

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2010**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2010

	<u>PAGE</u>
Table of Contents	1 - 3
Independent Auditor's Report	4 - 6
Required Supplementary Information:	
Management Discussion and Analysis	7-14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15-16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18-19
Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	21-22
Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	23-24
Statement of Net Assets - Proprietary Funds	25-26
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28-29
Statement of Net Assets - Fiduciary Fund - Pension Trust Fund	30

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2010

	<u>PAGE</u>
Notes to Basic Financial Statements	31-72
Required Supplementary Information:	
Statement of Revenues, Expenditures and Change in Fund Deficit - Budget and Actual	73-74
Other Supplementary Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	75
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	76
Statement of Changes in Net Assets - Fiduciary Funds, Pension Trust Fund	77
Additional Schedules:	
Statement of Revenues and Other Financing Sources - Budget and Actual	78-79
Statement of Expenditure and Other Financing Uses - Budget and Actual	80-81
Single Audit Attachments:	
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2010	82-83
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	84-85

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2010

	<u>PAGE</u>
Independent Auditors' Report on Compliance that could have a Direct and Material Effect on each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	86-87
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2010	88-93
Status of Prior Year Findings for the Year Ended December 31, 2010	94-95
Plan for Corrective Action Taken in Regard to Audit Findings	96-98

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INDEPENDENT AUDITORS' REPORT

February 16, 2012

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, 2010 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 \$68,772,533 at March 31, 2010 and total revenues of \$16,207,449 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$55,333,183 at December 31 2010 and total revenues of \$3,283,930 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$1,730,016 at December 31, 2010 and total revenues of \$2,933,012 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, 2010 instead of December 31, 2010. 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, 2010 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, 2010, 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, 2010, 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.

As discussed in Note 13 Commitments and Contingencies, the Police and Fire Departments union agreements expired at the end of 2002 and the two (2) unions have been involved in various lawsuits with the City. In 2011 and 2012, the City received rulings that upheld back pay, apparatus and shift manning issues, and health care in favor of the Unions. As of the issuance of these financial statements, the City was only able to estimate the amount of the back pay. The City has accrued back pay for the period January 1, 2003 through December 31, 2010 in the Government Wide Financial Statements in the amount of \$ 14,500,000. The liability is classified as long term at December 31, 2010 and not included in the General Fund Financial Statements because it has not been liquidated with expendable available resources as of the date of the financial statements. Apparatus and shift manning issues, and health care have not been accrued in the Government Wide Financial Statements because the amount cannot be reasonably estimated as of the date of these financial statements. Back pay for the period January 1, 2011 through December 31, 2011 has not been provided for in these financial statements. Also, the court awards provide for interest if payment by the City has been delayed.

In accordance with *Government Auditing Standards*, we have issued a report dated February 16, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 14 and 73 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Scranton's financial statements as a whole. 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 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 financial statements. The combining fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on it.

Robert Rossi & CO

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Scranton, Pennsylvania, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Scranton for the fiscal year ended December 31, 2010. 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**

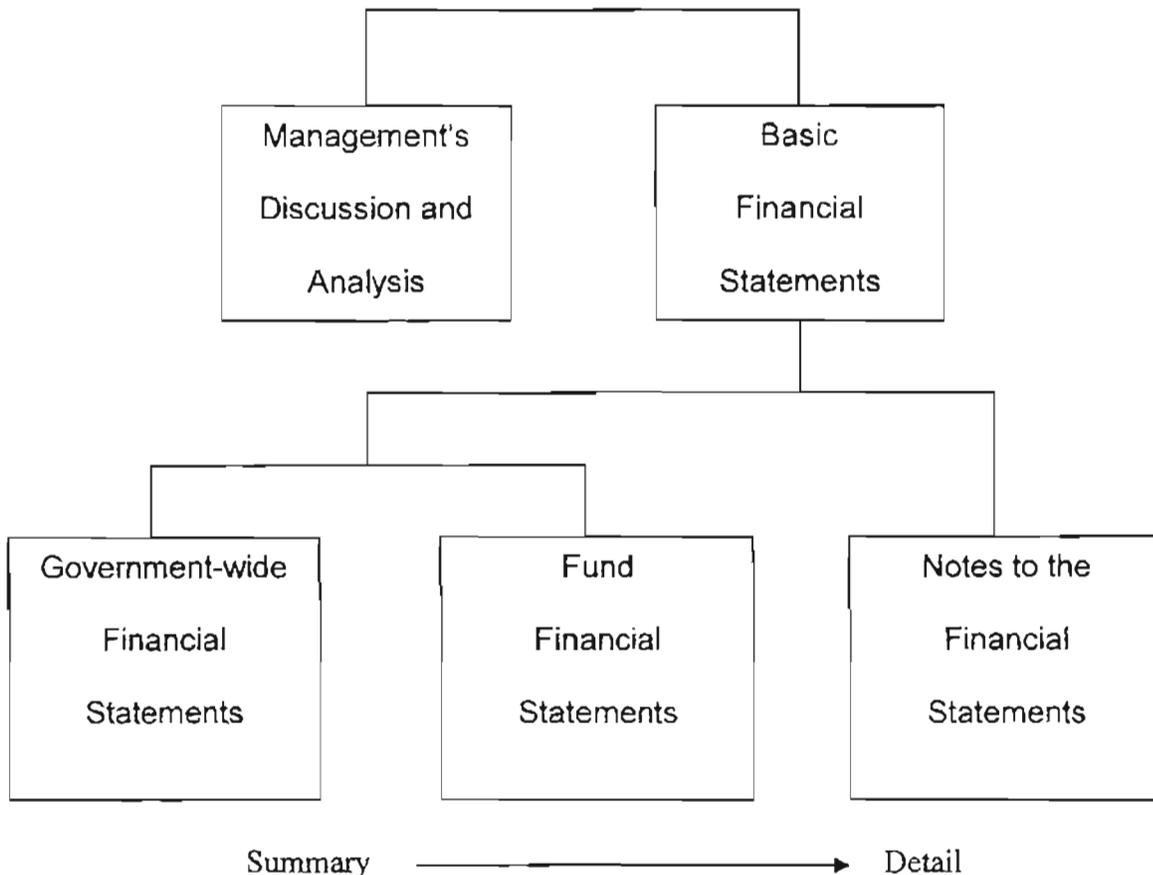
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$31,404,299 (*net assets*).
- The government's total net assets decreased by \$21,635,560 due to the Pennsylvania Supreme Court ordering the City to pay back wages estimated at 14,500,000 million dollars to the Fire and Police Departments, through December 31, 2010.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$2,568,746, a decrease of \$5,342,390 in comparison with the prior year balance which was \$7,911,136. The largest decrease was in the General Fund of \$4,538,584.
- Due to the Supreme Court Ruling upholding back pay, apparatus and shift manning for the Fire and Police Unions, it has been estimated that the back pay portion will cost the City 14.5 million dollars, through December 31, 2010. Additional costs still need to be calculated pertaining to this court award. Since additional costs cannot be reasonably estimated for this award the long term court awards must be accounted for in governmental activities only and to the extent reasonably estimable.
- The City of Scranton received a downgrade from BBB- to BB- bond rating from Standard and Poor's on September 30, 2011 due to the City's constrained ability to address budgetary pressures.

**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. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Scranton.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Required Components of Annual Financial Report*



**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.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Government-wide Financial Statements**

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

The statement of net 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 \$18,067,780. An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$2,103,180). 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, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**Enterprise Funds** – The enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Sewer Authority, 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 72 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 73 through 81). 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 \$31,404,299.

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, \$78,562,075. 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, \$15,955,865, 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 \$63,113,641. The governmental activities reported negative unrestricted net assets of 75,584,320. The business type activities reported positive unrestricted net assets of \$12,470,679.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**City of Scranton, Pennsylvania's Net Assets**

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
Current Assets	\$ 94,942,222	\$ 91,705,336	3.5%	\$ 16,613,179	\$ 12,677,957	31.0%	\$ 111,555,401	\$ 104,383,293	6.9%
Restricted Assets	230,349	1,005,539	-77.1%	8,816,047	21,163,847	-58.3%	9,046,396	22,169,386	-59.2%
Capital Assets	97,726,791	100,023,732	-2.3%	94,218,915	91,926,932	2.5%	191,945,706	191,950,664	0.0%
Deferred Charges	1,228,556	1,504,155	-18.3%	1,993,661	2,070,630	-3.7%	3,222,217	3,574,785	-9.9%
<b>Total Assets</b>	<b>\$ 194,127,918</b>	<b>\$ 194,238,762</b>	<b>-0.1%</b>	<b>\$ 121,641,802</b>	<b>\$ 127,839,366</b>	<b>-4.8%</b>	<b>\$ 315,769,720</b>	<b>\$ 322,078,128</b>	<b>-2.0%</b>
Current Liabilities	\$ 20,362,134	\$ 13,116,975	55.2%	\$ 5,519,106	\$ 6,618,337	-16.6%	\$ 25,881,240	\$ 19,735,312	31.1%
Non-Current Liabilities	171,101,458	159,086,689	7.6%	89,849,050	90,216,268	-0.4%	260,950,508	249,302,957	4.7%
<b>Total Liabilities</b>	<b>\$ 191,463,592</b>	<b>\$ 172,203,664</b>	<b>11.2%</b>	<b>\$ 95,368,156</b>	<b>\$ 96,834,605</b>	<b>-1.5%</b>	<b>\$ 286,831,748</b>	<b>\$ 269,038,269</b>	<b>6.6%</b>
<b>Net Assets:</b>									
Invested in Capital assets net of related debt	\$ 75,098,423	\$ 75,937,803	-1.1%	\$ 3,463,652	\$ 20,384,950	-83.0%	\$ 78,562,075	\$ 96,322,753	-18.4%
Restricted	3,150,223	2,760,585	14.1%	12,805,642	16,607,892	-22.9%	15,955,865	19,368,477	-17.6%
Unrestricted	(75,584,320)	(56,663,290)	33.4%	12,470,679	(5,988,081)	-308.3%	(63,113,641)	(62,651,371)	0.7%
<b>Total Net Assets</b>	<b>\$ 2,664,326</b>	<b>\$ 22,035,098</b>	<b>-87.9%</b>	<b>\$ 28,739,973</b>	<b>\$ 31,004,761</b>	<b>-7.3%</b>	<b>\$ 31,404,299</b>	<b>\$ 53,039,859</b>	<b>-40.8%</b>

**City of Scranton, Pennsylvania's Changes in Net Assets**

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
<b>Revenues</b>									
Program Revenue									
Fees, Fines & Charges for Services	\$ 9,363,929	\$ 8,619,678	8.6%	\$ 19,491,379	\$ 18,727,135	4.1%	\$ 28,855,308	\$ 27,346,813	5.5%
Operating Grants & Contributions	19,842,495	21,837,545	-9.1%	0	0	0.0%	19,842,495	21,837,545	-9.1%
Capital Grants & Contributions	1,316,963	4,138,754	-68.2%	0	0	0.0%	1,316,963	4,138,754	-68.2%
General Revenue									
Property Taxes	13,502,977	15,109,511	-10.6%	0	0	0.0%	13,502,977	15,109,511	-10.6%
Act 511 Taxes	27,324,945	29,400,699	-7.1%	0	0	0.0%	27,324,945	29,400,699	-7.1%
Cable TV Franchise Revenue	786,440	783,431	0.4%	0	0	0.0%	786,440	783,431	0.4%
Payment in Lieu of Taxes	203,314	132,386	53.6%	0	0	0.0%	203,314	132,386	53.6%
Investment Earnings	771,413	1,087,490	-29.1%	401,496	(452,381)	-188.8%	1,172,909	635,109	84.7%
Donations	465,663	2,292,172	-79.7%	0	0	0.0%	465,663	2,292,172	-79.7%
Sale of Property	718	(52,135)	-101.4%	0	0	0.0%	718	(52,135)	-100.0%
Miscellaneous	113,998	196,442	-42.0%	324,356	349,163	-7.1%	438,354	545,605	-19.7%
Rents and Concessions	4,575	5,060	-9.6%	0	0	0.0%	4,575	5,060	-9.6%
Provision for Uncollectible Accounts	0	0	0.0%	(157,111)	0	100.0%	(157,111)	0	100.0%
Interfund Transfers	1,847,473	0	100.0%	(1,847,473)	0	100.0%	0	0	0.0%
Intergovernmental Revenues	153,416	0	100.0%	23,340	1,232,948	-98.1%	176,756	1,232,948	-85.7%
<b>Total Revenue &amp; Transfers</b>	<b>\$ 75,698,319</b>	<b>\$ 83,551,033</b>	<b>-9.4%</b>	<b>\$ 18,235,987</b>	<b>\$ 19,856,865</b>	<b>-8.2%</b>	<b>\$ 93,934,306</b>	<b>\$ 103,407,898</b>	<b>-9.2%</b>
<b>Expenses</b>									
General Government & Admin	\$ 10,040,457	\$ 11,062,227	-9.2%	\$ 0	\$ 0	0.0%	\$ 10,040,457	\$ 11,062,227	-9.2%
Public Safety	30,929,002	32,331,192	-4.3%	0	0	0.0%	30,929,002	32,331,192	-4.3%
Public Works	14,870,670	14,485,256	2.7%	0	0	0.0%	14,870,670	14,485,256	2.7%
Health & Welfare	927,699	416,390	122.8%	0	0	0.0%	927,699	416,390	122.8%
Community Development	16,737,324	15,131,664	10.6%	0	0	0.0%	16,737,324	15,131,664	10.6%
Cultural & Recreation	1,782,493	2,088,263	-14.6%	0	0	0.0%	1,782,493	2,088,263	-14.6%
Other Expenditures	0	1,705	-100.0%	0	0	0.0%	0	1,705	-100.0%
Unallocated Depreciation	34,759	34,759	0.0%	0	0	0.0%	34,759	34,759	0.0%
Interest on Long Term Debt	5,246,688	5,273,624	-0.5%	0	0	0.0%	5,246,688	5,273,624	-0.5%
Long Term Court Awards	(14,500,000)	0	100.0%	0	0	0.0%	(14,500,000)	0	100.0%
Sewer Authority	0	0	0.0%	15,389,512	14,823,067	3.8%	15,389,512	14,823,067	3.8%
Municipal Parking Authority	0	0	0.0%	5,111,263	4,327,780	18.1%	5,111,263	4,327,780	18.1%
<b>Total Expenses</b>	<b>\$ 66,069,092</b>	<b>\$ 80,825,080</b>	<b>-18.3%</b>	<b>\$ 20,500,775</b>	<b>\$ 19,150,847</b>	<b>7.0%</b>	<b>\$ 86,569,867</b>	<b>\$ 99,975,927</b>	<b>-13.4%</b>
Change in Net Assets	\$ (19,370,772)	\$ 2,275,953	-810.6%	\$ (2,264,788)	\$ 706,018	-420.8%	\$ (21,633,560)	\$ 3,431,971	-730.4%
Net Assets, Beginning of Year	22,035,098	19,309,145	14.1%	31,004,761	30,298,743	2.3%	53,039,859	49,607,888	6.9%
<b>Net Assets, End of Year</b>	<b>\$ 2,664,326</b>	<b>\$ 22,035,098</b>	<b>-87.9%</b>	<b>\$ 28,739,973</b>	<b>\$ 31,004,761</b>	<b>-7.3%</b>	<b>\$ 31,404,299</b>	<b>\$ 53,039,859</b>	<b>-40.8%</b>

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental Activities:** Governmental activities decreased the City's net assets by \$19,370,772. This significant decrease can be directly attributed to the cost of Long Term Court Awards along with decreases in revenues such as property taxes and current and delinquent wage tax collection. The City's single greatest source of revenue is its Act 511 taxes. Act 511 taxes consist of the City's Wage Tax, Mercantile Tax, and Occupational Privilege Tax and generate roughly 36% of all governmental revenues for the City of Scranton. The City's Wage Tax is 2.4%. It is commonly incorrectly stated that the rate is 3.4%. The confusion is caused by the fact that the City's Wage Tax of 2.4% is collected along with the Scranton School District's 1% Wage Tax. The taxpayers 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.

