outstanding at March 31, 2008 amounted to \$3,816,085. The loan is secured by the gross revenues of the Authority and the guarantee of the City of Scranton. Interest only was payable on advances until July 1, 2003, when monthly principal and interest payments are due up to and including January 2023. Interest is at 1.522% for the first 75 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, 2008 amounted to \$3,871,968. This loan closed in October 2002 in the amount of \$4,947,000. The security is the same as above. Interest only is payable on advances until August 1, 2004, when monthly principal and interest payments are due up to and including July 1, 2024. Interest is at 1.387% for the first 81 months and 2.774% thereafter.

Sewer Authority 2003 Series (PENNVEST Loan):

The loan closed in December 2003, in the amount of \$2,806,264. The balance outstanding at March 31, 2008 amounted to \$2,097,270. The security is the same as above. Interest only is payable on advances until February 1, 2005, when monthly principal and interest payments are due up to and including January 1, 2025. Interest is at 1.387% for the first 73 months and 2.774% thereafter.

Sewer Authority 2004 Series (PENNVEST Loan):

In December 2004, the Authority closed on a fourth loan in the amount of \$3,690,127. The balance outstanding at March 31, 2008 was \$3,380,411. 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. Construction was completed for this phase in April 2007, and the final disbursement of \$151,815 was received November 2007.

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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. 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 29, 2005, the Sewer Authority issued \$5,500,000 6.99% Guaranteed Lease Revenue Notes for the benefit of the City of Scranton pursuant to a Sublease and Guaranty agreement entered into between the Sewer Authority and the City. In 2004, the Sewer Authority had 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. Interest is payable on June 15th and December 15th each year with final maturity on December 16, 2008. 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 Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and interest on the Bonds. The Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the Bonds at December 31, 2008 was \$9,905,000. Interest is payable on May 1st and November 1st each year, starting on May 1, 2008. Principal is payable annually starting on November 1, 2008.

On November 1, 2008 the Redevelopment Authority issued \$5,900,000 Guaranteed Variable Lease Revenue Bonds, Series of 2008 for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2026. The Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and interest

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

on the Bonds. The Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the Bonds at December 31, 2008 was \$5,900,000.

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, 2008 is 2.438%.

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

Capitalized Vehicles:

In 2005, the City entered into two capitalized leases for equipment purchases. The lease interest rates are 4.41% and 9.0% respectively. The leases contain quarterly and annual payments of \$72,424 and 13,279 respectively.

In 2006, the City entered into a Master Equipment Lease Purchase Agreement to purchase eight (8) police vehicles. The lease requires monthly payments of \$6,560. The lease rate is 6.349%

In 2007, the City entered into a Master Equipment Lease Purchase Agreement to purchase three (3) Rear Load Packers. The lease required annual payments of \$84,539. The lease rate is 4.98%.

In 2008, the City entered into a master equipment lease purchase agreement to purchase seven (7) police vehicles. The lease requires monthly payments of \$6,234. The lease rate is 6.45%.

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%.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Capitalized Equipment:

In 2007, the City entered into a Master Equipment Lease Purchase Agreement to purchase a backhoe. The lease requires annual payments of \$21,426. The lease rate is 5.89%.

Future Debt Service Requirements as of December 31, 2008 are as follows:

Governmental Activities City General Obligation Bonds				Governmental Activities Redevelopment Authority Note Payable			
Year Ending December 31,	Principal	Interest	Total	Year Ending December 31,	Principal	Interest	Total
2009	\$ 2,295,000	\$ 3,145,032	\$ 5,440,032	2009	\$ 759,128	\$ 66,974	\$ 826,102
2010	2,360,000	3,074,157	5,434,157	2010	783,467	42,634	826,101
2011	2,460,000	2,981,767	5,441,767	2011	808,588	17,513	826,101
2012	2,545,000	2,893,335	5,438,335	2012	111,964	901	112,865
2013	2,640,000	2,798,299	5,438,299	2013	0	0	0
2014-2018	13,340,000	12,340,261	25,680,261	2014	0	0	0
2019-2023	17,185,000	8,871,621	26,056,621		<u>\$ 2,463,147</u>	<u>\$ 128,022</u>	<u>\$ 2,591,169</u>
2024-2028	15,745,000	4,896,547	20,641,547				
2029-2033	10,490,000	1,318,535	11,808,535				
2034-2038	0	0	0				
	<u>\$69,060,000</u>	<u>\$42,319,554</u>	<u>\$ 111,379,554</u>				

Business-Type Activities Revenue Bonds Parking Authority				Business-Type Activities Revenue Bonds Sewer Authority			
Year Ending December 31,	Principal	Interest	Total	Year Ending December 31,	Principal	Interest	Total
2009	\$ 540,000	\$ 2,583,085	\$ 3,123,085	2009	\$ 1,170,608	\$ 1,338,902	\$ 2,509,510
2010	570,000	2,563,566	3,133,566	2010	1,128,958	1,461,036	2,589,994
2011	855,000	2,537,080	3,392,080	2011	996,436	1,464,372	2,460,808
2012	895,000	2,503,279	3,398,279	2012	1,028,711	1,430,680	2,459,391
2013	930,000	2,467,343	3,397,343	2013	1,036,562	1,420,739	2,457,301
2014-2018	5,235,000	11,699,233	16,934,233	2014-2018	10,264,958	6,377,683	16,642,641
2019-2023	6,455,000	10,380,501	16,835,501	2019-2023	4,366,266	4,573,093	8,939,359
2024-2028	8,125,000	8,631,424	16,756,424	2024-2028	2,891,537	4,050,579	6,942,116
2029-2033	10,335,000	6,334,477	16,669,477	2029-2033	7,305,000	3,495,405	10,800,405
2034-2038	13,510,000	3,123,751	16,633,751	2034-2038	<u>7,940,000</u>	<u>620,000</u>	<u>8,560,000</u>
2039-2043	4,860,000	127,575	4,987,575		<u>\$ 38,129,036</u>	<u>\$ 26,232,489</u>	<u>\$ 64,361,525</u>
	<u>\$52,310,000</u>	<u>\$52,951,314</u>	<u>\$ 105,261,314</u>				

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

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

Year Ending December 31,	Principal	Interest	Total
2009	\$ 751,741	\$ 1,058,588	\$ 1,810,329
2010	727,835	1,012,980	1,740,815
2011	626,311	969,463	1,595,774
2012	609,924	935,777	1,545,701
2013	559,065	900,414	1,459,479
2014 - 2018	4,978,117	3,814,849	8,792,966
2019 - 2023	5,921,302	2,189,260	8,110,562
2024 - 2028	7,125,000	333,553	7,458,553
TOTAL	<u>\$ 21,299,295</u>	<u>\$ 11,214,884</u>	<u>\$ 32,514,179</u>

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

The cost of the assets are \$ 6,909,078

The accumulated depreciation expense through December 31, 2008 is (873,454)

The net book value of the capitalized leased building and vehicles is \$ 6,035,624

At December 31, 2008, \$1,440,207. of the \$1,500,000 borrowed for the new Energy Management System was expended.

