

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2009**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2009

	<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, 2009

	<u>PAGE</u>
Notes to Basic Financial Statements	31-72
Required Supplementary Information:	
Statement of Revenues, Expenditures and Change in Fund Balances - 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, 2009	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, 2009

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, 2009	88-91
Plan for Corrective Action Taken in Regard to Audit Findings	92-93

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INDEPENDENT AUDITORS' REPORT

January 24, 2011

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, 2009 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 \$67,850,093 at March 31, 2009 and total revenues of \$15,832,763 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$58,161,716 at December 31, 2009 and total revenues of \$2,894,372 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$3,892,256 at December 31, 2009 and total revenues of \$5,344,219 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, 2009 instead of December 31, 2009. 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, 2009 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, 2009, 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated January 24, 2011 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

### 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, 2009. 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

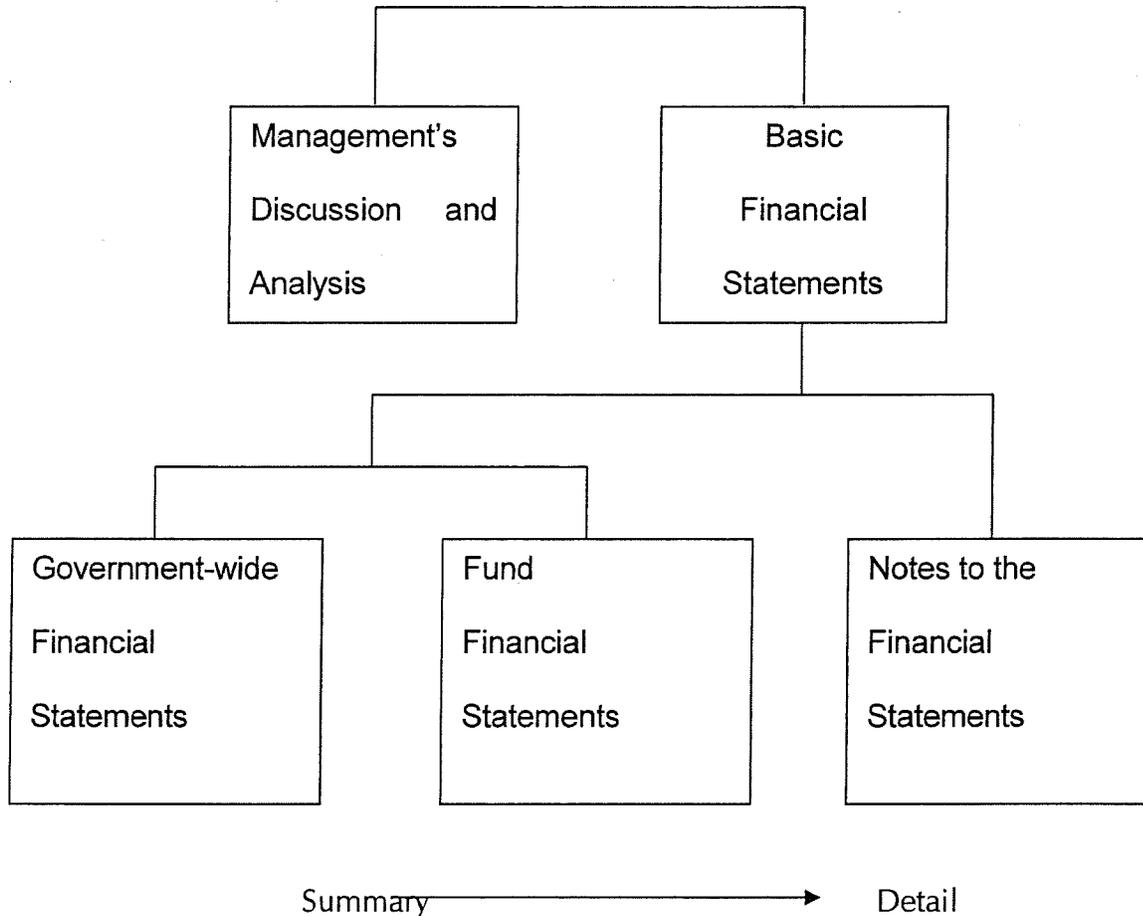
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$53,039,859 (*net assets*).
- The government's total net assets increased by \$3,431,971.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$7,911,136, a decrease of \$5,982,240 in comparison with the prior year. The largest decrease was in the General Fund of \$5,579,354.
- The City of Scranton has a BB bond rating from Standard and Poor's.