Due to the implementation of Act 32, the Wage Tax as of January 1, 2012 will be collected by a private entity. The local Act 32 Committee appointed Berkheimer as the collector of current and delinquent wage taxes for the City of Scranton.

**Business-type activities:** Business-type activities decreased the City's net assets by \$2,264,788. The largest item contributing to this decrease was the \$1,847,473 in Interfund transfers.

### **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 down \$3,120,018 from the prior year. Total General Fund Revenue was \$55,345,423 for the year 2010 vs. \$58,465,441 for the year for the year 2009. The decrease of General Fund Revenue is directly attributed to less revenue being received in Property Taxes, Act 511 Taxes and Investment Earnings.

The General Fund expenditures for the year 2010 decreased by \$2,296,747. Total General Fund Expenditures were \$56,420,362 for 2010 versus \$58,717,109 in 2009. This can be attributed to the decrease in general government and administration. Specifically, the expenditure line item for overtime was decreased in 2010 along with capital expenditures.

At December 31, 2010, the Governmental Funds of the City of Scranton reported a combined fund balance of \$2,568,746, a decrease of \$5,342,390 over last year.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**General Fund Highlights**

Revenues decreased mainly due to Delinquent Wage Tax Collection being remitted within the current year. A larger balance was received in 2009 because of funds not being remitted in a timely manner.

The donation line item decreased dramatically due to the completion of the Meadowbrook Creek road work project in East Mountain. This project was completed through federal and state grants.

Overall expenditures decreased due to a reduction in overtime, professional services, debt funding, material and supplies, landfill and flood protection expenses.

**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.

**City of Scranton, Pennsylvania's Capital Assets**

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
Land & Land Improvement	\$ 3,485,506	\$ 3,485,506	0.0%	\$ 2,097,093	\$ 2,097,093	0.0%	\$ 5,582,599	\$ 5,582,599	0.0%
Buildings & Building Improvements	19,778,226	19,422,027	1.8%	167,098,950	134,425,197	24.3%	186,877,176	153,847,224	21.5%
Infrastructure	111,317,219	103,145,610	7.9%	0	0	0%	111,317,219	103,145,610	7.9%
Furniture, Equip., & Vehicles	17,735,974	17,162,655	3.3%	9,374,880	8,411,770	11.4%	27,110,854	25,574,425	5.7%
Construction In Progress	8,895,714	15,317,920	-41.9%	1,064,292	27,659,821	-96.2%	9,960,006	42,977,741	-331.5%
Accumulated Depreciation	(63,485,848)	(58,509,986)	8.5%	(85,416,300)	(80,666,949)	5.9%	(148,902,148)	(139,176,935)	6.5%
<b>Total</b>	<b>\$ 97,726,791</b>	<b>\$ 100,023,732</b>	<b>-2.3%</b>	<b>\$ 94,218,915</b>	<b>\$ 91,926,932</b>	<b>2.5%</b>	<b>\$ 191,945,706</b>	<b>\$ 191,950,664</b>	<b>0.0%</b>

**General Obligation and Revenue Bonds**

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

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
Balance January 1, 2010	\$ 89,129,834	\$ 92,445,828	-3.6%	\$ 92,026,739	\$ 90,439,033	1.8%	\$ 181,156,573	\$ 182,884,861	-0.9%
Debt Issued in 2010	0	0	0.0%	1,705,903	3,292,514	-48.2%	1,705,903	3,292,514	-48.2%
Accretion & Amortization	37,559	27,447	36.8%	0	0	0.0%	37,559	27,447	36.8%
Less: Retirements	(3,472,288)	(3,243,441)	3.9%	(1,946,814)	(1,704,808)	14.2%	(5,419,102)	(5,048,249)	7.3%
<b>Balance December 31, 2010</b>	<b>\$ 85,695,105</b>	<b>\$ 89,129,834</b>	<b>-3.9%</b>	<b>\$ 91,785,828</b>	<b>\$ 92,026,739</b>	<b>-0.3%</b>	<b>\$ 177,480,933</b>	<b>\$ 181,156,573</b>	<b>-2.0%</b>

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.

CITY OF SCRANTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**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, 2010 instead of December 31, 2010. This was also the case in 2004-2009, 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. The City continues to make progress in working towards having the distressed municipality declaration lifted. With the adoption of the 2012 Budget, the City of Scranton is making small steps to improving the financial condition of the City. Certain Expenditure line items such as personnel, salary and overtime have been made. Additionally, revenues such as Property taxes, Act 511 taxes and permits and fees have been increased to balance out the structural deficit. The raising of revenues line items and expenditure cuts will put the City of Scranton in a better position to access the capital markets for the back pay of fire and police personnel.

**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 Ryan McGowan, Business Administrator, City Hall, 4<sup>th</sup> Floor, and 340 N. Washington Avenue, Scranton, PA 18503.

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2010

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 20,218,050	\$ 9,487,319	\$ 29,705,369
Investments	16,078,926	0	16,078,926
Receivables:			
Taxes and Fees Receivable, Net	18,067,780	0	18,067,780
Accounts Receivable, Net	2,568,977	3,945,515	6,514,492
Accrued Interest	125,987	0	125,987
Loans Receivable	37,115,277	0	37,115,277
Due From Other Funds	574,173	67,793	641,966
Prepaid Assets	0	12,691	12,691
Other Assets	50,000	309,861	359,861
Property Held For Resale	143,052	0	143,052
Restricted Assets:			
Restricted Cash and Cash Equivalents	230,349	8,816,047	9,046,396
Restricted Investments	0	4,838,984	4,838,984
Restricted Accounts Receivable	0	31,214	31,214
Accounts Receivable - Assessments	0	386,129	386,129
Capital Assets:			
Land	3,485,506	2,097,093	5,582,599
Buildings	11,997,815	166,789,905	178,787,720
Improvements	7,780,411	309,045	8,089,456
Infrastructure	111,317,219	0	111,317,219
Vehicles, Furniture & Equipment	17,735,974	9,374,880	27,110,854
Construction In Progress	8,895,714	1,064,292	9,960,006
Accumulated Depreciation	(63,485,848)	(85,416,300)	(148,902,148)
Deferred Charges, Net	<u>1,228,556</u>	<u>1,993,661</u>	<u>3,222,217</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 194,127,918</u></b>	<b><u>\$ 124,108,129</u></b>	<b><u>\$ 318,236,047</u></b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2010

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
LIABILITIES			
Short Term Debt	\$ 9,500,000	\$ 877,223	\$ 10,377,223
Accounts Payable	4,328,074	929,958	5,258,032
Accrued Liabilities	1,585,314	408,481	1,993,795
Accrued Interest	1,047,510	0	1,047,510
Due to Other Funds	642,543	0	642,543
Current Liabilities Payable From Restricted Assets:			
Accrued Construction Cost	0	473,008	473,008
Revenue Bonds Payable	0	900,000	900,000
Accrued Revenue Bond Interest Payable	0	673,204	673,204
Current Portion Of Long Term Debt			
Lease Payable	626,311	0	626,311
General Obligation Bonds Payable	2,460,000	0	2,460,000
Notes Payable	172,382	1,257,232	1,429,614
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	20,574,157	0	20,574,157
Deferred Revenues	41,095,136	0	41,095,136
Long-Term Debt Obligations	61,633,392	89,628,596	151,261,988
Deferred Loss On Early Retirement Of Debt	(215,234)	(410,484)	(625,718)
Governmental Notes Payable	1,609,611	0	1,609,611
Capitalized Lease Debt	19,193,409	0	19,193,409
Long Term Court Awards Payable	14,500,000	0	14,500,000
Termination Benefits Payable	10,607,807	0	10,607,807
Compensated Absences	2,103,180	630,938	2,734,118
	<u>\$ 191,463,592</u>	<u>\$ 95,368,156</u>	<u>\$ 286,831,748</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	\$ 75,098,423	\$ 3,463,652	\$ 78,562,075
Restricted for:			
Debt Service	1,786,972	0	1,786,972
Reserved for Capital Projects	739,771	0	739,771
Reserved for Retirement of Long-Term Obligations	623,480	12,805,642	13,429,122
Unreserved - Undesignated	(75,584,320)	12,470,679	(63,113,641)
	<u>\$ 2,664,326</u>	<u>\$ 28,739,973</u>	<u>\$ 31,404,299</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

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	\$ 10,040,457	\$ 1,252,806	\$ 34,033	\$ 0	\$ (8,753,618)	\$ 0	\$ (8,753,618)
Public Safety	30,929,002	1,035,019	2,788,434	0	(27,105,549)	0	(27,105,549)
Public Works	14,870,670	3,996,716	1,515,438	1,237,230	(8,121,286)	0	(8,121,286)
Health & Welfare	927,699	839,550	297,895	0	209,746	0	209,746
Community Development	16,737,324	2,187,995	15,206,695	79,733	737,099	0	737,099
Culture and Recreation	1,782,493	51,843	0	0	(1,730,650)	0	(1,730,650)
Other Expenditure	0	0	0	0	0	0	0
Unallocated Depreciation	34,758	0	0	0	(34,758)	0	(34,758)
Interest on Long Term Debt	5,246,688	0	0	0	(5,246,688)	0	(5,246,688)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 80,569,091	\$ 9,363,929	\$ 19,842,495	\$ 1,316,963	\$ (50,045,704)	\$ 0	\$ (50,045,704)
Business-Type Activities							
Sewer Authority	\$ 15,389,512	\$ 16,207,449	\$ 0	\$ 0	\$ 0	\$ 817,937	\$ 817,937
Municipal Parking Authority	5,111,263	3,283,930	0	0	0	(1,827,333)	(1,827,333)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 20,500,775	\$ 19,491,379	\$ 0	\$ 0	\$ 0	\$ (1,009,396)	\$ (1,009,396)
TOTAL GOVERNMENT	\$ 101,069,866	\$ 28,855,308	\$ 19,842,495	\$ 1,316,963	\$ (50,045,704)	\$ (1,009,396)	\$ (51,055,100)
General Revenues:							
Property taxes, levied for general purposes					\$ 13,502,977	\$ 0	\$ 13,502,977
Act 511 Taxes					27,324,945	0	27,324,945
Cable Television Franchise Revenue					786,440	0	786,440
Payments in Lieu of Taxes					203,314	0	203,314
Investment Earnings					771,413	401,496	1,172,909
Miscellaneous					113,998	324,356	438,354
Gain On Disposal Of Fixed Assets					718	0	718
Rents and Concessions					4,575	0	4,575
Donations					465,663	0	465,663
Provision for Uncollectible Accounts					0	(157,111)	(157,111)
Interfund Transfers					1,847,473	(1,847,473)	0
Long Term Court Awards					(14,500,000)	0	(14,500,000)
Intergovernmental Revenues					153,416	23,340	176,756
Total General Revenues and Transfers					\$ 30,674,932	\$ (1,255,392)	\$ 29,419,540
Change in Net Assets					\$ (19,370,772)	\$ (2,264,788)	\$ (21,635,560)
Net Assets, Beginning of Year					22,035,098	31,004,761	53,039,859
NET ASSETS, END OF YEAR					\$ 2,664,326	\$ 28,739,973	\$ 31,404,299

\*See accompanying notes and independent auditors' report.\*

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 4,891,662	\$ 1,793,035	\$ 5,991,395	\$ 12,676,092
Taxes and Fees Receivable, Net	18,067,780	0	0	18,067,780
Accounts Receivable, Net	1,107,452	685,440	776,085	2,568,977
Loans Receivable	0	36,200,364	914,913	37,115,277
Due From Other Funds	82,370	480,638	11,165	574,173
Other Assets	0	50,000	0	50,000
Restricted Assets:				
Restricted Cash and Cash Equivalents	107,562		0	107,562
Property Held for Resale	0	0	143,052	143,052
<b>TOTAL ASSETS</b>	<b>\$ 24,256,826</b>	<b>\$ 39,209,477</b>	<b>\$ 7,836,610</b>	<b>\$ 71,302,913</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 DECEMBER 31, 2010

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 2,890,421	\$ 276,780	\$ 864,077	\$ 4,031,278
Tax Anticipation Notes Payable	9,500,000	0	0	9,500,000
Other Current Liabilities	1,045,467	539,847	0	1,585,314
Due to Other Funds	78,534	66,701	497,308	642,543
Deferred Revenues	10,964,978	38,261,888	3,748,166	52,975,032
<b>TOTAL LIABILITIES</b>	<b>\$ 24,479,400</b>	<b>\$ 39,145,216</b>	<b>\$ 5,109,551</b>	<b>\$ 68,734,167</b>
<b>FUND BALANCES</b>				
Reserve for Debt Service	\$ 0	\$ 0	\$ 1,786,972	\$ 1,786,972
Reserved for Capital Projects	0	0	739,771	739,771
Unreserved - Undesignated	(222,574)	64,261	200,316	42,003
<b>TOTAL FUND BALANCES</b>	<b>\$ (222,574)</b>	<b>\$ 64,261</b>	<b>\$ 2,727,059</b>	<b>\$ 2,568,746</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 24,256,826</b>	<b>\$ 39,209,477</b>	<b>\$ 7,836,610</b>	<b>\$ 71,302,913</b>