Advance Refunding:

On August 7, 2003 the City issued \$ 5,025,000 in General Obligation Bonds Series A dated August 1, 2003 with an average interest rate (coupon) of 2.934% to advance refund \$4,885,000 of outstanding 2001 A series bonds with an average interest rate of 5.620%. Total proceeds including bond discount and accrued interest was \$ 5,000,406. Underwriting fees and other issuance cost were \$ 123,247. Net proceeds of \$ \$ 4,875,047 were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 504,997 from the debt service fund (sinking fund) and an additional \$ 233,318 from the 2004 B issue were deposited in the irrevocable trust with subsequent debt service payments on the refunded bond issue to be paid from the irrevocable trust. As a result, refunded series 2001 A is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and new debt show a cash flow benefit of \$ 540,303. In 2005, the United States Treasury Securities - State and Local Government were refinanced and the City received an additional \$108,435 from the escrow account. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$58,748 for the year ended December 31, 2008.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

On August 7, 2003 the City issued \$ 20,870,000 in General Obligation Bonds Series B dated August 1, 2003 with an average interest rate (coupon) of 4.407% to advance refund \$17,440,000 of outstanding 2001 C series bonds with an average interest rate of 6.407%. Total proceeds included bond discount and accrued interest was \$20,792,205. Underwriting fees and other issuance cost were \$ 645,712. Net proceeds of \$ 19,516,640 were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 1,700,162 from the debt service fund (sinking fund) and \$355,629 from the sinking fund applicable to the 2001 C bonds were deposited in the irrevocable trust. Additional proceeds of \$233,318 were deposited in the irrevocable trust to advance refund the 2001 A bonds noted above. Additional proceeds of \$207,611 were deposited in the irrevocable trust to advance refund the 1997 A bonds noted below. Additional proceeds of \$174,232 were deposited into the 2004 sinking fund to fund the September 1, 2003 interest payments. Subsequent debt service payments on the refunded bond issue will be paid from the irrevocable trust, as a result, refunded series 2001 C is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and new debt show cash flow benefit of \$3,992,959. In 2005, the United States Treasury Securities - State and Local Government were refinanced and the City received an additional \$387,123. from the escrow account. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$394,377 for the year ended December 31, 2008.

The amount of defeased debt outstanding at December 31, 2008 is as follows:

2001 Series A General Obligation Bonds	\$ 3,060,000.
2001 Series C General Obligation Bonds	\$ 17,130,000.

The breakdown of interest expense as of December 31, 2008 is as follows:

	<u>Interest Expense Charged to Expense</u>	<u>Interest Expense Capitalized</u>
City of Scranton	\$ 5,265,269	\$ 0
Sewer Authority of the City of Scranton	1,298,746	204,139
Authority of the City of Scranton	1,853,122	799,835
Redevelopment Authority of the City of Scranton	122,547	0
	<u>\$ 8,539,684</u>	<u>\$ 1,003,974</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management

The City's risk management activities are reported with governmental activities and recorded in the Workman's Compensation Internal Service Fund. The purpose of this fund is to administer a Self-Insured Retention Program (SIR). Claims in excess of SIR limit of \$350,000 are covered through third party insurance policies. Payments of actual claim costs are made by a third party administrator and are billed to the City and reimbursed by the General Fund. The claims costs are reflected as revenues in the Internal Service Fund.

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

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

At December 31, 2008, 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 \$20,981,099 at December 31, 2008 was determined by an actuary and represents the discounted present value of expected losses using a 5.00% interest factor. The actuarial value was determined as of August 31, 2008. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2008 is calculated as follows:

Claims and Costs Paid	\$4,980,197
Increase in Actuarial Discounted Loss Reserve	<u>2,422,736</u>
Worker's Compensation Claims	<u>\$7,402,933</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management (Continued)

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

<u>Calendar Year Ended</u>	<u>Balance Beginning of Calendar Year</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Balance End of Calendar Year</u>
31-Dec-08	\$ 18,558,363	\$ 7,402,933	\$ 4,980,197	\$ 20,981,099
31-Dec-07	\$ 20,657,839	\$ 2,443,730	\$ 4,543,206	\$ 18,558,363

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2008 were as follows:

Operating Transfers

	<u>In</u>	<u>Out</u>
General Fund		
Debt Service Fund	\$ 10,778	\$12,414,230
Liquid Fuels Fund	1,424,778	0
Capital Projects Fund	1,148,062	0
Special Cities	33,705	0
Special Cities		
Capital Projects Fund	0	1,477,692
General Fund	0	33,705
Capital Projects		
Special Cities	1,477,692	0
General Fund	0	1,148,062
Debt Service		
General Fund	12,414,230	10,778
Liquid Fuels		
General Fund	0	1,424,778
	<u>\$16,509,245</u>	<u>\$16,509,245</u>

Note 10 Pension Plans/Other Postemployment Benefits

Defined Benefit Plans: The City sponsors and administers three single employer defined benefit pension plans covering substantially all full-time employees. These plans are the Police, Fireman, and Nonuniformed pension plans (the "Plans"). Pennsylvania Act 205 and the City's Home Rule Charter assign the authority to establish and amend benefit provisions to the Pension Fund Board as authorized by City Council. The Plans have been designated as severely distressed under Pennsylvania Act 205

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

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

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

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (as amended) (Act 205) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the Plans' biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent valuation for all of the City's plans was completed as of January 1, 2007. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. 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.