#### Overview of the Financial Statements

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

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

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

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

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

## CITY OF SCRANTON

### **Government-wide Financial Statements**

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

The statement of net assets presents the City's assets and liabilities as of the end of the recent fiscal year. The statement of activities shows the City's current year's revenue and expenses as soon as the changes occur, regardless of the timing of the related cash flows (on the accrual basis). Thus, revenue and expenses are reported in this statement for some items that will provide cash flow or use cash flow in a future period. An example of a cash inflow in a future would be when a taxpayer pays a prior year tax or fee in the future (see Taxes and Fees Receivable \$19,728,847). An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$2,130,701). All major corporations use the accrual basis of accounting.

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

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

### **Fund Financial Statements**

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

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

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

## CITY OF SCRANTON

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

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

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 31 through 72 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 73 through 83). 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 \$53,039,859.

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, \$96,322,753. 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, \$19,368,477, 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 \$62,651,371. The governmental activities reported negative unrestricted net assets of \$56,663,290. The business type activities reported negative unrestricted net assets of \$5,988,081.

CITY OF SCRANTON

The City of Scranton, Pennsylvania's Net Assets

Figure 2

	Governmental Activities			Business Type Activities			Total Primary Government		
	2009	2008	% Change	2009	2008	% Change	2009	2008	% Change
Current Assets	\$ 91,705,336	\$ 95,990,047	-4%	\$ 12,677,957	\$ 10,912,327	16%	\$ 104,383,293	\$ 106,902,374	-2%
Restricted Assets	1,005,539	2,246,333	-55%	21,163,847	31,101,588	-32%	22,169,386	33,347,921	-34%
Capital Assets	100,023,732	94,746,951	6%	91,926,932	80,045,467	15%	191,950,664	174,792,418	10%
Deferred Charges	1,504,155	1,779,754	-15%	2,070,630	2,147,599	-4%	3,574,785	3,927,353	-9%
<b>Total Assets</b>	<b>\$ 194,238,762</b>	<b>\$ 194,763,085</b>	<b>0%</b>	<b>\$ 127,839,366</b>	<b>\$ 124,206,981</b>	<b>3%</b>	<b>\$ 322,078,128</b>	<b>\$ 318,970,066</b>	<b>1%</b>
Current Liabilities	\$ 13,116,975	\$ 12,407,106	6%	\$ 6,618,337	\$ 5,120,427	29%	\$ 19,735,312	\$ 17,527,533	13%
Non-Current Liabilities	159,086,689	163,046,834	-2%	90,216,268	88,787,811	2%	249,302,957	251,834,645	-1%
<b>Total Liabilities</b>	<b>\$ 172,203,664</b>	<b>\$ 175,453,940</b>	<b>-2%</b>	<b>\$ 96,834,605</b>	<b>\$ 93,908,238</b>	<b>3%</b>	<b>\$ 269,038,269</b>	<b>\$ 269,362,178</b>	<b>0%</b>
Net Assets:									
Invested in Capital Assets									
Net of Related Debt	\$ 75,937,803	\$ 69,618,241	9%	\$ 20,384,950	\$ 16,085,781	27%	\$ 96,322,753	\$ 85,704,022	12%
Restricted	2,760,585	2,814,252	-2%	16,607,892	20,488,328	-19%	19,368,477	23,302,580	-17%
Unrestricted	(56,663,290)	(53,123,348)	7%	(5,988,081)	(6,275,366)	-5%	(62,651,371)	(59,398,714)	5%
<b>Total Net Assets</b>	<b>\$ 22,035,098</b>	<b>\$ 19,309,145</b>	<b>14%</b>	<b>\$ 31,004,761</b>	<b>\$ 30,298,743</b>	<b>2%</b>	<b>\$ 53,039,859</b>	<b>\$ 49,607,888</b>	<b>7%</b>