"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, 2010

Total Fund Balance - Total Governmental Funds	\$	2,568,746
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 \$ 161,212,639 accumulated depreciation is \$ 63,485,848.		97,726,791
Governmental funds report the effects of bond issuance cost when the debt is first issued, whereas these amounts are deferred and amortized.		1,228,556
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.		6,348,214
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.		4,616,764
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	\$	7,541,958
Investments		16,078,926
Accrued Interest		125,987
Restricted Cash & Cash Equivalents		122,787
Accounts Payable		(296,796)
Workers' Compensation Claims Payable		<u>(20,574,157)</u>
Decrease In Net Assets		2,998,705
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.		914,918
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	\$	(64,093,392)
Governmental notes payable		(1,781,993)
Accrued interest payable		(1,047,510)
Capitalized Lease payable		(19,819,720)
Long Term Court Awards Payable		(14,500,000)
Compensated absences		(2,103,180)
Termination Benefits		(10,607,807)
Deferred loss on early retirement of debt		<u>215,234</u>
Increase in Long Term Liabilities		<u>(113,738,368)</u>
Net Assets of Governmental Activities	\$	<u><u>2,664,326</u></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, 2010

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>				
Taxes	\$ 42,307,622	\$ 0	\$ 170,261	\$ 42,477,883
Intergovernmental	2,788,434	11,333,680	5,871,033	19,993,147
Departmental Earnings	2,296,790	0	19,671	2,316,461
Refuse Disposal Fee	4,237,135	0	0	4,237,135
Licenses and Permits	2,135,856	0	0	2,135,856
Cable Television Franchise Revenue	786,440	0	0	786,440
Payments in Lieu of Taxes	203,314	0	0	203,314
Investment Income	13,978	5,191	20,580	39,749
User Fee	51,843	0	0	51,843
Other Revenues	58,348	0	1,104,774	1,163,122
Rents and Concessions	0	0	4,575	4,575
Donations	465,663	0	0	465,663
Program Income	<u>0</u>	<u>1,322,910</u>	<u>0</u>	<u>1,322,910</u>
 Total Revenues	 <u>\$ 55,345,423</u>	 <u>\$ 12,661,781</u>	 <u>\$ 7,190,894</u>	 <u>\$ 75,198,098</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	\$ 13,516,396	\$ 0	\$ 200,436	\$ 13,716,832
Public Safety	28,896,017	0	0	28,896,017
Public Works	12,100,910	0	970,001	13,070,911
Health and Welfare	0	0	927,699	927,699
Community Development	687,685	12,681,235	3,314,333	16,683,253
Culture and Recreation	1,219,354	0	0	1,219,354
Debt Service				
Debt Service-Principal	0	0	3,220,371	3,220,371
Debt Service-Interest	0	0	4,049,301	4,049,301
Capital Outlay	<u>0</u>	<u>0</u>	<u>243,850</u>	<u>243,850</u>
 Total Expenditures	 <u>\$ 56,420,362</u>	 <u>\$ 12,681,235</u>	 <u>\$ 12,925,991</u>	 <u>\$ 82,027,588</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>\$ (1,074,939)</u>	 <u>\$ (19,454)</u>	 <u>\$ (5,735,097)</u>	 <u>\$ (6,829,490)</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, 2010

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):				
Sale Of Property	\$ 0	\$ 0	\$ 100,000	\$ 100,000
Proceeds From Tax Anticipation Note	14,500,000	0	0	14,500,000
Operating Transfers In	3,385,451	0	6,886,190	10,271,641
Operating Transfers Out	(6,552,156)	0	(1,872,012)	(8,424,168)
Gain (Loss) on Discharge of Indebtedness	163,433	0	(163,433)	0
Repayment of Tax Anticipation Note	<u>(14,960,373)</u>	<u>0</u>	<u>0</u>	<u>(14,960,373)</u>
Net Other Financing Sources (Uses)	<u>\$ (3,463,645)</u>	<u>\$ 0</u>	<u>\$ 4,950,745</u>	<u>\$ 1,487,100</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (4,538,584)	\$ (19,454)	\$ (784,352)	\$ (5,342,390)
Fund Balances, Beginning of Year	<u>4,316,010</u>	<u>83,715</u>	<u>3,511,411</u>	<u>7,911,136</u>
FUND BALANCES, END OF YEAR	<u>\$ (222,574)</u>	<u>\$ 64,261</u>	<u>\$ 2,727,059</u>	<u>\$ 2,568,746</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, 2010

Net Changes in Fund Balances - Total Governmental Funds \$ (5,342,390)

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	\$	3,411,166	
Gain On Disposal Of Fixed Assets		(99,282)	
Depreciation		<u>(5,608,824)</u>	(2,296,940)

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. (1,649,947)

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. (396,235)

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	\$	731,664	
Elimination of expenditure on general fund and revenue on internal service fund		3,994,398	
Recording on expenditures on internal service fund in governmental activities		<u>(2,679,056)</u>	2,047,006

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. (33,453)

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. 27,521

"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, 2010

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.

38,392

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 Discount, Net of Amortization	\$	(37,559)	
Deferred Loss on Early Retirement of Debt, Net of Amortization		(453,125)	
Repayment of General Bond Principal		2,360,000	
Repayment of Governmental Note Payable		384,453	
Repayment of Capitalized Lease Principal		727,835	
Bond Issuance Cost, Net of Amortization		<u>(275,599)</u>	2,706,005

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.

29,269

Long-Term Court Awards represents accrual for back pay awards for the period January 1, 2003 to December 31, 2010. This amount differs from the amount reported in the Governmental Funds because it has not been liquidated with expendable available resources as of date of the financial statements.

(14,500,000)

Change in Net Assets of Governmental Activities

\$ (19,370,772)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2010

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	\$ 9,230,691	\$ 254,215	\$ 2,413	\$ 9,487,319	\$ 7,541,958	
Investments	0	0	0	0	16,078,926	
Accounts Receivable, Net	3,729,511	216,004	0	3,945,515	0	
Accrued Interest	0	0	0	0	125,987	
Due From Other Funds	0	67,793	0	67,793	0	
Prepaid Assets	0	12,691	0	12,691	0	
Other Current Assets	309,861	0	0	309,861	0	
Restricted Assets:						
Restricted Cash and Cash Equivalents	8,035,130	780,917	0	8,816,047	122,787	
Restricted Investments	1,606,839	3,232,145	0	4,838,984	0	
Restricted Accrued Interest Receivable	3,925	27,289	0	31,214	0	
Accounts Receivable - Assessments	386,129	0	0	386,129	0	
Capital Assets:						
Land	130,029	1,967,064	0	2,097,093	0	
Land Improvements	0	309,045	0	309,045	0	
Buildings and Improvements	110,332,872	56,457,033	0	166,789,905	0	
Equipment	8,941,293	433,587	0	9,374,880	0	
Construction In Progress	1,025,536	38,756	0	1,064,292	0	
Accumulated Depreciation	(75,162,789)	(30,253,511)	0	(85,416,300)	0	
Deferred Charges, Net	203,506	1,790,155	0	1,993,661	0	
<b>TOTAL ASSETS</b>	<b>\$ 68,772,533</b>	<b>\$ 55,333,183</b>	<b>\$ 2,413</b>	<b>\$ 124,108,129</b>	<b>\$ 23,869,658</b>	

"See accompanying notes and independent auditors' report"

CITY OF SCRANTON, PENNSYLVANIA  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2010

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS	MUNICIPAL PARKING AUTHORITY	NON-MAJOR MUNICIPAL RECREATION AUTHORITY	TOTAL	
<b>LIABILITIES</b>					
Short-Term Debt	\$ 127,223	\$ 750,000	\$ 0	\$ 877,223	\$ 0
Current Portion Of Long Term Debt	1,159,732	97,500	0	1,257,232	0
Accounts Payable	807,028	122,930	0	929,958	296,796
Accrued Liabilities	341,456	67,025	0	408,481	0
Current Liabilities Payable From Restricted Assets:					
Revenue Bonds Payable	45,000	855,000	0	900,000	0
Accrued Construction Cost	284,262	188,746	0	473,008	0
Accrued Revenue Bond Interest Payable	269,868	403,336	0	673,204	0
Noncurrent Liabilities:					
Workers' Compensation Claims Payable	0	0	0	0	20,574,157
Long-Term Debt Obligations	38,649,715	50,978,881	0	89,628,596	0
Deferred Loss On Early Retirement Of Debt	0	(410,484)	0	(410,484)	0
Accrued Compensated Absences	630,938	0	0	630,938	0
<b>TOTAL LIABILITIES</b>	<b>\$ 47,315,222</b>	<b>\$ 53,057,934</b>	<b>\$ 0</b>	<b>\$ 95,368,156</b>	<b>\$ 20,870,953</b>
<b>NET ASSETS</b>					
Investment in Capital Asset, Net of Related Debt	\$ 5,457,494	\$ (1,993,842)	\$ 0	\$ 3,463,652	\$ 0
Reserved for Retirement of Long-Term Obligations	9,046,764	3,758,078	0	12,805,642	2,998,705
Unreserved - Undesignated	11,953,053	515,213	2,413	12,470,679	0
<b>TOTAL NET ASSETS</b>	<b>\$ 26,457,311</b>	<b>\$ 2,280,249</b>	<b>\$ 2,413</b>	<b>\$ 28,739,973</b>	<b>\$ 2,998,705</b>

\*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, 2010

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 16,207,449	\$ 3,283,930	\$ 0	\$ 19,491,379	\$ 3,994,398
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,629,158
Salaries, Wages, and Fringe Benefits	6,405,668	503,534	0	6,909,202	0
Insurance	222,467	214,977	0	437,444	0
Depreciation	3,471,567	1,277,784	0	4,749,351	0
Other	4,508,266	570,956	40	5,079,262	49,898
Total Operating Expenses	\$ 14,607,968	\$ 2,567,251	\$ 40	\$ 17,255,259	\$ 2,679,056
Income (Loss) from Operations	\$ 1,519,481	\$ 716,679	\$ (40)	\$ 2,236,120	\$ 1,315,342
Non Operating Revenues (Expenses):					
Investment Income	\$ 145,930	\$ 233,237	\$ 22,369	\$ 401,536	\$ 731,664
Interest Expense	(685,409)	(2,487,513)	0	(3,172,922)	0
Bond Discount	0	(11,723)	0	(11,723)	0
State Grant Revenue	0	23,340	0	23,340	0
Other Revenues	336,079	0	0	336,079	0
Provision for Uncollectible Accounts	0	(157,111)	0	(157,111)	0
Amortization of Deferred Charges	(16,135)	(56,499)	0	(72,634)	0
Total Non operating Revenues (Expenses)	\$ (219,535)	\$ (2,456,269)	\$ 22,369	\$ (2,653,435)	\$ 731,664
Transfers Out	\$ 0	\$ 0	\$ (1,847,473)	\$ (1,847,473)	\$ 0
Net Transfers Out	\$ 0	\$ 0	\$ (1,847,473)	\$ (1,847,473)	\$ 0
Change in Net Assets	\$ 1,299,946	\$ (1,739,590)	\$ (1,825,144)	\$ (2,264,788)	\$ 2,047,006
Net Assets at Beginning of Year, as restated	25,157,365	4,019,839	1,827,557	31,004,761	951,699
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 26,457,311</b>	<b>\$ 2,280,249</b>	<b>\$ 2,413</b>	<b>\$ 28,739,973</b>	<b>\$ 2,998,705</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	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	\$ 15,533,363	\$ 2,938,044	\$ 0	\$ 18,472,207	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	3,994,398
Cash Paid To Other Funds	0	0	0	0	(2,950,896)
Cash Payments to Vendors	(4,456,719)	(1,621,557)	(40)	(6,078,316)	(3,246,992)
Cash Payments to Employees	(6,159,040)	0	0	(6,359,040)	0
<b>Net Cash Provided by (Used In) Operating Activities</b>	<b>\$ 4,217,604</b>	<b>\$ 1,317,287</b>	<b>\$ (40)</b>	<b>\$ 6,034,651</b>	<b>\$ (2,203,490)</b>
Cash Flows From Non Capital Financing Activities:					
Other Revenue Received	\$ 336,079	\$ 0	\$ 0	\$ 336,079	\$ 0
<b>Net Cash Used in Non Capital Financing Activities</b>	<b>\$ 336,079</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 336,079</b>	<b>\$ 0</b>
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (5,613,009)	\$ (973,245)	\$ 0	\$ (6,586,254)	\$ 0
Proceeds from Issuance of Debt	1,705,903	0	0	1,705,903	0
Grant Income	0	36,281	0	36,281	0
Interest Paid on Bonds	(1,522,024)	(2,649,559)	0	(4,171,583)	0
Retirement of Bonds	(1,796,597)	(638,619)	0	(2,435,216)	0
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>\$ (7,225,727)</b>	<b>\$ (4,225,142)</b>	<b>\$ 0</b>	<b>\$ (11,450,869)</b>	<b>\$ 0</b>
Cash Flow From Investing Activities:					
Sale of Investments	\$ 0	\$ 499,636	\$ 1,820,200	\$ 2,319,836	\$ 20,846,332
Purchase Of Investments	0	0	0	0	(116,152,931)
Operating Transfer From Other Funds	0	0	(1,847,473)	(1,847,473)	0
Interest on Cash and Investments	259,535	145,258	27,273	432,066	726,974
<b>Net Cash (Used In) Provided By Investing Activities</b>	<b>\$ 259,535</b>	<b>\$ 644,894</b>	<b>\$ 0</b>	<b>\$ 904,429</b>	<b>\$ 5,420,375</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (1,912,509)</b>	<b>\$ (2,262,961)</b>	<b>\$ (40)</b>	<b>\$ (4,175,510)</b>	<b>\$ 3,216,885</b>
Cash and Cash Equivalents, Beginning of Year	19,128,330	3,298,093	2,453	22,428,876	4,447,860
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 17,265,821</b>	<b>\$ 1,035,132</b>	<b>\$ 2,413</b>	<b>\$ 18,303,366</b>	<b>\$ 7,664,745</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	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	\$ 1,519,481	\$ 716,679	\$ (40)	\$ 2,236,120	\$ 1,315,342
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities					
Depreciation	3,471,567	1,277,784	0	4,749,351	0
Change in Assets and Liabilities:					
(Increase) Decrease in:					
Accounts Receivable	(675,212)	(205,672)	0	(880,884)	0
Due From Other Funds	0	0	0	0	(2,950,896)
Other Assets	55,253	1,204	0	56,457	0
Increase (Decrease):	309,751	(479,697)	0	(169,946)	95,104
Accounts Payable	(15,004)	6,989	0	(8,015)	0
Accrued Liabilities	51,768	0	0	51,768	0
Accrued Compensated Absences	0	0	0	0	(663,120)
Accrued Workers' Compensation Claims Payable	0	0	0	0	0
<b>Net Cash Provided by (Used In) Operating Activities</b>	<b>\$ 4,717,604</b>	<b>\$ 1,317,287</b>	<b>\$ (40)</b>	<b>\$ 6,034,851</b>	<b>\$ (2,203,490)</b>
Reconciliation of Total Cash and Cash Equivalents					
Current Assets - Cash and Cash Equivalents	\$ 9,230,691	\$ 254,215	\$ 2,413	\$ 9,487,319	\$ 7,541,958
Restricted Assets - Cash and Cash Equivalents	<u>8,035,130</u>	<u>780,917</u>	<u>0</u>	<u>8,816,047</u>	<u>1,222,787</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 17,265,821</b>	<b>\$ 1,035,132</b>	<b>\$ 2,413</b>	<b>\$ 18,303,366</b>	<b>\$ 7,664,745</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
DECEMBER 31, 2010