Contributions, based on the MMO, in 2008 consisted of the following:

	<u>POLICE</u>	<u>FIREMEN</u>	<u>NON- UNIFORMED</u>	<u>TOTAL</u>
City/Commonwealth	\$ 921,851	\$1,642,144	\$ 787,378	\$ 3,351,373
Employees	<u>233,873</u>	<u>207,905</u>	<u>58,991</u>	<u>500,769</u>
Total	<u>\$1,155,724</u>	<u>\$1,850,049</u>	<u>\$ 846,369</u>	<u>\$ 3,852,142</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

A summary of the change in the net pension obligation as of January 1, 2007, 2005, and 2003 is presented below:

	<u>January 1, 2007</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 1,845,580	\$ 1,566,065	\$ 242,525	\$ 3,654,170
Interest on pension benefit obligation	<u>3,588,921</u>	<u>6,005,386</u>	<u>972,674</u>	<u>10,566,981</u>
Annual pension costs	\$ 5,434,501	\$ 7,571,451	\$ 1,215,199	\$ 14,221,151
Contributions made	(3,484,670)	(5,917,976)	(1,590,026)	(10,992,672)
Net actuarial gain on plan assets	<u>(3,805,533)</u>	<u>(6,704,664)</u>	<u>798,719</u>	<u>(9,711,478)</u>
Net increase (decrease) in pension benefit obligation	\$ (1,855,702)	\$ (5,051,189)	\$ 423,892	\$ (6,482,999)
Pension benefit obligation, beginning	<u>21,943,150</u>	<u>37,595,551</u>	<u>5,973,081</u>	<u>65,511,782</u>
Pension benefit obligation, ending	<u>\$20,087,448</u>	<u>\$ 32,544,362</u>	<u>\$ 6,396,973</u>	<u>\$ 59,028,783</u>

	<u>January 1, 2005</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 1,925,986	\$ 1,633,392	\$ 247,633	\$ 3,807,011
Interest on pension benefit obligation	<u>3,475,491</u>	<u>7,407,537</u>	<u>511,164</u>	<u>11,394,192</u>
Annual pension costs	\$ 5,401,477	\$ 9,040,929	\$ 758,797	\$15,201,203
Bond Proceeds Deposited in the Plan	(5,382,726)	(3,948,919)	(690,736)	(10,022,381)
Contributions made	(3,595,385)	(8,120,276)	(776,706)	(12,492,367)
Increase for plan amendment	0	0	1,843,708	1,843,708
Net actuarial gain on plan assets	<u>(583,597)</u>	<u>(8,966,193)</u>	<u>1,040,248</u>	<u>(8,509,542)</u>
Net increase (decrease) in pension benefit obligation	\$ (4,160,231)	\$(11,994,459)	\$ 2,175,311	\$(13,979,379)
Pension benefit obligation, beginning	<u>26,103,381</u>	<u>49,590,010</u>	<u>3,797,770</u>	<u>79,491,161</u>
Pension benefit obligation, ending	<u>\$21,943,150</u>	<u>\$ 37,595,551</u>	<u>\$ 5,973,081</u>	<u>\$ 65,511,782</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2003

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 824,602	\$ 788,789	\$ 140,983	\$ 1,754,374
Interest on pension benefit obligation	1,113,188	3,250,691	125,461	4,489,340
Adjustment to annual required contribution	<u>853,473</u>	<u>1,039,706</u>	<u>14,778</u>	<u>1,907,957</u>
Annual pension costs	\$ 2,791,263	\$ 5,079,186	\$ 281,222	\$ 8,151,671
Contributions made	(1,380,194)	(4,315,202)	(242,085)	(5,937,481)
Net actuarial loss on plan assets	<u>10,777,467</u>	<u>8,192,385</u>	<u>2,190,365</u>	<u>21,160,217</u>
Net increase in pension benefit obligation	\$12,188,536	\$ 8,956,369	\$ 2,229,502	\$23,374,407
Pension benefit obligation, beginning	<u>13,914,845</u>	<u>40,633,641</u>	<u>1,568,268</u>	<u>56,116,754</u>
Pension benefit obligation, ending	<u>\$26,103,381</u>	<u>\$49,590,010</u>	<u>\$ 3,797,770</u>	<u>\$79,491,161</u>

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2007. 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, projected salary increases of 5% per year and no post-retirement benefit increases. Plan assets are valued using a four year smoothing method described in Internal Revenue Service Procedure 2000-40, Approval 15. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis over a period of approximately 15 years. Effective in 2004, the unfunded actual liability calculation for the years 2002 and 2003 was revised to be amortized as a level percentage of projected payroll on an open basis over a period of 30 years.

January 1, 2007

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$60,404,883	\$65,113,943	\$10,552,330	\$ 136,071,156
Actuarial value of assets	<u>40,317,435</u>	<u>32,569,581</u>	<u>4,155,357</u>	<u>77,042,373</u>
Pension benefit obligation	<u>\$20,087,448</u>	<u>\$32,544,362</u>	<u>\$ 6,396,973</u>	<u>\$ 59,028,783</u>
Funded ratio	<u>67%</u>	<u>50%</u>	<u>39%</u>	<u>57%</u>
Covered payroll	<u>\$ 6,319,358</u>	<u>\$5,785,293</u>	<u>\$ 5,315,947</u>	<u>\$ 17,420,598</u>
Pension benefit obligation to covered payroll	<u>318%</u>	<u>563%</u>	<u>120%</u>	<u>339%</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2005

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$60,538,073	\$67,678,929	\$10,259,212	\$138,476,214
Actuarial value of assets	<u>38,594,923</u>	<u>30,083,378</u>	<u>4,286,131</u>	<u>72,964,432</u>
Pension benefit obligation	<u>\$21,943,150</u>	<u>\$37,595,551</u>	<u>\$ 5,973,081</u>	<u>\$ 65,511,782</u>
Funded ratio	<u>64%</u>	<u>44%</u>	<u>42%</u>	<u>53%</u>
Covered payroll	<u>\$6,574,028</u>	<u>\$5,955,465</u>	<u>\$ 4,997,027</u>	<u>17,526,520</u>
Pension benefit obligation to covered payroll	<u>334%</u>	<u>631%</u>	<u>120%</u>	<u>374%</u>