City of Scranton, Pennsylvania Changes in Net Assets

Figure 3

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2009	2008	% Change	2009	2008	% Change	2009	2008	% Change
Revenues									
Program Revenues									
Fees, Fines & Charges for Services	\$ 8,619,678	\$ 7,220,652	19%	\$ 18,727,135	\$ 19,363,859	-3%	\$ 27,346,813	\$ 26,584,511	3%
Operating Grants & Contributions	21,837,545	21,974,079	-1%	0	0	0%	21,837,545	21,974,079	-1%
Capital Grants & Contributions	4,138,754	6,290,127	-34%	0	0	0%	4,138,754	6,290,127	-34%
General Revenues									
Property Taxes	15,109,511	14,378,281	5%	0	0	0%	15,109,511	14,378,281	5%
Act 511 Taxes	29,400,699	30,233,219	-3%	0	0	0%	29,400,699	30,233,219	-3%
Cable TV Franchise Revenue	783,431	745,987	5%	0	0	0%	783,431	745,987	5%
Payments in Lieu of Taxes	132,386	117,500	13%	0	0	0%	132,386	117,500	13%
Investment Earnings	1,087,490	1,506,613	-28%	(452,381)	1,498,744	-130%	635,109	3,005,357	-79%
Donations	2,292,172	0	#DIV/0!	0	0	0%	2,292,172	0	#DIV/0!
Sale of Property	(52,135)	(323,749)	-84%	0	0	0%	(52,135)	(323,749)	-84%
Miscellaneous	196,442	92,317	113%	349,163	768,794	-55%	545,605	861,111	-37%
Rents & Concessions	5,060	14,050	-64%	0	0	0%	5,060	14,050	-64%
Refund of Prior Year Expenditures	0	81,060	0%	0	0	0%	0	81,060	100%
Settlement Expense	0	0	0%	0	(216,051)	-100%	0	(216,051)	-100%
Intergovernmental Revenues	0	706,556	100%	1,232,948	75,817	1526%	1,232,948	782,373	58%
<b>Total Revenue &amp; Transfers</b>	<b>\$ 83,551,033</b>	<b>\$ 83,036,692</b>	<b>1%</b>	<b>\$ 19,856,865</b>	<b>\$ 21,491,163</b>	<b>-8%</b>	<b>\$ 103,407,898</b>	<b>\$ 104,527,855</b>	<b>-1%</b>
Expenses									
General Government & Administration	\$ 11,062,227	\$ 10,423,607	6%	\$ 0	\$ 0	0%	\$ 11,062,227	\$ 10,423,607	6%
Public Safety	32,331,192	32,816,365	-1%	0	0	0%	32,331,192	32,816,365	-1%
Public Works	14,485,256	17,647,040	-18%	0	0	0%	14,485,256	17,647,040	-18%
Health & Welfare	416,390	1,172,944	-65%	0	0	0%	416,390	1,172,944	-65%
Community Development	15,131,664	19,529,995	-23%	0	0	0%	15,131,664	19,529,995	-23%
Cultural & Recreation	2,088,263	1,563,190	34%	0	0	0%	2,088,263	1,563,190	34%
Other Expenditures	1,705	48,331	-96%	0	0	0%	1,705	48,331	-96%
Unallocated Depreciation	34,759	34,759	0%	0	0	0%	34,759	34,759	0%
Interest on Long Term Debt	5,273,624	5,820,125	-9%	0	0	0%	5,273,624	5,820,125	-9%
Sewer Authority	0	0	0%	14,823,067	14,037,576	6%	14,823,067	14,037,576	6%
Municipal Parking Authority	0	0	0%	4,327,780	4,273,492	1%	4,327,780	4,273,492	1%
<b>Total Expenses</b>	<b>\$ 80,825,080</b>	<b>\$ 89,056,356</b>	<b>-9%</b>	<b>\$ 19,150,847</b>	<b>\$ 18,311,068</b>	<b>5%</b>	<b>\$ 99,975,927</b>	<b>\$ 107,367,424</b>	<b>-7%</b>
Change in Net Assets	\$ 2,725,953	\$ (6,019,664)	-145%	\$ 706,018	\$ 3,180,095	-78%	\$ 3,431,971	\$ (2,839,569)	-221%
Net Assets, Beginning of Year	19,309,145	25,328,809	-24%	30,298,743	27,118,648	12%	49,607,888	52,447,457	-5%
<b>Net Assets, End of Year</b>	<b>\$ 22,035,098</b>	<b>\$ 19,309,145</b>	<b>14%</b>	<b>\$ 31,004,761</b>	<b>\$ 30,298,743</b>	<b>2%</b>	<b>\$ 53,039,859</b>	<b>\$ 49,607,888</b>	<b>7%</b>

## CITY OF SCRANTON

**Governmental activities.** Governmental activities increased the City's net assets by \$2,725,935. 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. The City's Wage Tax is 2.4%. It is commonly incorrectly stated that the rate is 3.4%. The confusion is caused by the fact that the City's Wage Tax of 2.4% is collected along with the Scranton School District's 1% Wage Tax. The taxpayers make a single payment to the Scranton Collector of Taxes. The same collection system is used for the City and School Mercantile and Business Privilege Tax and thus the same type of confusion exists. The City's Mercantile and Business Privilege Tax rate is a flat .1% (.001) no matter what kind of business. The School District has three different rates. The wholesale business rate is .0452% (.00452), the retail rate is .0679% (.000679) and the service business rate is .513% (.00513) or more than five times the City rate.