ASSETS

Cash and Short - Term Investments	\$	995,777
Receivables:		
Members' Contributions	\$	18,419
Due from General fund		577
Accrued Interest		<u>174</u>
Total Receivables		19,170
Investments at Contract Value		<u>54,019,826</u>
TOTAL ASSETS		<u>\$55,034,773</u>

LIABILITIES & NET ASSETS

Liabilities		
Accrued Administrative Expenses	\$	15,896
Accrued Investment Expenses		<u>44,869</u>
TOTAL LIABILITIES		<u>\$ 60,765</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		<u>\$54,974,008</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, and GASB 39 determining whether organizations are component units – an amendment of GASB Statement #14 the financial reporting entity, these entities have been placed in one of the following categories.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

- 1) Component Unit - A legally separate organization for which meet the following criteria: a) Financial interdependency, b) Selection of governing authority, c) Designation of management, d) Ability to significantly influence operations, e) Scope of public service, f) Accountability for fiscal matters, and g) Special Financing Relationships. This type of entity may then be reported in one of the two following manners:

Discrete presentation - Financial data for the component unit is presented in a column separate from that of the City's financial data. There is no such presentation included in the City's government wide and fund financial statements.

Blended presentation - Financial data for the component unit is presented in the same manner as that of the City's financial data and is reported as part of the City's financial operations.

- 2) Joint Venture - A legal entity or other organization resulting from a contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility. There are no such entities included in the City's reporting entity.
- 3) Related Organization - An organization for which the City is not financially accountable even though the City appoints a voting majority of the organization's governing board.

As a result of applying these criteria, the following organizations have been categorized and determined to be and are presented as blended component units for the year ended December 31, 2010.

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, 2009 to March 31, 2010.

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.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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

2. Proprietary Fund Types:

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

The City reports 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.

**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, 2010, upon which the 2010 levy was based, was approximately \$387 million. Delinquent taxes are collected by an outside collection agency. The schedule for real estate taxes levied is as follows:

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

February 1	Original levy date
February 1 - March 1	2 1/2% discount period
March 1 - April 30	2% discount period
May 1 - June 30	Face payment period
July 1 - January 15	10% penalty period
January 16	Lien date

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

The millage rate at January 1, 2010 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 \$2,097,000 at March 31, 2010. 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 three million dollars.

The Parking Authority provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. The balance of the allowance was \$157,111 for the year ended December 31, 2010.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

	<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	

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

	<u>Redevelopment Authority Useful Life</u>	<u>Governmental Funds</u>
Equipment	15 years	
Building and Building Improvements		20-50 years
Land Improvements		10-15 years
Operating Equipment		05-07 years
Vehicles		08-15 years
Roadways		30-50 years
Traffic Systems		15 years

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

Fund Financial Statements

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

Long-term Debt

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Bond 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".

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, 2010 aggregate liability for unused vacation and sick pay is \$2,103,180.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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, 2010, \$38,813,665 of the government's bank balance of \$38,751,765 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 2,987,955
Uninsured and collateral held by pledging banks' trust department not in the city's name	<u>35,825,710</u>
Total	<u>\$ 38,813,665</u>

As of December 31, 2010, the City had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings ( 1 )	Weighted Average Months To Maturity ( 2 )
GOVERNMENTAL FUNDS				
Primary Government:				
Internal Service Fund				
Corporate Obligations:				
Domestic	\$ 383,806	\$ 383,806	A 1	60.71
Domestic	6,054,019	6,054,019	A A A	34.49
Domestic	1,602,988	1,602,988	A 2	47.13
Domestic	832,870	832,870	A 3	14.06
Domestic	515,935	515,935	A A 1	53.85
Domestic	943,918	943,918	A A 2	63.72
Domestic	588,724	588,724	A A 3	27.46
Governmental Securities:				
Federal Agency Notes	<u>5,156,666</u>	<u>5,156,666</u>	A A A	73.23
Total Internal Service Fund	<u>\$ 16,078,926</u>	<u>\$ 16,078,926</u>		
TOTAL PRIMARY GOVERNMENT	<u>\$ 16,078,926</u>	<u>\$ 16,078,926</u>		

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings ( 1 )	Weighted Average Months To Maturity ( 2 )
<b>BUSINESS TYPE ACTIVITIES</b>				
Sewer Authority				
Governmental Securities:				
U.S. Government Obligations	\$ 1,606,839	\$ 1,606,839	N/A	2.00
Total Sewer Authority	<u>\$ 1,606,839</u>	<u>\$ 1,606,839</u>		
Parking Authority				
Other Obligations				
Interest Earnings Investment				
Contract (At Cost)	\$ 1,173,528	\$ 1,173,528	N/A	168.00
Governmental Securities:				
U.S. Government Obligations	2,058,617	2,058,617	N/A	323.00
Total Parking Authority	<u>\$ 3,232,145</u>	<u>\$ 3,232,145</u>		
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<u><b>\$ 4,838,984</b></u>	<u><b>\$ 4,838,984</b></u>		
<b>TOTAL INVESTMENTS</b>	<u><b>\$ 20,917,910</b></u>	<u><b>\$ 20,917,910</b></u>		
Fiduciary Funds				
Pension Trust Fund				
Mutual Funds				
Equity Funds	\$ 43,310,781	\$ 43,310,781	N/A	N/A
Cash and Cash Equivalents	995,777	995,777	N/A	N/A
Fixed Income	<u>10,709,045</u>	<u>10,709,045</u>	A A	N/A
Total Pension Trust Fund	<u>\$ 55,015,603</u>	<u>\$ 55,015,603</u>		

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

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. On September 21, 2010, PNC Advisors was replaced with Penn Security for \$10,000,000 and Fidelity Bank for the remaining assets and the Workmen's Compensation Fund.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2      Cash and Cash Equivalents and Investments (Continued)

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.

Note 3      Taxes and Fees Receivable

Taxes and fees receivable in the General Fund consist of the following at December 31, 2010:

Current Real Estate Taxes	\$ 527,685
Delinquent Real Estate Taxes	13,647,923
Act 511 Taxes:	
Earned Income	4,906,572
Local Service Tax	514,803
Business Priviledge/Mercantile	164,969
Delinquent Refuse Disposal Fee	<u>9,967,254</u>
Total	\$ 29,729,206
Less:	
Allowance for Uncollectible Taxes & Fees	<u>(11,661,426)</u>
Net	<u>\$ 18,067,780</u>

Of the above, the receivables not expected to be collected within one year are \$5,900,000 delinquent real estate taxes and \$4,500,000 delinquent refuse disposal fee after provision for uncollectible taxes and fees.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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, 2010 is as follows:

	Due From Other Funds	Due To Other Funds
General Fund		
OECD	\$ 66,701	\$ 0
Special Cities	14,524	10,164
Capital Projects	1,145	0
Parking Authority	0	67,793
Pension Fund	0	577
Special Cities		
General Fund	10,164	14,524
Capital Projects	0	1,001
OECD		
Redevelopment Authority	480,638	0
General Fund	0	66,701
Redevelopment Authority		
OECD	0	480,638
Capital Projects Fund		
Special Cities	1,001	0
General Fund	0	1,145
Pension		
General Fund	577	0
Parking Authority		
General Fund	67,793	0
	\$ 642,543	\$ 642,543

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance at January 1, 2010	Additions	Disposals	Balance at December 31, 2010
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 3,485,506	\$ 0	\$ 0	\$ 3,485,506
Construction in Progress	15,317,920	922,436	(7,344,642)	8,895,714
Total Capital Assets Not Being Depreciated	\$ 18,803,426	\$ 922,436	\$ (7,344,642)	\$ 12,381,220
Capital assets being depreciated				
Building	\$ 11,907,443	\$ 90,372	\$ 0	\$ 11,997,815
Land & Building Improvements	7,514,584	265,827	0	7,780,411
Infrastructure	103,145,610	8,210,468	(38,859)	111,317,219
Vehicles, Furniture & Equipment	17,162,655	1,265,027	(691,708)	17,735,974
Total Capital Assets being Depreciated	\$ 139,730,292	\$ 9,831,694	\$ (730,567)	\$ 148,831,419
Totals at Historical Cost	\$ 158,533,718	\$ 10,754,130	\$ (8,075,209)	\$ 161,212,639

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets (Continued)

	Balance at January 1, 2010	Additions	Disposals	Balance at December 31, 2010
Governmental Activities:				
Less: Accumulated Depreciation				
Building	\$ (3,686,711)	\$ (243,634)	\$ 0	\$ (3,930,345)
Land & Building Improvements	(2,629,052)	(623,084)	0	(3,252,136)
Infrastructure	(42,524,640)	(3,391,055)	1,943	(45,913,752)
Vehicles, Furniture & Equipment	(9,669,583)	(1,351,051)	631,019	(10,389,615)
Total Accumulated Depreciation	<u>\$ (58,509,986)</u>	<u>\$ (5,608,824)</u>	<u>\$ 632,962</u>	<u>\$ (63,485,848)</u>
Governmental Activities Capital Assets, Net	<u>\$ 100,023,732</u>	<u>\$ 5,145,306</u>	<u>\$ (7,442,247)</u>	<u>\$ 97,726,791</u>
Business - Type Activities:				
Capital assets not being depreciated				
Land	\$ 2,097,093	\$ 0	\$ 0	\$ 2,097,093
Construction in Progress	27,659,821	2,103,609	(28,699,138)	1,064,292
Total Capital Assets Not Being Depreciated	<u>\$ 29,756,914</u>	<u>\$ 2,103,609</u>	<u>\$ (28,699,138)</u>	<u>\$ 3,161,385</u>
Capital assets being depreciated				
Land Improvements	\$ 309,045	\$ 0	\$ 0	\$ 309,045
Building & Building Improvements	134,116,152	32,673,753	0	166,789,905
Equipment	8,411,770	963,110	0	9,374,880
Total Capital Assets being Depreciated	<u>\$ 142,836,967</u>	<u>\$ 33,636,863</u>	<u>\$ 0</u>	<u>\$ 176,473,830</u>
Totals at Historical Cost	<u>\$ 172,593,881</u>	<u>\$ 35,740,472</u>	<u>\$ (28,699,138)</u>	<u>\$ 179,635,215</u>
Less: Accumulated Depreciation				
Land Improvements	\$ (5,943,594)	\$ (3,126,390)	\$ 0	\$ (9,069,984)
Building & Building Improvements	(67,755,024)	(1,267,743)	0	(69,022,767)
Equipment	(6,968,331)	(355,218)	0	(7,323,549)
Total Accumulated Depreciation	<u>\$ (80,666,949)</u>	<u>\$ (4,749,351)</u>	<u>\$ 0</u>	<u>\$ (85,416,300)</u>
Business - Type Capital Assets, Net	<u>\$ 91,926,932</u>	<u>\$ 30,991,121</u>	<u>\$ (28,699,138)</u>	<u>\$ 94,218,915</u>

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 220,465
Public Safety	557,154
Public Works	4,051,715
Parks & Recreation	743,877
Community Development	855
Unallocated	34,758
Total Depreciation Expense	<u>\$ 5,608,824</u>

Governmental Activities:

Construction-in-progress of \$8,895,714 consists of expenditures relating to the construction of flood control projects and improvement to various city roads and bridges. Commitments at December 31, 2010 totaled approximately \$5,000,000.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5      Capital Assets (Continued)

Business Type Activities:

Construction in progress at December 31, 2010 for the Parking Authority, consisted of expenditures paid in connection with renovations and fit-out improvements related to preparing rental space in the Parking Authority Garage for future tenants. Estimated completion date is mid 2011 in the amount of \$38,756.

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, 2010, the County did not invoice the Sewer Authority. Total construction in progress for this project at March 31, 2010 amounted to \$5,287,787.

Note 6      Short-Term Debt

The following summarizes the changes in short-term debt of the General Fund and the Enterprise Fund for the year ended December 31, 2010:

	<u>Balance</u> 01/01/10	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> 12/31/10
General Fund				
Tax Anticipation Note Payable	\$       0	\$ 9,500,000	\$       0	\$ 9,500,000
Sewer Authority:				
Line of Credit	615,624	2,420,761	(2,909,162)	127,223
Parking Authority:				
Line of Credit	<u>750,000</u>	<u>0</u>	<u>0</u>	<u>750,000</u>
	<u>\$1,365,624</u>	<u>\$11,920,761</u>	<u>\$(2,909,162)</u>	<u>\$ 10,377,223</u>

Sewer Authority

The City of Scranton borrowed \$9,500,000 4% interest tax anticipation note payable in 2010 from a local bank. The note was not repaid until January 2011. Total repayment in 2011 was \$9,880,473.33.

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 (2.275% at March 31, 2010). 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, 2010 amounted to \$127,223.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 6 Short-Term Debt (Continued)

Parking Authority

During 2009, the Authority paid off the line of credit at Pennstar Bank and drew \$750,000 on a new line of credit with Fidelity Deposit & Discount Bank for working capital purposes in 2009. The maximum borrowing capacity is \$750,000 and the line bears interest at the national prime rate (3.25% at December 31, 2010). The balance drawn down on the line of credit at December 31, 2010 amounts to \$750,000.