January 1, 2003

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$61,062,272	\$75,535,426	\$ 8,371,444	\$ 144,969,142
Actuarial value of assets	<u>34,958,891</u>	<u>25,945,416</u>	<u>4,573,674</u>	<u>65,477,981</u>
Pension benefit obligation	<u>\$26,103,381</u>	<u>\$49,590,010</u>	<u>\$ 3,797,770</u>	<u>\$ 79,491,161</u>
Funded ratio	<u>57%</u>	<u>34%</u>	<u>55%</u>	<u>45%</u>
Covered payroll	<u>\$ 5,578,090</u>	<u>\$ 4,833,264</u>	<u>\$ 5,296,284</u>	<u>\$ 15,707,638</u>
Pension benefit obligation to covered payroll	<u>468%</u>	<u>1026%</u>	<u>72%</u>	<u>506%</u>

Historical trend information for the Plans is presented below:

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

Police Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/03	\$2,791,263	49.4%	\$26,103,381
01/01/05	\$5,401,477	166.2%	\$21,943,150
01/01/07	\$5,434,501	62.28%	\$20,087,448

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Firemen Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/03	\$5,079,186	85.0%	\$49,590,010
01/01/05	\$9,040,929	133.5%	\$37,595,551
01/01/07	\$7,571,451	90.82%	\$32,544,362

Non-Uniformed Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/03	\$ 281,222	86.1%	\$ 3,797,770
01/01/05	\$ 758,797	.193.4%	\$ 5,973,081
01/01/07	\$ 1,215,199	92.82%	\$ 6,396,973

Defined Contribution Plan: The City contributes to a union sponsored, multi-employer plan for certain employees. The Plan is not administered by the City and contributions are determined in accordance with labor contracts. Pension expense was \$247,097 in 2008.

The Parking Authority sponsors a defined contribution pension plan covering all eligible employees. Pension expense was \$57,474 for the year ended December 31, 2008.

The Sewer Authority contributes to the Central Pennsylvania Teamsters Pension Fund, a defined contribution pension plan covering substantially all of its full time employees. Employees become eligible after they have been on the payroll for thirteen weeks. Contributions made by the Authority were \$366 per month for the year ended March 31, 2008 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2008, amounted to \$288,548.

Effective January 1, 2007, 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 21, 2008, employer contributions totaled \$17,185 and employee contributions totaled \$14,426.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Other Postemployment Benefits: Under the terms of its collective bargaining agreements with its police, firemen, clerical, and public works employees, the City is required to provide health insurance to retiring employees who meet the criteria specified in each contract.

Under the police, firemen, and clerical contracts, the City is responsible for providing health insurance to retirees and spouses for the remainder of their lives if the employee was hired or retired prior to December 31, 1993. Employees hired after December 31, 1993 are not eligible for these benefits. The City's contribution for retiree health insurance is equal to the cost in effect in 1993 plus 75% of any increase above that cost. The retiree pays the other 25%.

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 2008 nor the number of participants eligible for these benefits.

Termination Benefit Payable: The City is providing group insurance healthcare termination benefits to various employees, spouses and dependents. The termination benefits end between August 31, 2009 and April 30, 2043.

Annual termination benefits of \$433,973 have been projected to increase at an annual rate of 8% 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	\$10,409,105
Payment benefits made during the year	(433,973)
Change in net present value of benefits	<u>214,940</u>
End of year present value	<u>\$10,190,072</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 11 Credit Risk and Market Risk

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 90% of the total taxes collected by the City in 2008. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

The market value of the City's investments are subject to fluctuations in the prevailing market prices of those investments.

Note 12 Related Party Transactions

The City paid approximately \$623,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$40,264,000 of tax revenues on behalf of the City in 2008.

Note 13 Commitments and Contingencies

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

Various lawsuits have been instituted against the City resulting mainly from injuries sustained in accidents on City properties. Legal counsel cannot estimate the probability of successful outcome and the amount of the potential liability from these matters at this time. However, the City has affirmed that it has adequate insurance to cover any possible claim or judgment.

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

The City is involved in arbitration proceeding with its fire fighter's union seeking reimbursement of alleged inaccurately assessed health care co-payments assessed under its collective bargaining agreement. If co-payments are found to be inaccurate potential exposure could be material to the financial statements. Counsel for the City cannot determine the likelihood of success at the present time. The City believes the suit is without merit and is vigorously defending its position. In 2004, the City was ordered to conduct an audit to determine the accuracy of the co-payments. That notwithstanding, the City has appealed the arbitration awarded to the Court of Common Pleas of Lackawanna County.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 13 Commitments and Contingencies (Continued)

The City and its police and firefighters were unable to agree to an amicable collective bargaining agreement. The arbitration panel issued an award covering the 2003-2008 contract year. The Union is appealing the award that was vacated by the Court of Common Pleas of Lackawanna County that it does not exceed the parameters of its revised recovery plan and would not be in violation of Act 47 Recovery Plan. Counsel for the City cannot determine the likelihood of success at the present time. The City believes that the suit is without merit and is vigorously defending its position. If the vacated award is overturned, the potential exposure could be material to the financial statements.

The City is involved in an arbitration proceeding with the police union. The Union is alleging that the City failed to maintain appropriate manning in accordance with its collective bargaining agreement. Counsel for the City cannot determine the likelihood of success at the present time. The City has filed a petition to vacate the award which is pending before the Court of Common Pleas. The City believes the suit is without merit and is vigorously defending its position.

The City is involved in an arbitration proceeds with the Fire Union. The Union is alleging that the City failed to maintain appropriate insurance in accordance with its Collective Bargaining Agreement. The matter has not yet been scheduled for a hearing, the City believes the suit is without merit and is vigorously defending its position.

The City is involved in a labor arbitration in which the Union contended that the City unilaterally violated it's Collective Bargaining Agreement, changed certain health care provisions. The Arbitration found in favor of the Union and ordered the City to have the third party provider audit its accounts to determine how many individuals were effected. The City filed a petition to vacate the award and the petition was denied. 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. The Police and Fire Departments agreements expired at the end of 2002 and continue to be negotiated.

Fund Deficit Self-Insurance Fund Settlement Agreement: On December 18, 2001, the City entered into a Settlement Agreement and Release with the Commonwealth of Pennsylvania Department of Labor and Industry, Bureau of Worker's Compensation (Bureau) in order to maintain its ability to self-insure.