**Business-type activities:** Business-type activities increased the City's net assets by \$706,018. The largest item contributing to this increase was the \$1,232,948 realized in the intergovernmental revenues.

### **Financial Analysis of the City's Funds**

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

The General Fund is the chief operating fund of the City. The General Fund total revenues were up \$2,128,661 from the prior year. Total General Fund Revenue was \$58,465,441 for the year 2009 versus \$56,336,780 for the year 2008. There was approximately \$2.3 in donations recognized as revenue in the current period. The General Fund expenditures for the year 2009 increased by \$4,861,886. Total General Fund Expenditures were \$58,717,109 for 2009 versus \$53,855,223 in 2008. The largest expenditure within General Government is Public Safety for \$28,827,485 .

At December 31, 2009, the Governmental Funds of the City of Scranton reported a combined fund balance of \$7,911,136 a decrease over last year. The General Fund accounts for a majority of the decrease.

### **General Fund Highlights**

Revenues increased compared to the prior year due to an increase in donation while other financing sources decreased due to refinancing of the 2005 General Obligation Bond in the prior year.

Overall expenditures increased by approximately \$4.9 million compared to the prior year. With the exception of the expenditures classified as Community Development, each expenditure classification increased due to the employee costs to wages and health insurance. Salaries & Wages increased for all Union employees in 2009; Clerical and DPW negotiated certain wages provisions while the Fire and Police Unions recognized wages

CITY OF SCRANTON

increased based on a court decision. Health Insurance increased based on the amount of claims incurred within the current period.

**Capital Assets**

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

**Figure 4**

	Governmental			Business-Type			Total		
	Activities		% Change	Activities		% Change	Primary Government		% Change
	2009	2008		2009	2008		2009	2008	
Land & Land Improvements	\$ 3,485,506	\$ 3,485,506	0%	\$ 2,097,093	\$ 2,097,093	0%	\$ 5,582,599	\$ 5,582,599	0%
Buildings & Building Improvements	19,422,027	18,295,574	6%	134,425,197	133,992,661	0%	153,847,224	152,288,235	1%
Infrastructure	103,145,610	99,895,362	3%	0	0	0%	103,145,610	99,895,362	3%
Furniture, Equipment & Vehicles	17,162,655	15,728,834	9%	8,411,770	7,906,709	6%	25,574,425	23,635,543	8%
Construction in Progress	15,317,920	10,429,521	47%	27,659,821	12,650,929	119%	42,977,741	23,080,450	86%
Accumulated Depreciation	<u>(58,509,986)</u>	<u>(53,087,846)</u>	10%	<u>(80,666,949)</u>	<u>(76,601,925)</u>	5%	<u>(139,176,935)</u>	<u>(129,689,771)</u>	7%
<b>Total</b>	<b>\$100,023,732</b>	<b>\$ 94,746,951</b>	<b>6%</b>	<b>\$ 91,926,932</b>	<b>\$ 80,045,467</b>	<b>15%</b>	<b>\$ 191,950,664</b>	<b>\$ 174,792,418</b>	<b>10%</b>

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

**Figure 5**

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2009	2008	2009	2008	2009	2008
Balance January 1, 2009	\$ 92,445,828	\$ 95,096,246	\$ 90,439,036	\$ 63,663,860	\$ 182,884,864	\$ 158,760,106
Debt issued in 2009	0	6,104,643	3,292,514	28,456,443	3,292,514	34,561,086
Accretion & Amortization	27,447	25,665	0	0	27,447	25,665
Less Retirements	<u>(3,343,441)</u>	<u>(8,780,726)</u>	<u>(1,704,808)</u>	<u>(1,681,267)</u>	<u>(5,048,249)</u>	<u>(10,461,993)</u>
Balance December 31, 2009	<b>\$ 89,129,834</b>	<b>\$ 92,445,828</b>	<b>\$ 92,026,742</b>	<b>\$ 90,439,036</b>	<b>\$ 181,156,576</b>	<b>\$ 182,884,864</b>

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

**Pension Trust Fund**

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

**Internal Service Workmen's Compensation**

The independent auditors qualified their opinion on the City's financial statements. This is due to the fact that the City determined its workers' compensation actuarial liability as of August 31, 2009 instead of December 31, 2009. This was also the case in 2004 through 2008, 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.