Note 7 Long-Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2010:

	Balance 01/01/10	Additions	(Amortization) Accretion	Transfer of Note Payable	Retirements	Balance 12/31/10	Due With In One Year
<b>GOVERNMENTAL ACTIVITIES</b>							
<b>General Obligations Bonds:</b>							
Emmaus General Authority Series 2002	\$ 6,240,000	\$ 0	\$ 0	\$ 0	\$ 235,000	\$ 6,005,000	\$ 245,000
Series A of 2003	2,450,000	0	0	0	460,000	1,990,000	475,000
Series B of 2003	31,410,000	0	0	0	760,000	30,650,000	790,000
Series C of 2003	16,170,000	0	0	0	360,000	15,810,000	380,000
Series D of 2003	10,495,000	0	0	0	545,000	9,950,000	570,000
(Amortization) / Accretion	(349,167)	0	37,559	0	0	(311,608)	0
<b>Total General Obligations Bonds</b>	<b>\$ 66,415,833</b>	<b>\$ 0</b>	<b>\$ 37,559</b>	<b>\$ 0</b>	<b>\$ 2,360,000</b>	<b>\$ 64,093,392</b>	<b>\$ 2,460,000</b>
<b>Lease Obligations Payable</b>							
2005 Capitalized Lease Vehicles	\$ 89,912	\$ 0	\$ 0	\$ 0	\$ 89,912	\$ 0	\$ 0
2007 Capitalized Lease Vehicles	229,987	0	0	0	77,920	157,067	76,604
2007 Capitalized Lease Vehicles	20,226	0	0	0	20,226	0	0
2008 Capitalized Lease Vehicles	123,484	0	0	0	68,859	54,625	54,625
2006 Capitalized Lease Equipment Energy System	1,298,946	0	0	0	80,918	1,218,028	83,087
2004 Capitalized Lease Buildings	3,075,000	0	0	0	305,000	2,770,000	340,000
2006 Capitalized Lease Buildings	9,810,000	0	0	0	85,000	9,725,000	65,000
2008 Capitalized Lease Buildings	5,900,000	0	0	0	5,000	5,895,000	5,000
<b>Total Lease Obligations Payable</b>	<b>\$ 20,547,555</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 727,835</b>	<b>\$ 19,819,720</b>	<b>\$ 626,311</b>
<b>Notes Payable</b>							
Note Payable	\$ 0	\$ 0	\$ 0	\$ 1,609,326	\$ 0	\$ 1,609,326	\$ 49,000
<b>Redevelopment Authority</b>							
Note Payable	\$ 293,456	\$ 0	\$ 0	\$ 0	\$ 120,789	\$ 172,667	\$ 123,382
Note Payable	1,672,990	0	0	1,609,326	263,664	0	0
<b>Total Redevelopment Authority</b>	<b>\$ 2,166,446</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,609,326</b>	<b>\$ 384,453</b>	<b>\$ 172,667</b>	<b>\$ 123,382</b>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 89,129,834</b>	<b>\$ 0</b>	<b>\$ 37,559</b>	<b>\$ 0</b>	<b>\$ 3,472,288</b>	<b>\$ 83,693,105</b>	<b>\$ 3,256,693</b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

	Balance 01/01/10	Additions	(Amortization) Accretion	Transfer of Note Payable	Retirements	Balance 12/31/10	Due With In One Year
<b>BUSINESS-TYPE ACTIVITIES</b>							
<b>Revenue Bonds</b>							
<b>Major Enterprise Fund:</b>							
<b>Parking Authority</b>							
2004 Series	\$ 14,900,000	\$ 0	\$ 0	\$ 0	\$ 205,000	\$ 14,695,000	\$ 215,000
2006 Series	4,740,000	0	0	0	280,000	4,460,000	290,000
2007 Series	32,130,000	0	0	0	85,000	32,045,000	350,000
<b>Sewer Authority</b>							
2007 Series	16,805,000	0	0	0	75,000	16,730,000	45,000
<b>Total Revenue Bonds</b>	<b>\$ 68,575,000</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 645,000</b>	<b>\$ 67,930,000</b>	<b>\$ 900,000</b>
<b>Notes Payable</b>							
<b>Major Enterprise Fund:</b>							
<b>Sewer Authority</b>							
Equipment Note Payable	\$ 20,863	\$ 0	\$ 0	\$ 0	\$ 20,863	\$ 0	\$ 0
Equipment Note Payable	52,319	0	0	0	52,319	0	0
Equipment Note Payable	42,685	0	0	0	42,685	0	0
Equipment Note Payable	7,561,543	0	0	0	257,181	7,304,362	270,393
2000 Series Pennvest	3,603,282	0	0	0	212,736	3,390,546	219,306
2002 Series Pennvest	3,659,263	0	0	0	201,361	3,457,902	199,254
2003 Series Pennvest	1,985,881	0	0	0	111,005	1,874,876	103,625
2004 Series Pennvest	3,233,389	0	0	0	149,903	3,083,486	152,840
2007 Series Pennvest	2,492,514	1,705,903	0	0	185,142	4,013,275	214,314
<b>Parking Authority</b>							
2009 Loan Payable	800,000	0	0	0	68,619	731,381	97,500
	<b>\$ 23,451,739</b>	<b>\$ 1,705,903</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,301,814</b>	<b>\$ 23,855,828</b>	<b>\$ 1,257,232</b>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 92,026,739</b>	<b>\$ 1,705,903</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,946,814</b>	<b>\$ 91,785,828</b>	<b>\$ 2,157,232</b>
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 181,156,573</b>	<b>\$ 1,705,903</b>	<b>\$ 37,559</b>	<b>\$ 0</b>	<b>\$ 5,419,102</b>	<b>\$ 177,480,933</b>	<b>\$ 5,415,925</b>

A summary of long-term debt outstanding at December 31, 2010 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, 2010 is 2.337%.

**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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

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

General Obligation Bonds, Series B of 2003:

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

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 Fidelity Deposit and Discount Bank, 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. 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, 2010 was \$172,667. Interest payments in 2010 totaled \$4,026.

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, 2010 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, 2010 was \$1,609,326. Interest payments in 2010 totaled \$56,632. In November 2010, the Authority terminated its contract with the agency responsible for the collection of delinquent taxes thus limiting its ability to repay the debt obligation with Pennstar Bank. In April 2011, the Authority was notified by Pennstar Bank that it was in default on its note payable due to the violation of various provisions set forth in the Note Agreement. As part of the original purchase agreement, the City of Scranton was obligated for repayment of the Note if the delinquent tax collections were not adequate to repay the Note. The City of Scranton assumed responsibility for the collection of the delinquent taxes and the related debt obligation. Based on this information, the Authority has recorded transactions to remove the delinquent taxes receivable, the debt reserve account and the debt obligation with Pennstar Bank from its financial statements for the year ended December 31, 2010. Based on this information, the City has recorded transactions to record the delinquent taxes receivable, the Debt Reserve Account, and the debt obligation with Pennstar Bank on its financial statements for the year ended December 31, 2010.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Parking Authority:

2004 Parking Revenue Bonds:

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

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Mandatory Redemption of Term Bonds:

The 2006 Bonds stated to mature on September 15, 2018 (the "2018 Bonds"), September 15, 2022 (the "2022 Bonds"), September 15, 2030 (the "2030 Bonds"), and September 15, 2033 (the "2033 Bonds"), are subject to mandatory redemption by the 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.

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 2007 Sinking Fund, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the redemption date.

2009 Parking Authority Loan Payable:

During 2009, the Authority obtained a term loan from Pennstar Bank. The proceeds from the loan were used to pay off the existing Pennstar line of credit and fund debt service payments. The loan has one year of interest only payments, with monthly principal and interest payments commencing May 1, 2010 in the amount of \$12,031 per month. Interest is fixed at a rate of 6.75%. The term loan matures in April, 2017.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Sewer Authority:

2007 Revenue Bonds Payable:

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

Original Redemption:

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

Mandatory Redemption:

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

Sewer Authority Notes Payable:

The Sewer Authority had three (3) equipment notes payable outstanding during the year ended March 31, 2010. Interest rates ranged between 4.29% and 4.74% with monthly payments totaling \$15,806. Maturities ranged between July 2009 and March 2010.

In 2008 the Sewer Authority received an \$8,000,000 equipment 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, 2010 was \$7,304,362.

Sewer Authority 2000 Series (PENNVEST Loan):

The balance outstanding at March 31, 2010 amounted to \$3,390,456. 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2010 amounted to \$3,457,902. 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, 2010 amounted to \$1,874,876. 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, 2010 was \$3,083,486. 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 May 2007.

Sewer Authority 2007 Series (PENNVEST Loan):

In November, 2007, the Authority closed on a fifth loan in the amount of \$4,329,181. The balance outstanding at March 31, 2009 was \$4,013,275. The security is the same as above. Monthly principal and interest payments began May 1, 2009 and are due up to and including April, 2029. Interest is at 1.214% for the first 60 months and 2.428% thereafter. Construction was substantially completed for this phase in March 2010 and the final disbursement of \$130,764 was not yet received.

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

Capitalized Lease Obligation:

On December 22, 2004, the Sewer Authority issued \$4,000,000 5.99% Guaranteed Lease Revenue Bonds for the benefit of the City of Scranton pursuant to a sale/lease back agreement entered into between the Sewer Authority and the City. The Sewer Authority purchased the new DPW complex located on Popular Street and leased the complex back to the City at the same terms as the Guaranteed Lease Revenue Bonds. The City will purchase the complex for \$1 at the end of the lease term. The amount outstanding on the bonds at December 31, 2010 was \$2,770,000. Interest is payable on June 15th and December 15th each year with final maturity on December 15, 2016. Principal is payable annually starting on December 15, 2006. The City has guaranteed the Sewer Authority Debt.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

On December 1, 2006, the Redevelopment Authority issued \$10,000,000 6.10% Federally Taxable Guaranteed Lease Revenue Bonds, Series of 2006, for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2024. The Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and interest on the Bonds. The Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the Bonds at December 31, 2010 was \$9,725,000. Interest is payable on May 1<sup>st</sup> and November 1<sup>st</sup> each year, starting on May 1, 2008. Principal is payable annually starting on November 1, 2008.

On November 1, 2008 the Redevelopment Authority issued \$5,900,000 Guaranteed Variable Lease Revenue Bonds, Series of 2008 for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2026. The Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and interest on the Bonds. The Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the Bonds at December 31, 2010 was \$5,895,000.

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, 2010 is .397%.

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 contained quarterly and annual payments of \$13,279 and \$72,424 respectively. One lease was paid off in March 2009 and the other was paid off in October 2010.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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%. Maturity March 2012.

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%. Maturity September 2011.

Capitalized Energy System:

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

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%. Maturity October 2010.

Future Debt Service Requirements as of December 31, 2010 are as follows:

Year Ending December 31,	Governmental Activities City General Obligation Bonds			Year Ending December 31,	Governmental Activities Redevelopment Authority Note Payable		
	Principal	Interest	Total		Principal	Interest	Total
2011	\$ 2,460,000	\$ 2,895,247	\$ 5,355,247	2011	\$ 123,382	\$ 2,618	\$ 126,000
2012	2,545,000	2,810,467	5,355,467	2012	49,285	514	49,799
2013	2,640,000	2,719,199	5,359,199	2013	0	0	0
2014	2,745,000	2,620,775	5,365,775	2014	0	0	0
2015	2,315,000	2,512,048	4,827,048	2015	0	0	0
2016-2020	14,680,000	10,799,551	25,479,551				
2021-2025	16,665,000	7,064,883	23,729,883				
2026-2030	16,305,000	3,385,816	19,690,816				
2031-2035	4,050,000	411,075	4,461,075				
	<u>\$ 64,405,000</u>	<u>\$ 35,219,061</u>	<u>\$ 99,624,061</u>		<u>\$ 172,667</u>	<u>\$ 3,132</u>	<u>\$ 175,799</u>
	Governmental Activities City Notes Payable						
Year Ending December 31,	Principal	Interest	Total				
2011	\$ 49,000	\$ 51,942	\$ 100,942				
2012	1,560,326	30,000	1,590,326				
2013	0	0	0				
2014	0	0	0				
2015	0	0	0				
	<u>\$ 1,609,326</u>	<u>\$ 81,942</u>	<u>\$ 1,691,268</u>				

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

Year Ending December 31,	Business-Type Activities Revenue Bonds & Notes Payable Parking Authority			Year Ending December 31,	Business-Type Activities Revenue Bonds & Notes Payable Sewer Authority		
	Principal	Interest	Total		Principal	Interest	Total
2011	\$ 952,500	\$ 2,583,953	\$ 3,536,453	2011	\$ 1,204,732	\$ 1,544,979	\$ 2,749,711
2012	999,289	2,543,363	3,542,652	2012	1,174,639	1,483,672	2,658,311
2013	1,041,551	2,500,165	3,541,716	2013	1,230,696	1,470,155	2,700,851
2014	1,084,318	2,454,491	3,538,809	2014	1,241,864	1,436,454	2,678,318
2015	1,132,625	1,617,896	2,750,521	2015	1,302,164	1,396,692	2,698,856
2016-2020	5,851,098	11,280,411	17,131,509	2016-2020	10,950,171	5,025,193	15,975,364
2021-2025	7,055,000	9,818,014	16,873,014	2021-2025	4,944,147	4,500,154	9,444,301
2026-2030	8,945,000	7,878,944	16,823,944	2026-2030	2,561,044	3,162,409	5,723,453
2031-2035	11,480,000	5,365,407	16,845,407	2031-2035	7,305,000	2,369,663	9,674,663
2036-2040	<u>13,390,000</u>	<u>1,932,002</u>	<u>15,322,002</u>	2036-2040	<u>7,940,000</u>	<u>315,000</u>	<u>8,255,000</u>
	<u>\$ 51,931,381</u>	<u>\$ 47,974,646</u>	<u>\$ 99,906,027</u>		<u>\$ 39,854,457</u>	<u>\$ 22,704,371</u>	<u>\$ 62,558,828</u>

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

Year Ending December 31,	Principal	Interest	Total
2011	\$ 626,311	\$ 849,178	\$ 1,475,489
2012	609,924	815,592	1,425,516
2013	559,065	780,331	1,339,396
2014	588,906	747,690	1,336,596
2015	1,163,996	713,153	1,877,149
2016-2020	5,495,986	2,600,857	8,096,843
2021-2025	8,570,532	867,329	9,437,861
2026-2030	<u>2,205,000</u>	<u>5,102</u>	<u>2,210,102</u>
TOTAL	<u>\$ 19,819,720</u>	<u>\$ 7,379,232</u>	<u>\$ 27,198,952</u>

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

The cost of the assets are \$ 6,301,779

The accumulated depreciation expense through December 31, 2010 is (1,286,306)

The net book value of the capitalized leased building and vehicles is \$ 5,015,473

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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, 2010.

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, 2010.