The settlement requires the City to correct various program deficiencies and to provide for unfunded outstanding claims in various annual increments beginning in 2004 through 2012 and to keep current on annual costs for claims, administration, and operating expenses.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 13 Commitments and Contingencies (Continued)

During 2003, the City funded the Internal Service Fund with \$13,000,000 from the 2003 debt issuance, thereby meeting the various annual increments through 2013. However, in 2004 the City was not current on annual cost for claims, administration, and operating expenses and is in default under the terms of the Settlement Agreement.

In February 2007, the Bureau and the City entered into the third amendment to the irrevocable agreement of trust modification of the December 2001 Settlement Agreement and Release. The agreement modification to allow a deficit of no more than 25% between the city's outstanding liability and asset value of the Reserve Account of the City's Worker's Compensation Trust Fund and will require that any shortfall above the permitted 25% deficit amount be funded over a five-year period.

The Single Tax Office is currently going through a Forensic Audit from the discovery of approximately twelve (12) million dollars that it had in its possession and did not disburse. The City will not receive any receipts until completion of the audit. As of the date of the Audit Report, only interest earned of \$1,052,393 in revenue has been received and has been provided for in the financial statements under Act 511 taxes. Such amount was accrued at December 31, 2008.

Note 14 Distressed Municipality Status

In 1992, the Pennsylvania Department of Community and Economic Development (DCED) declared the City a distressed municipality under the Financially Distressed Municipalities Act (Act). DCED then appointed the Pennsylvania Economy League as coordinator to administer a recovery plan for the City pursuant to this Act. While the City has improved its financial situation since this designation, the City still remains a distressed municipality pursuant to the Act.

Note 15 Current Real Estate Taxes

Current real estate taxed collected at December 31, 2008:

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	93,919,162	294,495,285	388,414,447
Millage Rates	<u>10.3145%</u>	<u>2.2432%</u>	
Total Original Taxes Levied	9,687,292	6,606,118	\$ 16,293,410
Add: Additions			79,896
Less: Abatements			<u>(97,870)</u>
Real Estate Taxes To be Collected At Face			\$ 16,275,436
Add: Penalties Collected			<u>97,589</u>
Total Before Deductions			\$ 16,373,025
Less: Discounts Taken			(238,223)
Less: Home Vouchers			(10,125)
Less: KOZ Credits			(462,124)
Less: Delinquent Taxes Returned			(2,076,298)
Less: Payment Under Protest 25% Reserved			(52,279)
Less: Other Miscellaneous			<u>(2,258)</u>
TOTAL REAL ESTATE TAXES COLLECTED			<u>\$ 13,531,718</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 16 Restatement of Prior Year Net Assets

The Scranton Redevelopment Authority restated its net asset. An error resulting in an overstatement of previously reported fixed assets was discovered in the current year. Accordingly, an adjustment of \$750,000 was made at the beginning of the year to recognize the disposition of the land associated with the transfer of the parking facility to the Parking Authority of the City of Scranton that occurred in 2007. A corresponding entry was made to reduce previously reported net assets by \$750,000. The change in net assets for the year ended December 31, 2007 would have been decreased by \$750,000. This adjustment only affects the accrual basis financial statement presentation and has no financial impact to the modified accrual basis financial statement presentation in the current or prior year.

Net Assets Governmental Activities	
As Previously Reported	\$ 26,078,809
Adjustment for Land Disposed of in 2007	<u>(750,000)</u>
Net Assets, as Restated	<u>\$ 25,328,809</u>

SUPPLEMENTARY INFORMATION

CITY OF SCRANTON, PENNSYLVANIA
 GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2008

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$ 41,520,490	\$ 41,520,490	\$ 44,523,282	\$ 3,002,792
Intergovernmental	3,015,000	3,015,000	2,852,511	(162,489)
Departmental Earnings	2,113,807	2,113,807	1,915,199	(198,608)
Refuse Disposal Fees	4,900,000	4,900,000	4,298,613	(601,387)
Licenses and Permits	1,456,242	1,456,242	1,345,271	(110,971)
Cable Television Franchise Revenue	0	0	745,987	745,987
Payments in Lieu of Taxes	118,250	118,250	117,500	(750)
Interest Income	550,000	550,000	411,330	(138,670)
User Fees	45,000	45,000	52,150	7,150
Other Revenues	50,000	50,000	74,237	24,237
Rents and Concessions	0	0	700	700
Total Revenues	\$ 53,768,789	\$ 53,768,789	\$ 56,336,780	\$ 2,567,991
Expenditures				
General Government	\$ 14,179,401	\$ 14,200,594	\$ 13,096,778	\$ 1,103,816
Public Safety	27,512,308	27,520,058	27,983,679	(463,621)
Public Works	11,372,982	11,344,927	11,009,809	335,118
Community Development	539,894	539,007	531,320	7,687
Culture and Recreation	1,242,570	1,242,569	1,233,637	8,932
Total Expenditures	\$ 54,847,155	\$ 54,847,155	\$ 53,855,223	\$ 991,932
Excess of Revenues Over Expenditures	\$ (1,078,366)	\$ (1,078,366)	\$ 2,481,557	\$ 3,559,923

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Other Financing Sources (Uses)				
Delinquent Real Estate Taxes	\$ 780,000	\$ 780,000	\$ 0	\$ (780,000)
Proceeds from Tax Anticipation Notes	14,500,000	14,500,000	14,500,000	0
Operating Transfers In	1,738,928	1,738,928	2,617,323	878,395
Operating Transfers Out	(13,417,000)	(13,417,000)	(12,414,230)	1,002,770
Lease Proceeds	0	0	204,643	204,643
Proceeds from 2008 Borrowing	13,771,158	13,771,158	5,900,000	(7,871,158)
Contingency	(1,104,720)	(1,104,720)	0	1,104,720
Payments of Tax Anticipation Notes	<u>(15,190,000)</u>	<u>(15,190,000)</u>	<u>(14,932,309)</u>	<u>257,691</u>
Net Other Financing Sources (Uses)	<u>\$ 1,078,366</u>	<u>\$ 1,078,366</u>	<u>\$ (4,362,910)</u>	<u>\$ (5,441,276)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (0)	\$ (0)	\$ (1,881,353)	\$ (1,881,353)
Fund Balance, Beginning of Year	<u>11,776,717</u>	<u>11,776,717</u>	<u>11,776,717</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 11,776,717</u>	<u>\$ 11,776,717</u>	<u>\$ 9,895,364</u>	<u>\$ (1,881,353)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