## CITY OF SCRANTON

### **Distressed Municipality Status**

Since 1992, the City has been declared a distressed municipality by the Pennsylvania Department of Community and Economic Development. Over the past four years, the City has made significant progress in working to have this label removed. The fact that City has obtained a BB rating from Standard & Poor's in 2010 is a sign that the City is truly on it's way to sound fiscal management. There are many new business projects that the City is involved with in downtown Scranton. The City's Park System has also been revitalized.

### **Requests for Information**

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

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2009

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 13,892,023	\$ 6,959,733	\$ 20,851,756
Certificate of Deposit		1,820,200	1,820,200
Investments	14,870,535	0	14,870,535
Receivables:			
Taxes and Fees Receivable, Net	19,728,847	0	19,728,847
Accounts Receivable, Net	1,286,094	3,514,111	4,800,205
Accrued Interest	121,297	4,904	126,201
Loans Receivable	37,469,358	0	37,469,358
Due From Other Funds	3,874,249	0	3,874,249
Prepaid Assets	0	13,895	13,895
Other Assets	50,000	365,114	415,114
Property Held For Resale	412,933	0	412,933
Restricted Assets:			
Restricted Cash and Cash Equivalents	1,005,539	15,519,143	16,524,682
Restricted Investments	0	5,222,817	5,222,817
Restricted Accounts Receivable	0	35,758	35,758
Accounts Receivable - Assessments	0	386,129	386,129
Capital Assets:			
Land	3,485,506	2,097,093	5,582,599
Buildings	11,907,443	134,116,152	146,023,595
Improvements	7,514,584	309,045	7,823,629
Infrastructure	103,145,610	0	103,145,610
Vehicles, Furniture & Equipment	17,162,655	8,411,770	25,574,425
Construction In Progress	15,317,920	27,659,821	42,977,741
Accumulated Depreciation	(58,509,986)	(80,666,949)	(139,176,935)
Deferred Charges, Net	1,504,155	2,070,630	3,574,785
<b>TOTAL ASSETS</b>	<b>\$ 194,238,762</b>	<b>\$ 127,839,366</b>	<b>\$ 322,078,128</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2009

LIABILITIES	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Short Term Debt	\$ 0	\$ 1,365,624	\$ 1,365,624
Accounts Payable	3,342,716	575,656	3,918,372
Accrued Liabilities	980,332	416,173	1,396,505
Accrued Interest	1,076,779	0	1,076,779
Due to Other Funds	3,859,614	14,635	3,874,249
Current Liabilities Payable From Restricted Assets:			
Accrued Construction Cost	0	1,629,978	1,629,978
Revenue Bonds Payable	0	645,000	645,000
Accrued Revenue Bond Interest Payable	0	679,562	679,562
Current Portion Of Long Term Debt			
Lease Payable	727,835	0	727,835
General Obligation Bonds Payable	2,360,000	0	2,360,000
Notes Payable	769,699	1,291,709	2,061,408
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	21,237,277	0	21,237,277
Deferred Revenues	40,468,571	0	40,468,571
Long-Term Debt Obligations	64,055,833	90,090,033	154,145,866
Deferred Loss On Early Retirement Of Debt	(668,359)	(452,935)	(1,121,294)
Governmental Notes Payable	1,396,747	0	1,396,747
Capitalized Lease Debt	19,819,720	0	19,819,720
Termination Benefits Payable	10,646,199	0	10,646,199
Compensated Absences	2,130,701	579,170	2,709,871
<b>TOTAL LIABILITIES</b>	<b>\$ 172,203,664</b>	<b>\$ 96,834,605</b>	<b>\$ 269,038,269</b>
<b>NET ASSETS</b>			
Investment in Capital Assets, Net of Related Debt	\$ 75,937,803	\$ 20,384,950	\$ 96,322,753
Restricted for:			
Debt Service	1,992,834	0	1,992,834
Reserved for Capital Projects	767,751	0	767,751
Reserved for Retirement of Long-Term Obligations	0	16,607,892	16,607,892
Unreserved - Undesignated	(56,663,290)	(5,988,081)	(62,651,371)
<b>TOTAL NET ASSETS</b>	<b>\$ 22,035,098</b>	<b>\$ 31,004,761</b>	<b>\$ 53,039,859</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2009