The amount of defeased debt outstanding at December 31, 2010 is as follows:

2001 Series A General Obligation Bonds	\$ 2,310,000.
2001 Series C General Obligation Bonds	\$ 17,005,000.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

The breakdown of interest expense as of December 31, 2010 is as follows:

	Interest Expense Charged to Expense	Interest Expense Capitalized
City of Scranton	\$ 5,186,010	\$ 0
Sewer Authority of the City of Scranton	685,409	836,614
Parking Authority of the City of Scranton	2,487,513	119,064
Redevelopment Authority of the City of Scranton	60,678	0
	\$ 8,419,610	\$ 955,678

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, 2010, the City's self-insured retention limits are as follows:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management (Continued)

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim Loss Reserve of \$20,574,157 at December 31, 2010 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, 2010. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2010 is calculated as follows:

Claims and Costs Paid	\$3,292,278
Decrease in Actuarial	
Discounted Loss Reserve	(663,120)
Worker's Compensation Claims	<u>\$2,629,158</u>

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-10	\$ 21,237,277	\$ 2,629,158	\$ 3,292,278	\$ 20,574,157
31-Dec-09	\$ 20,981,099	\$ 4,129,073	\$ 3,872,895	\$ 21,237,277

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2010 were as follows:

	In	Out
General Fund		
Debt Service Fund	\$ 0	\$ 6,552,156
Liquid Fuels Fund	1,527,735	0
Recreation Fund	1,847,473	0
Special Cities	10,243	0
Special Cities		
Capital Projects Fund	0	274,229
General Fund	0	10,243
Capital Projects		
Special Cities	274,229	0
General Fund	0	0
Debt Service Fund	0	59,805
Debt Service		
General Fund	6,552,156	0
Capital Projects Fund	59,805	
Recreation Fund		
General Fund	0	1,847,473
Liquid Fuels		
General Fund	0	1,527,735
	<u>\$ 10,271,641</u>	<u>\$ 10,271,641</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits

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

The Police Pension Plan provides for normal retirement with 25 years of credited service with a retirement age of 55 years for the members hired on or after July 1, 1987. For members hired prior to July 1, 1987, the Plan provides for normal retirement with 25 years of credited service with a retirement age of 65 years. The Fireman's pension plan provides for normal retirement at age 55 with 25 years of credited service for members hired on or after July 1, 1987. For members hired prior to July 1, 1987, the Plan provides for normal retirement with 25 years of credited service. The Nonuniformed pension plan provides for normal retirement at age 55 with 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Contributions, based on the MMO, in 2010 consisted of the following:

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
City/Commonwealth	\$ 1,087,920	\$ 1,957,996	\$ 794,872	\$ 3,840,788
Employees	<u>192,579</u>	<u>187,212</u>	<u>36,109</u>	<u>415,900</u>
 Total	 <u>\$ 1,280,499</u>	 <u>\$ 2,145,208</u>	 <u>\$ 830,981</u>	 <u>\$ 4,256,688</u>

A summary of the change in the net pension obligation as of January 1, 2009, 2007, and 2005 is presented below:

	<u>January 1, 2009</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 1,768,554	\$ 1,486,750	\$ 250,161	\$ 3,505,465
Interest on pension benefit obligation	<u>3,275,089</u>	<u>5,230,654</u>	<u>1,013,884</u>	<u>9,519,627</u>
Annual pension cost	\$ 5,043,643	\$ 6,717,404	\$ 1,264,045	\$ 13,025,092
Contributions made	(2,939,613)	(5,004,922)	(1,642,671)	(9,587,206)
Decrease for assumption change	(7,805,021)	(6,242,729)	(786,539)	(14,834,289)
Contribution above (below) total financial requirement	543,148	888,261	(204,150)	1,227,259
Net actuarial (gain) loss on plan assets	<u>12,472,320</u>	<u>8,886,195</u>	<u>3,571,435</u>	<u>24,929,950</u>
Net Increase (Decrease) in pension benefit obligation	\$ 7,314,477	\$ 5,244,209	\$ 2,202,120	\$ 14,760,806
Pension benefit obligation beginning	<u>20,087,448</u>	<u>32,544,362</u>	<u>6,396,973</u>	<u>59,028,783</u>
Pension benefit obligation ending	<u>\$ 27,401,925</u>	<u>\$ 37,788,571</u>	<u>\$ 8,599,093</u>	<u>\$ 73,789,589</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2007				
	Police	Firemen	Non-Uniformed	Total
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 cost	\$ 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 (loss) 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>
January 1, 2005				
	Police	Firemen	Non-Uniformed	Total
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 cost	\$ 5,401,477	\$ 9,040,929	\$ 758,797	\$ 15,201,203
Contributions made	(3,595,385)	(8,120,276)	(776,706)	(12,492,367)
Bond proceeds deposited in the plan	(5,382,726)	(3,948,919)	(690,736)	(10,022,381)
Increase for plan amendment	0	0	1843708	1843708
Net actuarial gain (loss) 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)

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2009. 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, 2009			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$61,223,688	\$ 64,840,397	\$12,007,430	\$138,071,515
Actuarial value of assets	<u>33,821,763</u>	<u>27,051,826</u>	<u>3,408,337</u>	<u>64,281,926</u>
Pension benefit obligation	<u>\$27,401,925</u>	<u>\$ 37,788,571</u>	<u>\$ 8,599,093</u>	<u>\$ 73,789,589</u>
Funded ratio	<u>55.00%</u>	<u>42.00%</u>	<u>28.00%</u>	<u>47.00%</u>
Covered payroll	<u>\$ 6,560,337</u>	<u>\$ 6,014,938</u>	<u>\$ 5,487,828</u>	<u>\$ 18,063,103</u>
Pension benefit obligation to covered payroll	<u>418.00%</u>	<u>628.00%</u>	<u>157.00%</u>	<u>409.00%</u>
	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>67.00%</u>	<u>50.00%</u>	<u>39.00%</u>	<u>57.00%</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>318.00%</u>	<u>563.00%</u>	<u>120.00%</u>	<u>339.00%</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2005

	Police	Firemen	Non- Uniformed	Total
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>64.00%</u>	<u>44.00%</u>	<u>42.00%</u>	<u>53.00%</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>334.00%</u>	<u>631.00%</u>	<u>120.00%</u>	<u>374.00%</u>

Historical trend information for the plans is presented below:

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

Police Pension Fund

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
01-Jan-05	5,401,477	166.20%	21,943,150
01-Jan-07	5,434,501	62.28%	20,087,448
01-Jan-09	5,043,643	58.30%	27,401,925

Firemen Pension Fund

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
01-Jan-05	9,040,929	133.50%	37,595,551
01-Jan-07	7,571,451	90.82%	32,544,362
01-Jan-09	6,717,404	74.50%	37,788,571

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Non - Uniformed Pension Fund			
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
01-Jan-05	758,797	193.40%	5,973,081
01-Jan-07	1,215,199	92.82%	6,396,973
01-Jan-09	1,264,045	130.00%	8,599,093

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 \$241,186 in 2010.

The Parking Authority sponsors a money purchase pension plan covering all eligible employees. Pension expense was \$58,071 for the year ended December 31, 2010.

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 \$396 per month for the year ended March 31, 2010 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2010 amounted to \$353,729.

Effective January 1, 2006, the Sewer Authority adopted a money purchase pension plan for employees who meet age and service requirements and are not members of the Union. Employer contributions are 4% of eligible compensation and employees must contribute 2%. Employees are also permitted to make additional contributions up to the maximum allowed by law. For the year ended March 31, 2010, employer contributions totaled \$22,535 and employee contributions totaled \$19,892.

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Under the public works contract, the City will provide health insurance to retirees and spouses only from age 62 to 65. The City's contribution is equal to the cost in effect in 1994 plus 75% of any increase above those costs. The retiree pays the other 25%.

The City uses the cash basis to account for these expenditures. The City has not determined the amount of such expenditures for 2010 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 December 31, 2010 and April 30, 2043.

Annual termination benefits of \$474,694 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	\$10,646,199
Payment benefits made during the year	(487,897)
Change in net present value of benefits	<u>449,505</u>
End of year present value	<u>\$10,607,807</u>

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 91% of the total taxes collected by the City in 2010. 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 \$774,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$38,700,000 of tax revenues on behalf of the City in 2010.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies

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

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

The 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 and are not estimable at the time of the issuance of 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.

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 2003-2007 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. In 2011, the Supreme Court of Pennsylvania has reversed the Commonwealth Court Decision. The City along with the Department of Economic and Community Development have filed a formal request for reconsideration with the Supreme Court. The Supreme Court has determined that a hearing will not be heard.

The City is involved in a labor arbitration in which both the Police and firefighters sought interest arbitration with the City to determine their collective bargaining agreements for the period beginning January 1, 2009. Both panels issued awards covering the period from January 1, 2009 through 2014. Both awards contained substantial wage increases and failed to address many aspects of the City's Revised Recovery Plan. The City filed Petitions to vacate both awards and the Court of Common Pleas modified the award. The City

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

believes that the Court failed to address many aspects of the City's Revised Recovery Plan. The decision was appealed to the Commonwealth Court of Pennsylvania. The Commonwealth Court modified both decisions, reinstated certain wage increases, and granted the City numerous rights it sought based upon its Revised Recovery Plan. The City is in the process of filing for an allowance of Appeals with the Supreme Court of Pennsylvania. The City believes that the suit is without merit and is vigorously defending its position. If unsuccessful, the potential exposure could be material to the financial statements.

In accordance with the two preceding paragraphs, the City has estimated the potential settlement for contract years 2003 through 2010 could be \$14,500,000 and has accrued this amount in the Government Wide Financial Statements as of December 31, 2010.

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. 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. In 2011, the Supreme Court of Pennsylvania has reviewed the Commonwealth Court decision. The City along with the Department of Economic and Community Development has filed a formal request for reconsideration with the Supreme Court. The Supreme Court has determined that a hearing will not be held. The City cannot estimate the potential loss at the time of the issuance of these financial statements. However, the loss can be material to the financial statements.

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 and are not estimable at the time of the issuance of the financial statements.

The Unions have filed grievances and gone to arbitration over the City's implementation of the healthcare provisions of the Commonwealth Court Orders. An arbitrator found in favor of the unions and ordered the City to rescind the co-pays and return these co-pays to the individual employees. The City filed a Petition to vacate the

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

award, which was denied by the Court of Common Pleas. The City has appealed to the Commonwealth Court and upheld the previous ruling in 2012. The vacated award was not overturned, the potential exposure could be material to the financial statements and are not estimable at the time of the issuance of the financial statements.

The City has been named, as a party defendant in two (2) cases with Construction contractors. The contractors are seeking payment allegedly due for services allegedly performed pursuant to a construction agreement. Management of the City is responding to the litigation and intends to contest this case vigorously. If unsuccessful, the potential exposure could be material to the financial statements.

The City is involved in a lawsuit over the development of Phase 3 of a section of the City. The City contends that the Plaintiff did not have a protected property interest. The City believes that the suit is without merit and is vigorously defending its position. If unsuccessful, the potential exposure could be material to the financial statements.

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

**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.

During 2003, the City funded the Internal Service Fund with \$13,000,000 from the 2003 debt issuance, thereby meeting the various annual increments through 2013.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

In February 2006, the Bureau and the City entered into the third amendment to the irrevocable agreement of trust modification of the December 2001 Settlement Agreement and Release. The agreement modification to allow a deficit of no more than 25% between the city's outstanding liability and asset value of the Reserve Account of the City's Worker's Compensation Trust Fund and will require that any shortfall above the permitted 25% deficit amount be funded over a five-year period.

Note 14      Distressed Municipality Status

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

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	92,971,076	294,175,981	387,147,057
Millage Rates	10.3145%	2.2432%	
Total Original Taxes Levied	9,589,502	6,598,956	\$ 16,188,457
Add: Additions			5,405
Less: Abatements			<u>(36,232)</u>
Real Estate Taxes To be Collected At Face			\$ 16,157,630
Add: Penalties Collected			<u>108,066</u>
Total Before Deductions			\$ 16,265,696
Less: Discounts Taken			(237,518)
Less: Home Vouchers			(13,562)
Less: KOZ Credits			(329,894)
Less: Delinquent Taxes Returned			(2,013,953)
Less: Other Miscellaneous			<u>(15,918)</u>
<b>TOTAL REAL ESTATE TAXES COLLECTED</b>			<b><u>\$ 13,654,851</u></b>

Note 16      Subsequent Events

Pursuant to ASC 855, subsequent events were evaluated through February 16, 2012, which is the date the financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$ 43,011,633	\$ 43,011,633	\$ 42,307,622	\$ (704,011)
Intergovernmental	2,910,000	2,910,000	2,788,434	(121,566)
Departmental Earnings	2,961,362	2,961,362	2,296,790	(664,572)
Refuse Disposal Fees	5,006,960	5,006,960	4,237,135	(769,825)
Licenses and Permits	2,827,657	2,827,657	2,135,856	(691,801)
Cable Television Franchise Revenue	826,000	826,000	786,440	(39,560)
Payments in Lieu of Taxes	118,250	118,250	203,314	85,064
Interest Income	108,277	108,277	13,978	(94,299)
User Fees	60,564	60,564	51,843	(8,721)
Other Revenues	55,024	55,024	58,348	3,324
Donations	1,500	1,500	465,663	464,163
Rents and Concessions	700	700	0	(700)
<b>Total Revenues</b>	<b><u>\$ 57,887,927</u></b>	<b><u>\$ 57,887,927</u></b>	<b><u>\$ 55,345,423</u></b>	<b><u>\$ (2,542,504)</u></b>
Expenditures				
General Government	\$ 13,813,217	\$ 13,769,998	\$ 13,516,396	\$ 253,602
Public Safety	28,026,027	28,188,679	28,896,017	(707,338)
Public Works	11,465,046	11,494,606	12,100,910	(606,304)
Community Development	753,382	767,042	687,685	79,357
Culture and Recreation	1,237,124	1,237,124	1,219,354	17,770
<b>Total Expenditures</b>	<b><u>\$ 55,294,796</u></b>	<b><u>\$ 55,457,449</u></b>	<b><u>\$ 56,420,362</u></b>	<b><u>\$ (962,913)</u></b>
<b>Excess of Revenues Over   Expenditures</b>	<b><u>\$ 2,593,131</u></b>	<b><u>\$ 2,430,478</u></b>	<b><u>\$ (1,074,939)</u></b>	<b><u>\$ (3,505,417)</u></b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Financing Sources (Uses)				
Proceeds from Tax Anticipation				
Notes	\$ 14,500,000	\$ 14,500,000	\$ 14,500,000	\$ 0
Advances On Delinquent Real Estate Taxes	2,000,000	2,000,000	0	(2,000,000)
Operating Transfers In	3,477,819	3,477,819	3,385,451	(92,368)
Operating Transfers Out	(7,112,150)	(7,112,150)	(6,552,156)	559,994
Gain on Discharge of Indebtness	0	0	163,433	163,433
Contingency	(268,800)	(106,147)	0	106,147
Payments of Tax Anticipation				
Notes	(15,190,000)	(15,190,000)	(14,960,373)	229,627
Net Other Financing Sources (Uses)	<u>\$ (2,593,131)</u>	<u>\$ (2,430,478)</u>	<u>\$ (3,463,645)</u>	<u>\$ (1,033,167)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 0	\$ 0	\$ (4,538,584)	\$ (4,538,584)
Fund Balance, Beginning of Year	<u>4,316,010</u>	<u>4,316,010</u>	<u>4,316,010</u>	<u>0</u>
FUND DEFICIT, END OF YEAR	<u>\$ 4,316,010</u>	<u>\$ 4,316,010</u>	<u>\$ (222,574)</u>	<u>\$ (4,538,584)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2010