ASSETS	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
Cash and Cash Equivalents	\$ 276,200	\$ 1,002,483	\$ 105,264	\$ 2,182,549	\$ 1,849,584	\$ 5,416,080
Taxes and Fees Receivable, Net	0	0	1,310,902	0	0	1,310,902
Accounts Receivable, Net	1,569	0	141,362	1,029,711	0	1,172,642
Loans Receivable	0	0	983,872	0	0	983,872
Due From Other Funds	0	12,263	0	111,059	0	123,322
Grants Receivable	0	0	875,223	0	0	875,223
Restricted Assets:						
Restricted Cash and Cash Equivalents	0	0	2,087,135	0	0	2,087,135
Property Held for Resale	0	0	418,931	0	0	418,931
TOTAL ASSETS	<u>\$ 277,769</u>	<u>\$ 1,014,746</u>	<u>\$ 5,922,689</u>	<u>\$ 3,323,319</u>	<u>\$ 1,849,584</u>	<u>\$ 12,388,107</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable		\$ 25,552	\$ 2,164,153	\$ 857,668	\$ 0	\$ 3,047,373
Due to Other Funds	0	24,526	474,638	354,170	0	853,334
Deferred Revenues	0	0	2,475,547	2,111,481	0	4,587,028
TOTAL LIABILITIES	<u>\$ 0</u>	<u>\$ 50,078</u>	<u>\$ 5,114,338</u>	<u>\$ 3,323,319</u>	<u>\$ 0</u>	<u>\$ 8,487,735</u>
FUND BALANCES						
Reserve for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,849,584	\$ 1,849,584
Reserved for Capital Projects	0	964,668	0	0	0	964,668
Unreserved - Undesignated	277,769	0	808,351	0	0	1,086,120
TOTAL FUND BALANCES	<u>\$ 277,769</u>	<u>\$ 964,668</u>	<u>\$ 808,351</u>	<u>\$ 0</u>	<u>\$ 1,849,584</u>	<u>\$ 3,900,372</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 277,769</u>	<u>\$ 1,014,746</u>	<u>\$ 5,922,689</u>	<u>\$ 3,323,319</u>	<u>\$ 1,849,584</u>	<u>\$ 12,388,107</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
Revenues:						
Taxes	\$ 0	\$ 0	\$ 446,677	\$ 0	\$ 0	\$ 446,677
Intergovernmental	1,637,120	0	5,733,138	6,923,826	0	\$ 14,294,084
Departmental Earnings	0	0	0	31,960	0	31,960
Interest Income	21,100	72,457	16,816	30,290	46,719	187,382
Other Revenues	0	0	18,082	1,187,938	0	1,206,020
Rents and Concessions	0	0	13,350	0	0	13,350
Total Revenues	\$ 1,658,220	\$ 72,457	\$ 6,228,063	\$ 8,174,014	\$ 46,719	\$ 16,179,473
Expenditures:						
Current:						
General Government	\$ 326	\$ 994	\$ 0	\$ 549,079	\$ 0	\$ 550,399
Public Works	0	0	0	2,034,742	0	2,034,742
Health and Welfare	0	0	0	1,172,944	0	1,172,944
Community Development	0	0	5,103,913	2,874,233	0	7,978,146
Other Expenditures	0	0	16,712	31,619	0	48,331
Debt Service						
Debt Service-Principal	0	0	360,929	0	8,065,000	8,425,929
Debt Service-Interest	0	0	122,547	0	4,529,748	4,652,295
Capital Outlay	0	3,045,383	0	0	0	3,045,383
Total Expenditures	\$ 326	\$ 3,046,377	\$ 5,604,101	\$ 6,662,617	\$ 12,594,748	\$ 27,908,169
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,657,894	\$ (2,973,920)	\$ 623,962	\$ 1,511,397	\$ (12,548,029)	\$ (11,728,696)
Other Financing Sources (Uses):						
Sale Of Property	\$ 0		\$ 17,640	\$ 0	\$ 0	\$ 17,640
Delinquent Tax Filing Fees	0		75,327	0	0	75,327
Refund of Prior Year Expenditures	0	0	81,060	0	0	81,060
Operating Transfers In	0	1,477,692	0	0	12,414,230	13,891,922
Operating Transfers Out	(1,424,778)	(1,148,062)	0	(1,511,397)	(10,778)	(4,095,015)
Net Other Financing Sources (Uses)	\$ (1,424,778)	\$ 329,630	\$ 174,027	\$ (1,511,397)	\$ 12,403,452	\$ 9,970,934
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ 233,116	\$ (2,644,290)	\$ 797,989	\$ 0	\$ (144,577)	\$ (1,757,762)
Fund Balances, Beginning of Year	44,653	3,608,958	10,362	0	1,994,161	5,658,134
FUND BALANCES, END OF YEAR	\$ 277,769	\$ 964,668	\$ 808,351	\$ 0	\$ 1,849,584	\$ 3,900,372

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
YEAR ENDED DECEMBER 31, 2008