PROGRAM ACTIVITIES	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	FEE, FINES AND CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
<b>Governmental Activities</b>							
General Government and Administration	\$ 11,062,227	\$ 978,139	\$ 543,106	\$ 0	\$ (9,540,982)	\$ 0	\$ (9,540,982)
Public Safety	32,331,192	855,269	2,699,476	0	(28,776,447)	0	(28,776,447)
Public Works	14,485,256	4,928,569	1,600,910	4,136,113	(3,819,664)	0	(3,819,664)
Health & Welfare	416,390	0	1,420,584	0	1,004,194	0	1,004,194
Community Development	15,131,664	1,779,644	15,573,469	2,641	2,224,090	0	2,224,090
Culture and Recreation	2,088,263	78,057	0	0	(2,010,206)	0	(2,010,206)
Other Expenditure	1,705	0	0	0	(1,705)	0	(1,705)
Unallocated Depreciation	34,759	0	0	0	(34,759)	0	(34,759)
Interest on Long Term Debt	5,273,624	0	0	0	(5,273,624)	0	(5,273,624)
<b>TOTAL GOVERNMENTAL ACTIVITIES:</b>	<b>\$ 80,825,080</b>	<b>\$ 8,619,678</b>	<b>\$ 21,837,545</b>	<b>\$ 4,138,754</b>	<b>\$ (46,229,103)</b>	<b>\$ 0</b>	<b>\$ (46,229,103)</b>
<b>Business-Type Activities</b>							
Sewer Authority	\$ 14,823,067	\$ 15,832,763	\$ 0	\$ 0	\$ 0	\$ 1,009,696	\$ 1,009,696
Municipal Parking Authority	4,327,780	2,894,372	0	0	0	(1,433,408)	(1,433,408)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 19,150,847</b>	<b>\$ 18,727,135</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (423,712)</b>	<b>\$ (423,712)</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 99,975,927</b>	<b>\$ 27,346,813</b>	<b>\$ 21,837,545</b>	<b>\$ 4,138,754</b>	<b>\$ (46,229,103)</b>	<b>\$ (423,712)</b>	<b>\$ (46,652,815)</b>
<b>General Revenues:</b>							
Property taxes, levied for general purposes					\$ 15,109,511	\$ 0	\$ 15,109,511
Act 511 Taxes					29,400,699	0	29,400,699
Cable Television Franchise Revenue					783,431	0	783,431
Payments in Lieu of Taxes					132,386	0	132,386
Investment Earnings					1,087,490	(452,381)	635,109
Miscellaneous					196,442	349,163	545,605
Loss On Disposal Of Fixed Assets					(52,135)	0	(52,135)
Rents and Concessions					5,060	0	5,060
Donations					2,292,172	0	2,292,172
Intergovernmental Revenues					0	1,232,948	1,232,948
<b>Total General Revenues and Transfers</b>					<b>\$ 48,955,056</b>	<b>\$ 1,129,730</b>	<b>\$ 50,084,786</b>
<b>Change in Net Assets</b>					<b>\$ 2,725,953</b>	<b>\$ 706,018</b>	<b>\$ 3,431,971</b>
<b>Net Assets, Beginning of Year (As Restated)</b>					<b>19,309,145</b>	<b>30,298,743</b>	<b>49,607,888</b>
<b>NET ASSETS, END OF YEAR</b>					<b>\$ 22,035,098</b>	<b>\$ 31,004,761</b>	<b>\$ 53,039,859</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 2,836,615	\$ 1,482,685	\$ 6,130,402	\$ 10,449,702
Taxes and Fees Receivable, Net	18,612,739	0	1,116,108	19,728,847
Accounts Receivable, Net	736,830	69,356	479,908	1,286,094
Loans Receivable	0	36,521,002	948,356	37,469,358
Due From Other Funds	411,910	474,638	36,805	923,353
Other Assets	0	50,000	0	50,000
Property Held for Resale	0	0	412,933	412,933
<b>TOTAL ASSETS</b>	<b>\$ 22,598,094</b>	<b>\$ 38,597,681</b>	<b>\$ 9,124,512</b>	<b>\$ 70,320,287</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 DECEMBER 31, 2009