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 40,090	\$ 765,386	\$ 672,051	\$ 2,726,896	\$ 1,786,972	\$ 5,991,395
Accounts Receivable, Net	0	55	0	776,030	0	776,085
Loans Receivable	0	0	914,913	0	0	914,913
Due From Other Funds	0	1,001	0	10,164	0	11,165
Property Held for Resale	0	0	143,052	0	0	143,052
<b>TOTAL ASSETS</b>	<b><u>\$ 40,090</u></b>	<b><u>\$ 766,442</u></b>	<b><u>\$ 1,730,016</u></b>	<b><u>\$ 3,513,090</u></b>	<b><u>\$ 1,786,972</u></b>	<b><u>\$ 7,836,610</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 0	\$ 25,526	\$ 66,475	\$ 772,076	\$ 0	\$ 864,077
Due to Other Funds	0	1,145	480,638	15,525	0	497,308
Deferred Revenues	0	0	1,022,677	2,725,489	0	3,748,166
<b>TOTAL LIABILITIES</b>	<b><u>\$ 0</u></b>	<b><u>\$ 26,671</u></b>	<b><u>\$ 1,569,790</u></b>	<b><u>\$ 3,513,090</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 5,109,551</u></b>
<b>FUND BALANCES</b>						
Reserve for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,786,972	\$ 1,786,972
Reserved for Capital Projects	0	739,771	0	0	0	739,771
Unreserved - Undesignated	40,090	0	160,226	0	0	200,316
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 40,090</u></b>	<b><u>\$ 739,771</u></b>	<b><u>\$ 160,226</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,786,972</u></b>	<b><u>\$ 2,727,059</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 40,090</u></b>	<b><u>\$ 766,442</u></b>	<b><u>\$ 1,730,016</u></b>	<b><u>\$ 3,513,090</u></b>	<b><u>\$ 1,786,972</u></b>	<b><u>\$ 7,836,610</u></b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>Revenues:</b>						
Taxes	\$ 0	\$ 0	\$ 170,261	\$ 0	\$ 0	\$ 170,261
Intergovernmental	1,515,438	0	2,700,665	1,654,930	0	5,871,033
Departmental Earnings	0	0	0	19,671	0	19,671
Interest Income	2,083	1,471	1,861	8,447	6,718	20,580
Other Revenues	0	0	55,650	1,049,124	0	1,104,774
Rents and Concessions	0	0	4,575	0	0	4,575
<b>Total Revenues</b>	<b>\$ 1,517,521</b>	<b>\$ 1,471</b>	<b>\$ 2,933,012</b>	<b>\$ 2,732,172</b>	<b>\$ 6,718</b>	<b>\$ 7,190,894</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	\$ 0	\$ 25	\$ 1,674	\$ 198,737	\$ 0	\$ 200,436
Public Works	0	0	0	970,001	0	970,001
Health and Welfare	0	0	0	927,699	0	927,699
Community Development	0	0	2,963,070	351,263	0	3,314,333
<b>Debt Service</b>						
Debt Service-Principal	0	0	384,453	0	2,835,918	3,220,371
Debt Service-Interest	0	0	60,678	0	3,988,623	4,049,301
Capital Outlay	0	243,850	0	0	0	243,850
<b>Total Expenditures</b>	<b>\$ 0</b>	<b>\$ 243,875</b>	<b>\$ 3,409,875</b>	<b>\$ 2,447,700</b>	<b>\$ 6,824,541</b>	<b>\$ 12,925,991</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 1,517,521</b>	<b>\$ (242,404)</b>	<b>\$ (476,863)</b>	<b>\$ 284,472</b>	<b>\$ (6,817,823)</b>	<b>\$ (5,735,097)</b>
<b>Other Financing Sources (Uses):</b>						
Sale Of Property	\$ 0	\$ 0	\$ 100,000	\$ 0	\$ 0	\$ 100,000
Loss on Discharge of Indebtedness	0	0	(163,433)	0	0	(163,433)
Operating Transfers In	0	274,229	0	0	6,611,961	6,886,190
Operating Transfers Out	(1,527,735)	(59,805)	0	(284,472)	0	(1,872,012)
<b>Net Other Financing Sources (Uses)</b>	<b>\$ (1,527,735)</b>	<b>\$ 214,424</b>	<b>\$ (63,433)</b>	<b>\$ (284,472)</b>	<b>\$ 6,611,961</b>	<b>\$ 4,950,745</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses</b>	<b>\$ (10,214)</b>	<b>\$ (27,980)</b>	<b>\$ (540,296)</b>	<b>\$ 0</b>	<b>\$ (205,862)</b>	<b>\$ (784,352)</b>
<b>Fund Balances, Beginning of Year</b>	<b>50,304</b>	<b>767,751</b>	<b>700,522</b>	<b>0</b>	<b>1,992,834</b>	<b>3,511,411</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 40,090</b>	<b>\$ 739,771</b>	<b>\$ 160,226</b>	<b>\$ 0</b>	<b>\$ 1,786,972</b>	<b>\$ 2,727,059</b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
YEAR ENDED DECEMBER 31, 2010

Additions:

Contributions

Employee	\$ 518,462	
Employer	1,052,354	
Commonwealth State Aid	<u>2,788,434</u>	
Total Contributions		\$ 4,359,250

Investment Income:

Investment Return (Depreciation)	\$ <u>7,328,023</u>	
Total Investment Income		<u>7,328,023</u>

TOTAL ADDITIONS \$ 11,687,273

DEDUCTIONS

Benefit Payments	\$ 9,734,081	
Refund of Members' Contributions	89,339	
Administrative Expenses	<u>408,014</u>	
Total Deductions		<u>10,231,434</u>

CHANGE IN NET ASSETS \$ 1,455,839

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

Beginning of Year		<u>53,518,169</u>
END OF YEAR		<u>\$ 54,974,008</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, 2010

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes				
Act 511:				
Wage	\$21,400,000	\$21,400,000	\$20,744,376	\$ (655,624)
Delinquent Wage Tax	500,000	500,000	601,463	101,463
Real Estate Transfer	2,605,800	2,605,800	2,216,784	(389,016)
Mercantile	1,381,788	1,381,788	1,141,962	(239,826)
Business Privilege	803,119	803,119	617,886	(185,233)
Local Service Tax	1,580,365	1,580,365	1,787,535	207,170
Delinquent Mercantile	89,000	89,000	39,149	(49,851)
Delinquent Business Privilege	61,002	61,002	78,313	17,311
Total Act 511	<u>\$28,421,074</u>	<u>\$28,421,074</u>	<u>\$27,227,468</u>	<u>\$ (1,193,606)</u>
Current Real Estate	\$13,600,000	\$13,600,000	\$13,654,851	\$ 54,851
Delinquent Real Estate	876,000	876,000	1,327,826	451,826
Public Utility	58,412	58,412	63,034	4,622
Penalties & Interest	56,147	56,147	34,443	(21,704)
Total Taxes	<u>\$43,011,633</u>	<u>\$43,011,633</u>	<u>\$42,307,622</u>	<u>\$ (704,011)</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,710,000	\$ 2,710,000	\$ 2,788,434	\$ 78,434
OECD Reimbursement Demolition Program	200,000	200,000	0	(200,000)
Total Intergovernmental	<u>\$ 2,910,000</u>	<u>\$ 2,910,000</u>	<u>\$ 2,788,434</u>	<u>\$ (121,566)</u>
Departmental Earnings				
Parking Meters	\$ 1,440,000	\$ 1,440,000	\$ 1,080,765	\$ (359,235)
Fines and Forfeits	1,122,383	1,122,383	923,790	(198,593)
Pave Cuts	198,000	198,000	155,816	(42,184)
Report Copies Fire & Police	85,479	85,479	64,529	(20,950)
Alarm Fees	82,500	82,500	46,700	(35,800)
Zoning	33,000	33,000	25,190	(7,810)
Total Departmental Earnings	<u>\$ 2,961,362</u>	<u>\$ 2,961,362</u>	<u>\$ 2,296,790</u>	<u>\$ (664,572)</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, 2010

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 5,006,960	\$ 5,006,960	\$ 4,237,135	\$ (769,825)
Licenses and Permits	2,827,657	2,827,657	2,135,856	(691,801)
Cable Television Franchise Revenue	826,000	826,000	786,440	(39,560)
Payments in Lieu of Taxes	118,250	118,250	203,314	85,064
Interest Income	108,277	108,277	13,978	(94,299)
User Fees	60,564	60,564	51,843	(8,721)
Other Revenues	55,024	55,024	58,348	3,324
Donations	1,500	1,500	465,663	464,163
Rents and Concessions	700	700	0	(700)
<b>Total Other Revenues</b>	<b>\$ 9,004,932</b>	<b>\$ 9,004,932</b>	<b>\$ 7,952,577</b>	<b>\$ (1,052,355)</b>
<b>Total Revenues</b>	<b>\$57,887,927</b>	<b>\$57,887,927</b>	<b>\$55,345,423</b>	<b>\$ (2,542,504)</b>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$14,500,000	\$14,500,000	\$14,500,000	\$ 0
Advances On Delinquent Real Estate Taxes	2,000,000	2,000,000	0	(2,000,000)
Gain on Discharge of Indebtness	0	0	163,433	163,433
Operating Transfers in from:				
Liquid Fuels Fund	1,577,819	1,577,819	1,527,735	(50,084)
Other Funds	1,900,000	1,900,000	1,857,716	(42,284)
<b>Total Other Financing Sources</b>	<b>\$19,977,819</b>	<b>\$19,977,819</b>	<b>\$18,048,884</b>	<b>\$ (1,928,935)</b>
<b>Total Revenues and Other Financing Sources</b>	<b>\$77,865,746</b>	<b>\$77,865,746</b>	<b>\$73,394,307</b>	<b>\$ (4,471,439)</b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>Expenditures</b>				
<b>General Government</b>				
Salaries and Wages	\$ 2,049,901	\$ 2,049,902	\$ 2,045,673	\$ 4,229
Employee Benefits	3,624,872	3,624,872	3,541,735	83,137
Workers' Compensation Claims	4,100,000	4,090,890	3,994,398	96,492
General Insurance	980,000	996,539	1,092,136	(95,597)
Office Supplies and Expense	244,645	213,233	189,014	24,219
Professional Fees	499,000	505,630	465,544	40,086
Telephone	131,000	137,463	137,279	184
Equipment	63,500	60,566	60,553	13
Travel	7,400	3,291	3,020	271
Other	203,800	201,900	240,049	(38,149)
Boards and Commissions	195,000	195,000	161,667	33,333
Utilities	848,949	805,729	684,949	120,780
Grants and Contributions	15,150	15,150	15,100	50
Court Awards & Settlements	200,000	200,000	215,446	(15,446)
Parking Authority Ticket Issuers	650,000	669,833	669,833	0
<b>Total General Government</b>	<b><u>\$13,813,217</u></b>	<b><u>\$13,769,998</u></b>	<b><u>\$13,516,396</u></b>	<b><u>\$ 253,602</u></b>
<b>Public Safety</b>				
Salaries and Wages	\$14,734,469	\$14,734,469	\$15,083,093	\$ (348,624)
Employee Benefits	12,916,588	13,079,240	13,459,922	(380,682)
Supplies	119,170	141,587	138,789	2,798
Equipment	196,300	186,813	168,437	18,376
Training	34,000	36,002	35,610	392
Travel	5,000	9,051	8,649	402
Professional Fees	20,500	1,517	1,517	0
<b>Total Public Safety</b>	<b><u>\$28,026,027</u></b>	<b><u>\$28,188,679</u></b>	<b><u>\$28,896,017</u></b>	<b><u>\$ (707,338)</u></b>
<b>Public Works</b>				
Salaries and Wages	\$ 4,429,209	\$ 4,429,209	\$ 4,470,849	\$ (41,640)
Employee Benefits	1,966,165	1,966,165	2,072,720	(106,555)
Supplies	298,500	304,756	298,315	6,441
Professional Fees	174,300	169,591	169,341	250
Equipment	1,536,872	1,429,985	1,867,192	(437,207)
Electric	475,000	475,000	426,106	48,894
Landfill Fees	1,600,000	1,473,249	1,476,303	(3,054)
Salt	200,000	262,807	227,934	34,873
Flood Protection	85,000	79,515	77,755	1,760
Street Lighting	700,000	904,329	1,014,395	(110,066)
<b>Total Public Works</b>	<b><u>\$11,465,046</u></b>	<b><u>\$11,494,606</u></b>	<b><u>\$12,100,910</u></b>	<b><u>\$ (606,304)</u></b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 699,622	\$ 699,622	\$ 638,843	\$ 60,779
Employee Benefits	15,500	15,500	14,790	710
Supplies	<u>38,260</u>	<u>51,920</u>	<u>34,052</u>	<u>17,868</u>
Total Community Development	<u>\$ 753,382</u>	<u>\$ 767,042</u>	<u>\$ 687,685</u>	<u>\$ 79,357</u>
Culture and Recreation				
Salaries and Wages	\$ 853,449	\$ 853,449	\$ 828,260	\$ 25,189
Employee Benefits	2,275	2,275	2,760	(485)
Supplies	351,600	349,122	356,486	(7,364)
Programs	<u>29,800</u>	<u>32,278</u>	<u>31,848</u>	<u>430</u>
Total Culture and Recreation	<u>\$ 1,237,124</u>	<u>\$ 1,237,124</u>	<u>\$ 1,219,354</u>	<u>\$ 17,770</u>
Total Expenditures	<u>\$55,294,796</u>	<u>\$55,457,449</u>	<u>\$56,420,362</u>	<u>\$ (962,913)</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$15,190,000	\$15,190,000	\$14,960,373	\$ 229,627
Contingency	268,800	106,147	0	106,147
Operating Transfers Out to: Debt Service Fund	<u>7,112,150</u>	<u>7,112,150</u>	<u>6,552,156</u>	<u>559,994</u>
Total Other Financing Uses	<u>\$22,570,950</u>	<u>\$22,408,297</u>	<u>\$21,512,529</u>	<u>\$ 895,768</u>
Total Expenditures and Other Financing Uses	<u>\$77,865,746</u>	<u>\$77,865,746</u>	<u>\$77,932,891</u>	<u>\$ (67,145)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
<b>CDBG - Entitlement Grant Cluster</b>			
Community Development Block Grants/Entitlement Grants	14.218		\$ 3,807,971
Community Development Block Grants/ARRA Entitlement Grant Recovery Program	14.253		<u>657,440</u>
<b>TOTAL CDBG - ENTITLEMENT GRANT CLUSTER</b>			<b>4,465,411</b>
Emergency Shelter Grants Program	14.231		140,784
Homeless Prevention & Rapid Re-Housing (HPRP) (Recovery Act Funded)	14.257		614,702
Economic Development Initiative-Special Project	14.251		19,964
Home Investment Partnerships Program	14.239		<u>696,912</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 5,937,773</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Passed through the PA Department of Community & Economic Development			
Neighborhood Stabilization Program	14.264		
Received in 2010 and Incurred In 2010			\$ 813,712
Received in 2011 and Incurred in 2010			<u>319,405</u>
<b>Total PA Department of Community &amp; Economic Development</b>			<b>\$ 1,133,117</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 7,070,890</b>
<b>U.S. Department of Energy</b>			
Energy Efficiency Conservation Block Recovery	81.128		\$ 60,208
<b>Total U.S. Department of Energy</b>			<b>\$ 60,208</b>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Recovery Act Edward Byrne Memorial Justice Assistance Grant Program	16.804		\$ 101,456
Justice Grant Assistance Program	16.580		<u>25,710</u>
<b>Total U.S. Department of Justice</b>			<b>\$ 127,166</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Passed through the Pennsylvania Department of Transportation			
Highway Planning and Construction			
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 0441761 & 040809B	
Incurred 2010 Paid 2010			0
Incurred 2010 Paid 2011			1,756
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Contract # 7763 Reimbursement agreement # 040809	
Incurred 2010 Paid 2010			530,302
Incurred 2010 Paid 2011			0
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222	
Incurred 2010 Paid 2010			1,678
Incurred 2010 Paid 2011			0
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement Number 041912 Part II	
Incurred 2010 Paid 2010			0
Incurred 2010 Paid 2011			<u>334,922</u>
<b>Total U.S. Department of Transportation</b>			<b>\$ 868,658</b>
<b>Environmental Protection Agency</b>			
Brownfield Assessment & cleanup Cooperative Agreements Recovery Act	66.818		\$ 75,341
<b>Total Environmental Protection Agency</b>			<b>\$ 75,341</b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. General Service Administration			
Passed through the Pennsylvania Department of General Services			
Donation of Federal Surplus Property Program	39.003		\$ 19,552
Total U.S. General Service Administration			<u>\$ 19,552</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 8,221,815</u>