Additions:		
Contributions		
Employee	\$ 500,769	
Employer	636,620	
Commonwealth State Aid	<u>2,714,753</u>	
Total Contributions		\$ 3,852,142
Investment Income:		
Investment Return (Depreciation)	\$ <u>(21,001,882)</u>	
Total Investment Income		<u>(21,001,882)</u>
TOTAL ADDITIONS		\$(17,149,740)
DEDUCTIONS		
Benefit Payments	\$ 9,495,769	
Administrative Expenses	<u>419,269</u>	
Total Deductions		<u>9,915,038</u>
CHANGE IN NET ASSETS		\$(27,064,778)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year		<u>76,512,415</u>
END OF YEAR		<u>\$ 49,447,637</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP BASIS	FINAL BUDGET POSITIVE (NEGATIVE)
Revenues				
Taxes				
Act 511:				
Wage	\$19,400,000	\$19,400,000	\$23,326,681	\$ 3,926,681
Real Estate Transfer	4,047,000	4,047,000	3,402,064	(644,936)
Mercantile	1,157,216	1,157,216	1,063,918	(93,298)
Business Privilege	626,380	626,380	626,695	315
Local Service Tax	1,700,000	1,700,000	1,613,311	(86,689)
Delinquent Mercantile	55,000	55,000	47,853	(7,147)
Delinquent Business Privilege	40,000	40,000	54,127	14,127
Total Act 511	<u>\$27,025,596</u>	<u>\$27,025,596</u>	<u>\$30,134,649</u>	<u>\$ 3,109,053</u>
Current Real Estate	\$13,600,794	\$13,600,794	\$13,531,718	\$ (69,076)
Delinquent Real Estate	700,000	700,000	758,345	58,345
Public Utility	57,000	57,000	58,412	1,412
Amusement Tax	100,000	100,000	0	(100,000)
Penalties & Interest	37,100	37,100	40,158	3,058
Total Taxes	<u>\$41,520,490</u>	<u>\$41,520,490</u>	<u>\$44,523,282</u>	<u>\$ 3,002,792</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,705,000	\$ 2,705,000	\$ 2,714,753	\$ 9,753
OECD Reimbursement Demolition Program	200,000	200,000	137,758	(62,242)
Act 101	110,000	110,000	0	(110,000)
Total Intergovernmental	<u>\$ 3,015,000</u>	<u>\$ 3,015,000</u>	<u>\$ 2,852,511</u>	<u>\$ (162,489)</u>
Departmental Earnings				
Parking Meters	\$ 858,000	\$ 858,000	\$ 741,382	\$ (116,618)
Fines and Forfeits	860,307	860,307	787,280	(73,027)
Pave Cuts	198,000	198,000	236,204	38,204
Report Copies Fire & Police	90,000	90,000	84,790	(5,210)
Alarm Fees	72,000	72,000	35,750	(36,250)
Rescue Fees	2,500	2,500	0	(2,500)
Zoning	33,000	33,000	29,793	(3,207)
Total Departmental Earnings	<u>\$ 2,113,807</u>	<u>\$ 2,113,807</u>	<u>\$ 1,915,199</u>	<u>\$ (198,608)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 4,900,000	\$ 4,900,000	\$ 4,298,613	\$ (601,387)
Licenses and Permits	1,456,242	1,456,242	1,345,271	(110,971)
Cable Television Franchise Revenue	0	0	745,987	745,987
Payments in Lieu of Taxes	118,250	118,250	117,500	(750)
Interest Income	550,000	550,000	411,330	(138,670)
Sewer Authority Concession Fees				0
User Fees	45,000	45,000	52,150	7,150
Other Revenues	50,000	50,000	74,237	24,237
Donations	0	0	0	0
Rents and Concessions	0	0	700	700
Total Other Revenues	<u>\$ 7,119,492</u>	<u>\$ 7,119,492</u>	<u>\$ 7,045,788</u>	<u>\$ (73,704)</u>
Total Revenues	<u>\$53,768,789</u>	<u>\$53,768,789</u>	<u>\$56,336,780</u>	<u>\$ 2,567,991</u>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$14,500,000	\$14,500,000	\$14,500,000	\$ 0
Advances On Delinquent Real Estate Taxes	780,000	780,000	0	(780,000)
Lease Proceeds	0	0	204,643	204,643
Proceeds from 2008 Bond Issuance	13,771,158	13,771,158	5,900,000	(7,871,158)
Operating Transfers in from:				
Liquid Fuels Fund	1,638,928	1,638,928	1,424,778	(214,150)
Other Funds	100,000	100,000	1,192,545	1,092,545
Total Other Financing Sources	<u>\$30,790,086</u>	<u>\$30,790,086</u>	<u>\$23,221,966</u>	<u>\$ (7,568,120)</u>
Total Revenues and Other Financing Sources	<u>\$84,558,875</u>	<u>\$84,558,875</u>	<u>\$79,558,746</u>	<u>\$ (5,000,129)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
General Government				
Salaries and Wages	\$ 2,042,964	\$ 2,042,964	\$ 2,088,442	\$ (45,478)
Employee Benefits	3,546,109	3,546,109	2,888,660	657,449
Workers' Compensation Claims	4,100,000	4,100,000	4,018,325	81,675
General Insurance	973,000	973,000	985,459	(12,459)
Office Supplies and Expense	345,668	378,212	315,182	63,030
Professional Fees	610,500	581,644	528,029	53,615
Telephone	150,000	146,000	126,429	19,571
Equipment	66,500	67,875	64,520	3,355
Travel	12,030	10,322	4,942	5,380
Other	205,800	206,446	31,483	174,963
Boards and Commissions	212,000	212,000	176,582	35,418
Utilities	746,000	767,192	740,582	26,610
Grants and Contributions	15,150	15,150	15,100	50
Court Awards & Settlements	350,000	350,000	389,497	(39,497)
Parking Authority Ticket Issuers	803,680	803,680	723,546	80,134
Total General Government	<u>\$14,179,401</u>	<u>\$14,200,594</u>	<u>\$13,096,778</u>	<u>\$ 1,103,816</u>
Public Safety				
Salaries and Wages	\$14,433,354	\$14,433,354	\$14,820,083	\$ (386,729)
Employee Benefits	12,576,484	12,576,484	12,495,289	81,195
Supplies	141,970	154,909	136,771	18,138
Equipment	303,500	309,196	493,090	(183,894)
Training	45,000	34,200	30,259	3,941
Travel	10,000	9,915	6,818	3,097
Professional Fees	2,000	2,000	1,369	631
Total Public Safety	<u>\$27,512,308</u>	<u>\$27,520,058</u>	<u>\$27,983,679</u>	<u>\$ (463,621)</u>
Public Works				
Salaries and Wages	\$ 4,109,230	\$ 4,059,230	\$ 3,928,100	\$ 131,130
Employee Benefits	2,071,023	2,071,023	1,930,790	140,233
Supplies	364,799	485,158	472,537	12,621
Professional Fees	188,191	161,836	139,595	22,241
Equipment	1,600,039	1,661,462	1,643,395	18,067
Electric	367,000	366,331	352,892	13,439
Landfill Fees	1,690,000	1,574,014	1,555,811	18,203
Salt	175,000	205,300	237,731	(32,431)
Flood Protection	151,700	151,700	158,967	(7,267)
Street Lighting	656,000	608,873	589,991	18,882
Total Public Works	<u>\$11,372,982</u>	<u>\$11,344,927</u>	<u>\$11,009,809</u>	<u>\$ 335,118</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 500,344	\$ 500,344	\$ 501,087	\$ (743)
Employee Benefits	15,100	15,100	11,999	3,101
Supplies	24,450	23,563	18,234	5,329
Total Community Development	<u>\$ 539,894</u>	<u>\$ 539,007</u>	<u>\$ 531,320</u>	<u>\$ 7,687</u>
Culture and Recreation				
Salaries and Wages	\$ 929,570	\$ 929,570	\$ 921,312	\$ 8,258
Employee Benefits	2,200	2,200	2,360	(160)
Supplies	295,800	295,925	295,090	835
Programs	15,000	14,874	14,875	(1)
Total Culture and Recreation	<u>\$ 1,242,570</u>	<u>\$ 1,242,569</u>	<u>\$ 1,233,637</u>	<u>\$ 8,932</u>
Total Expenditures	<u>\$54,847,155</u>	<u>\$54,847,155</u>	<u>\$53,855,223</u>	<u>\$ 991,932</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$15,190,000	\$15,190,000	\$14,932,309	\$ 257,691
Bond Issuance Cost Relative to Capitalized Leasing	0	0	238,337	(238,337)
Contingency	1,104,720	1,104,720	0	1,104,720
Operating Transfers Out to: Debt Service Fund	<u>13,417,000</u>	<u>13,417,000</u>	<u>12,414,230</u>	<u>1,002,770</u>
Total Other Financing Uses	<u>\$29,711,720</u>	<u>\$29,711,720</u>	<u>\$27,584,876</u>	<u>\$ 2,126,844</u>
Total Expenditures and Other Financing Uses	<u>\$84,558,875</u>	<u>\$84,558,875</u>	<u>\$81,440,099</u>	<u>\$ 3,118,776</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Community Development Block Grants/Entitlement Grants	14.218		\$ 4,687,488
Emergency Shelter Grants Program	14.231		141,230
Economic Development Initiative-Special Project	14.251		248,468
Home Investment Partnerships Program	14.239		<u>1,587,151</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 6,664,337</u>
U.S. DEPARTMENT OF JUSTICE:			
COPS	16.710		<u>\$ 26,925</u>
Total U.S. Department of Justice			<u>\$ 26,925</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation Highway Planning and Construction			
West Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 040810	
Incurred 2008 Paid 2008			\$ 0
Incurred 2008 Paid 2009			0
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 0441761 & 040809B	
Incurred 2008 Paid 2008			1,239,360
Incurred 2008 Paid 2009			404,822
Scranton K Routes	20.205	Reimbursement Agreement Number 048748	
Incurred 2008 Paid 2008			39,107
Incurred 2008 Paid 2009			0
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement Number 041439	
Incurred 2008 Paid 2008			0
Incurred 2008 Paid 2009			0
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222	
Incurred 2008 Paid 2008			43,169
Incurred 2008 Paid 2009			0
Lackawanna Park Project MPMS 74738	20.205	Reimbursement Agreement Number 04R007	
Incurred 2008 Paid 2008			0
Incurred 2008 Paid 2009			0
Lackawanna Streetscape Project MPMS 73200	20.205	Reimbursement Agreement Number 048764	
Incurred 2008 Paid 2008			707,210
Incurred 2008 Paid 2009			<u>0</u>
Total U.S. Department of Transportation			<u>\$ 2,433,668</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,124,930</u>