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 2,421,130	\$ 194,789	\$ 525,185	\$ 3,141,104
Other Current Liabilities	980,332	0	0	980,332
Due to Other Funds	2,985,557	254,934	619,123	3,859,614
Deferred Revenues	<u>11,895,065</u>	<u>38,064,243</u>	<u>4,468,793</u>	<u>54,428,101</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 18,282,084</u>	<u>\$ 38,513,966</u>	<u>\$ 5,613,101</u>	<u>\$ 62,409,151</u>
<b>FUND BALANCES</b>				
Reserve for Debt Service	\$ 0	\$ 0	\$ 1,992,834	\$ 1,992,834
Reserved for Capital Projects	0	0	767,751	767,751
Unreserved - Undesignated	<u>4,316,010</u>	<u>83,715</u>	<u>750,826</u>	<u>5,150,551</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 4,316,010</u>	<u>\$ 83,715</u>	<u>\$ 3,511,411</u>	<u>\$ 7,911,136</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 22,598,094</u>	<u>\$ 38,597,681</u>	<u>\$ 9,124,512</u>	<u>\$ 70,320,287</u>

"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, 2009

Total Fund Balance - Total Governmental Funds		\$ 7,911,136
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 \$ 158,533,718 accumulated depreciation is \$ 58,509,986.		100,023,732
Governmental funds report the effects of bond issuance cost when the debt is first issued, whereas these amounts are deferred and amortized .		1,504,155
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.		7,998,175
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.		5,012,999
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	\$ 4,326,165	
Investments	14,870,535	
Accrued Interest	121,297	
Due From Other Funds	2,950,896	
Restricted Cash & Cash Equivalents	121,695	
Accounts Payable	(201,612)	
Workers' Compensation Claims Payable	<u>(21,237,277)</u>	
Decrease In Net Assets		951,699
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.		948,356
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	\$ (66,415,833)	
Governmental notes payable	(2,166,446)	
Accrued interest payable	(1,076,779)	
Capitalized Lease payable	(20,547,555)	
Compensated absences	(2,130,701)	
Termination Benefits	(10,646,199)	
Deferred loss on early retirement of debt	<u>668,359</u>	
Increase in Long Term Liabilities		<u>(102,315,154)</u>
Net Assets of Governmental Activities		<u>\$ 22,035,098</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, 2009

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>				
Taxes	\$ 44,320,538	\$ 0	\$ 260,932	\$ 44,581,470
Intergovernmental	2,801,326	8,916,302	11,731,950	23,449,578
Departmental Earnings	1,884,630	0	117,362	2,001,992
Refuse Disposal Fee	4,308,606	0	0	4,308,606
Licenses and Permits	1,753,926	0	0	1,753,926
Cable Television Franchise Revenue	783,431	0	0	783,431
Payments in Lieu of Taxes	132,386	0	0	132,386
Investment Income	73,593	450	36,027	110,070
User Fee	78,057	0	0	78,057
Other Revenues	36,076	0	1,239,532	1,275,608
Rents and Concessions	700	0	4,360	5,060
Donations	2,292,172	0	0	2,292,172
Program Income	0	1,491,953	0	1,491,953
	<u>0</u>	<u>1,491,953</u>	<u>0</u>	<u>1,491,953</u>
<b>Total Revenues</b>	<b><u>\$ 58,465,441</u></b>	<b><u>\$ 10,408,705</u></b>	<b><u>\$ 13,390,163</u></b>	<b><u>\$ 82,264,309</u></b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	\$ 14,093,964	\$ 0	\$ 549,232	\$ 14,643,196
Public Safety	28,827,485	0	0	28,827,485
Public Works	13,850,325	0	3,907,128	17,757,453
Health and Welfare	0	0	1,416,688	1,416,688
Community Development	464,038	10,422,630	5,310,536	16,197,204
Culture and Recreation	1,481,297	0	0	1,481,297
Other Expenditures	0	0	1,705	1,705
<b>Debt Service</b>				
Debt Service-Principal	0	0	2,956,702	2,956,702
Debt Service-Interest	0	0	4,238,663	4,238,663
Capital Outlay	0	0	405,002	405,002
	<u>0</u>	<u>0</u>	<u>405,002</u>	<u>405,002</u>
<b>Total Expenditures</b>	<b><u>\$ 58,717,109</u></b>	<b><u>\$ 10,422,630</u></b>	<b><u>\$ 18,785,656</u></b>	<b><u>\$ 87,925,395</u></b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b><u>\$ (251,668)</u></b>	<b><u>\$ (13,925)</u></b>	<b><u>\$ (5,395,493)</u></b>	<b><u>\$ (5,661,086)</u></b>