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

"See accompanying 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**

February 16, 2012

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, 2010, which collectively comprise the City of Scranton's basic financial statements, and have issued our report thereon dated February 16, 2012. 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, 2010 and not December 31, 2010. 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 auditors 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Scranton's financial statements that is more than inconsequential will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, 2010-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City 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 THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

February 16, 2012

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

Compliance

We have audited the City of Scranton's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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, 2010. The results of our auditing procedures also disclosed other instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Cost as items 2010-2 through 2010-11.

#### 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, 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.

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

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

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 reported.
- (5) The Auditor’s Report expressed an unqualified opinion on the City’s compliance with requirements applicable to major programs.
- (6) The Audit disclosed eleven (11) 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
14.253	CDBG-R/Entitlement Grants
14.257	Homeless Prevention & Rapid Rehousing
14.239	Home Investment Partnership Program
14.264	Neighborhood Stabilization 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, 2010

QUESTIONED  
COSTS

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

2010-1                    Segregation of Duties

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.

\$            0

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

Department of Housing and Urban Development  
 Community Development Block Grants/Entitlement Grants  
 CFDA # 14.218

2010-2                    Recording of Revenues

Condition:            During the years ended December 31, 2009 and 2010, The City received grants from various sources. However, in recording either the revenue or the expenditures for these grants on the Office of Economic and Community Development’s (OECD) books and records they recorded them as part of the Community Development Block Grant revenue and expenditures. The OECD books and records have been set up to record and track revenue and expenditures by the various programs that it has. However, a new chart of accounts was not added as new programs were added, until a new Director of Finance and Compliance was hired December 2010.

0

Effect:                Reclassification entries were required to correct mispostings, properly track, report revenues, and expenditures by each program by the new director of finance and compliance in 2011 for 2010.

Recommendations:    Procedures should be implemented whereby as new grants are received, the proper chart of accounts are updated on the OCED books and records.

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

QUESTIONEE  
 COSTS

2010-3	Recording of Program Expenditures	
Condition:	For the years ended December 31, 2009 and 2010, we noted that some program expenditures were not tracked to the appropriate program and general ledger account. They were all being recorded as CDBG expenditures.	0
Effect:	Reclassification entries were required to correct mispostings, properly track, and report expenditures by each program and general ledger account by the new director of finance and compliance in 2011 for 2010.	
Recommendation:	Procedures should be implemented whereby as expenditures are periodically verified that they have been posted to the proper program and general ledger account.	
2010-4	Recording of Year End Accounts Payables	
Condition:	The City Office and Economic & Community Development Offices (OECD) use a voucher to process request for payments. Voucher numbers are assigned and reset to zero at the beginning of each year. Testing of subsequent disbursements showed that accounts payable at year end were understated by approximately \$540,000. OECD uses quick books software and was keying invoices in by date of invoice or date invoice was to be paid. Quick books is a date sensitive program and posts invoices based upon date entered into the system. Invoices that are for goods and services in a prior year need to be recorded with an invoice date of December 31 to reflect in the proper accounting period.	0
Effect:	Because invoices were not posted in the proper period, audit journal entries were required to record expenditures into the proper accounting period. Reports being prepared and submitted to agencies may not contain the proper expenditures in the period incurred.	
Recommendation:	Procedures should be implemented where invoices that are for a prior year are reviewed by the Director of Finance and Compliance and made sure that they are posted to the proper accounting period prior to approving for payment.	

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

		<u>QUESTIONED COSTS</u>
2010-5	Recording of Year End Accounts Receivables	
Condition:	As a result of finding number 2010 – 4 and recording of additional year end accounts payable, accounts receivable from grant programs were understated by approximately \$681,000.	0
Effect:	Because receivables were not recorded, audit journal entries were required to record receivables into the proper accounting period.	
Recommendation:	Procedures should be implemented where receivables are reviewed by the Director of Finance and Compliance and made sure that they are posted to the proper accounting period.	
2010-6	Debit Balances in Accounts Payable Aging Reports	
Condition:	As stated in finding 2010 – 4, Quick books is a date sensitive program. The account payable aging reports that were provided for audit contained debit balances instead of the typical credit balance for some vendors. Upon investigation it was discovered that some February 2011 checks paying 2011 invoices were processed with a date of December 2010. In another instance, a check was processed but the invoice was not properly recorded in the system.	0
Effect:	As a result of the improper dates of checks, cash was understated and accounts payable was over stated at December 31, 2010. Audit journal entries were required to correct the misposted checks at December 31, 2010.	
Recommendation:	The accounts payable aging report should be reviewed at least monthly and any debit balances should be followed up immediately.	
2010-7	Improper Recording of Reimbursements and Expenditures	
Condition:	During the year ended December 31, 2010, we noted that transfers from one bank account to reimburse another bank account for expenditures made from that account were incorrectly being recorded as program revenue, and as program expenditures on the OECD books.	0
Effect:	Audit journal entries were required to correct the overstating of program revenues, and program expenses on the OECD books and records.	
Recommendation:	Procedures should be implemented whereby transactions are properly posted on the OECD books and records.	

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

QUESTIONED  
 COSTS

2010-8	Paying of Expenditures-Wrong Bank Account	0
Condition:	During the years ended December 31, 2009 and 2010, The OECD stopped paying the Home Investment Partnership Program and other grant programs payroll out of their respective bank accounts. The funds were being drawn down under the appropriate program. However, the expenditures were being paid out of CDBG funds. These funds were not reimbursed to the CDBG bank account until 2011.	
Effect:	CDBG funds were being used for non-CDBG expenditures.	
Recommendation:	Procedures should be implemented whereby expenditures are paid for out of the appropriate funds, and the CDBG bank account should be reimbursed from the respective program funds.	
2010-9	Administrative Expenses	111,023
Condition:	The OECD was using Federal Funds to reimburse the City's General Fund for one-half of the Director of Licenses, Inspections, and Permits. The expenditures are not supported by appropriate time sheets and other documentation supporting an allowable cost.	
Effect:	Federal payments may have been for ineligible or unallowed cost.	
Recommendation:	Expenditures should be reviewed to appropriate supporting information, and ineligible or unallowable costs, if determined, should be reimbursed to the CDBG bank account.	
2010-10	Payment of Construction Damages	49,500
Condition:	The OECD had reimbursed the Scranton Redevelopment Authority for damage that it had caused to a roof during construction of a parking garage. Payments for losses that could have been insured are an unallowed reimbursable Federal Program cost.	
Effect:	Payments may have been for ineligible or unallowed cost.	
Recommendation:	The Redevelopment Authority should reimburse the OECD CDBG bank account for the unallowed reimbursement of \$49,500.	

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

QUESTIONED  
 COSTS

Department of Housing & Urban Development  
 Homeless Prevention & Rapid Re-Housing Recovery Act Fund  
 CFDA # 14.257

2010-11                      Quarterly Reporting Requirements

Condition:                      The OECD Office is required to file quarterly reports of expenditures incurred on the accrual basis of accounting. The OECD was reporting expenditures on a cash basis and not for the quarter they were incurred for.

0

Effect:                              Reports are not being properly completed according to the forms instructions.

Recommendations: Reports should be properly completed and reconciled to activity in the OECD general ledger.

Total Questioned Costs

\$ 160,523

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2010

2009-1      Accounts Payable

The audit for the year ended December 31, 2009 noted that there is no segregation of duties regarding the system for processing accounts payable. One person is responsible for matching invoices to purchase orders, enters invoices into the general ledger, processes the checks for payment, has access to the signature machine, and mails the checks to vendors. This finding still exists at December 31, 2010.

2009-2      Tracking and Recording of New Grants

The audit for the year ended December 31, 2009 noted that during the year ended December 31, 2009, The City received grants from various sources. However, in recording either the revenue or the expenditures for these grants on the Office of Economic and Community Developments (OECD) books and records they recorded them as part of the Community Development Block Grant revenue and expenditures. The OECD books and records have been set up to record and track revenue and expenditures by the various programs that it has. However, a new chart of accounts was not added as new programs were added. This finding still exists at December 31, 2010.

2009-3      Proper Recording of Revenues

The audit for the year ended December 31, 2009 noted that during the year ended December 31, 2009, the OECD opened up new bank accounts. Transfers from one bank account to another bank account were incorrectly recorded as program revenues and program expenses on the OECD books and records. This finding still exists at December 31, 2010.

2009-4      Tracking and Proper Posting of Expenditures

The audit for the year ended December 31, 2009 noted that some program expenditures were not tracked to the appropriate program and general ledger account. They were all being recorded as CDBG expenditures. This finding still exists at December 31, 2010.

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2010

2009- 5 Inappropriate Paying of Expenditures from Wrong Account

The Audit for the year ended December 31, 2009 noted that the OECD stopped paying the Home Investment Partnership Program and other grant programs payroll out of their respective bank accounts. The funds were being drawn down under the appropriate program. However, the expenditures were being paid out of CDBG funds. This finding still exists at December 31, 2010.

2009-6 Improper Reporting of Program Expenses and Closeout

The Audit for the year ended December 31, 2009 noted that the City received a Fire Department Program Operational and Safety grant that expired on January 31, 2009. The grant required that a final status report be filed within ninety (90) days after the end of the performance period. Such report was not filed until July 31, 2009. In addition, not all expenditures were made by the required April 30, 2009 date. The report was rejected by the Federal agency because budgeted expenditures and not actual expenditures were reported on the final status report. On August 31, 2009, the City submitted a grant request amendment to extend the performance period of the grant to bring the grant in compliance. On March 12, 2010, the City received an acknowledgement that the amendment has been approved and the grant was now in compliance. This finding did not exist in 2010.

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

2010-1                      Accounts Payable

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

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

2010-2                      Recording of Revenues

Recommendations: Procedures should be implemented whereby as new grants are received, the proper chart of accounts are updated on the OCED books and records.

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

2010-3                      Recording of Program Expenditures

Recommendation: Procedures should be implemented whereby as expenditures are periodically verified, that they have been posted to the proper program and general ledger account.

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

2010-4                      Recording of Year End Accounts Payables

Recommendation: Procedures should be implemented where invoices that are for a prior year are reviewed by the Director of Finance and Compliance and made sure that they are posted to the proper accounting period prior to approving for payment.

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

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

2010-5                      Recording of Year End Accounts Receivables

Recommendation: Procedures should be implemented where receivables are reviewed by the Director of Finance and Compliance and made sure that they are posted to the proper accounting period.

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

2010-6                      Debit Balances in Accounts Payable Aging Reports

Recommendation: The accounts payable aging report should be reviewed at least monthly and any debit balances should be followed up immediately.

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

2010-7                      Improper Recording of Reimbursements and Expenditures

Recommendation: Procedures should be implemented whereby transactions are properly posted on the OECD books and records.

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

2010-8                      Paying of Expenditures-Wrong Bank Account

Recommendation: Procedures should be implemented whereby expenditures are paid for out of the appropriate funds, and the CDBG bank account should be reimbursed from the respective program funds.

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

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

2010-9                   Administrative Expenses

Recommendation: Expenditures should be reviewed to appropriate supporting information, and ineligible or unallowable costs, if determined, should be reimbursed to the CDBG bank account.

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

2010-10               Payment of Construction Damages

Recommendation: The Redevelopment Authority should reimburse the OECD CDBG bank account for the unallowed reimbursement of \$49,500.

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

2010-11               Quarterly Reporting Requirements

Recommendations: Reports should be properly completed and reconciled to an activity in the OECD general ledger.

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

  
Ryan McGowan  
Business Administrator