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

"See accompanying notes and independent auditors' report."

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

October 20, 2009

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

We have audited 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 as of and for the year ended December 31, 2008 and have issued our report thereon dated October 20, 2009. The report on the aggregate remaining fund information was qualified due to valuing its actuarial liability for its internal service workmen's compensation fund at August 31, 2008 and not December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Other auditor's audited the financial statements of the Parking Authority of the City of Scranton, the Sewer Authority of the City of Scranton, and the Redevelopment Authority of the City of Scranton, as described in our report on the City of Scranton financial statements. This report does not include the results of the other Auditor's testing of internal control over financial reporting of compliance and other matters that are reported on separately by those Auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Scranton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Scranton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Scranton's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote

likelihood that a misstatement of the City of Scranton's financial statements that is more than inconsequential will not be prevented or detected by the City of Scranton's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 08-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Scranton'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 would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we did not consider any to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Scranton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

The City of Scranton's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit The City of Scranton's response and, accordingly, we express no opinion on it.

This report is intended for the information of the City of Scranton's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robert Rossi & CO

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 20, 2009

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

Compliance

We have audited the compliance of the City of Scranton with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The City of Scranton's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Scranton's management. Our responsibility is to express an opinion on the City of Scranton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Scranton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Scranton's compliance with those requirements.

In our opinion, the City of Scranton complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City of Scranton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Scranton's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the City of Scranton's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robert Rossi & Co

CITY OF SCRANTON, PENNSYLVANIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Section I – Auditor’s Result Section

- (1) A qualified opinion was expressed on the aggregate remaining fund information of the auditee. An unqualified opinion was expressed on the remaining Governmental-Activities, Business Activities, and each major fund.
- (2) The audit disclosed a significant deficiency however such deficiency was not considered to be a material weakness on internal control of the financial statements.
- (3) The audit did not disclose any noncompliance which is material to the financial statements of the auditee, as required to be reported in accordance with Government Auditing Standards.
- (4) There were no significant deficiencies relating to the audit of the Major Federal Award Programs are reported.
- (5) The Auditor’s Report expressed an unqualified opinion on the City compliance with requirements applicable to major programs.
- (6) The Audit disclosed no findings that are required to be reported in accordance with Section 510(A) OMB Circular A-133.
- (7) Identification of major programs is as follows:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG/Entitlement Grants
14.239	Home Investment Partnerships Program
14.231	Emergency Shelter Grant Program
20.205	Highway Planning and Construction

- (8) The dollar threshold used to distinguish Type A and Type B programs as described in Section 520(B) of OMB Circular A-133 was \$300,000.
- (9) The auditee did not qualify as a low-risk auditee under Section 530 of OMB Circular A-133.

CITY OF SCRANTON, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

2008-1

Condition: There is no segregation of duties regarding the system for processing accounts payable. One person is responsible for matching invoices to purchase orders, enters invoices into the general ledger, processes the checks for payment, has access to the signature machine, and mails the checks to vendors.

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

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

Section III – Findings and questioned cost for Federal Awards which shall include audit findings as defined in Section 510(A) of OMB Circular A – 133

None