"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, 2009

	GENERAL	OECD	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):				
Sale Of Property	\$ 0	\$ 0	\$ 2,001	\$ 2,001
Proceeds From Tax Anticipation Note	14,500,000	0	0	14,500,000
Operating Transfers In	1,951,105	0	7,158,137	9,109,242
Operating Transfers Out	(6,955,636)	0	(2,153,606)	(9,109,242)
Repayment of Tax Anticipation Note	<u>(14,823,155)</u>	<u>0</u>	<u>0</u>	<u>(14,823,155)</u>
Net Other Financing Sources (Uses)	<u>\$ (5,327,686)</u>	<u>\$ 0</u>	<u>\$ 5,006,532</u>	<u>\$ (321,154)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ (5,579,354)	\$ (13,925)	\$ (388,961)	\$ (5,982,240)
Fund Balances, Beginning of Year	<u>9,895,364</u>	<u>97,640</u>	<u>3,900,372</u>	<u>13,893,376</u>
FUND BALANCES, END OF YEAR	<u>\$ 4,316,010</u>	<u>\$ 83,715</u>	<u>\$ 3,511,411</u>	<u>\$ 7,911,136</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, 2009

Net Changes in Fund Balances - Total Governmental Funds \$ (5,982,240)

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	\$	10,762,610	
Loss On Disposal Of Fixed Assets		(54,136)	
Depreciation		<u>(5,431,693)</u>	5,276,781

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. (35,746)

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. 432,699

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	\$	977,420	
Elimination of expenditure on general fund and revenue on internal service fund		4,188,440	
Recording on expenditures on internal service fund in governmental activities		<u>(4,172,360)</u>	993,500

Deferred loans are loans made by SRA to qualified projects that will be repaid in future years but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. (35,514)

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. (99,036)

"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, 2009

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. (456,127)

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	\$	(27,447)	
Deferred Loss on Early Retirement of Debt, Net of Amortization		(453,125)	
Repayment of General Bond Principal		2,295,000	
Repayment of Governmental Note Payable		296,701	
Repayment of Capitalized Lease Principal		751,740	
Bond Issuance Cost, Net of Amortization		<u>(275,599)</u>	2,587,270

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.

44,366

Change in Net Assets of Governmental Activities \$ 2,725,953

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR			
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY			
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 6,519,769	\$ 437,511	\$ 2,453	\$ 6,959,733	\$ 4,326,165	
Certificate of Deposit	0	0	1,820,200	1,820,200	0	
Investments	0	0	0	0	14,870,535	
Accounts Receivable, Net	3,251,299	262,812	0	3,514,111	0	
Accrued Interest	0	0	4,904	4,904	121,297	
Due From Other Funds	0	0	0	0	2,950,896	
Prepaid Assets	0	13,895	0	13,895	0	
Other Current Assets	365,114	0	0	365,114	0	
Restricted Assets:						
Restricted Cash and Cash Equivalents	12,658,561	2,860,582	0	15,519,143	121,695	
Restricted Investments	1,590,202	3,632,615	0	5,222,817	0	
Restricted Accrued Interest Receivable	8,469	27,289	0	35,758	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	93,241,327	40,874,825	0	134,116,152	0	
Equipment	8,003,258	408,512	0	8,411,770	0	
Construction In Progress	13,174,905	14,484,916	0	27,659,821	0	
Accumulated Depreciation	(71,691,222)	(8,975,727)	0	(80,666,949)	0	
Deferred Charges, Net	212,253	1,858,377	0	2,070,630	0	
<b>TOTAL ASSETS</b>	<b>\$ 67,850,093</b>	<b>\$ 58,161,716</b>	<b>\$ 1,827,557</b>	<b>\$ 127,839,366</b>	<b>\$ 22,390,588</b>	

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009

LIABILITIES	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR		
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY	TOTAL	
Short-Term Debt	\$ 615,624	\$ 750,000	\$ 0	\$ 1,365,624	\$ 0
Current Portion Of Long Term Debt	1,230,261	61,448	0	1,291,709	0
Accounts Payable	497,277	78,379	0	575,656	201,612
Accrued Liabilities	356,137	60,036	0	416,173	0
Due to Other Funds	0	14,635	0	14,635	0
Current Liabilities Payable From Restricted Assets:					
Revenue Bonds Payable	75,000	570,000	0	645,000	0
Accrued Construction Cost	916,985	712,993	0	1,629,978	0
Accrued Revenue Bond Interest Payable	270,793	408,769	0	679,562	0
Noncurrent Liabilities:					
Workers' Compensation Claims Payable	0	0	0	0	21,237,277
Long-Term Debt Obligations	38,151,481	51,938,552	0	90,090,033	0
Deferred Loss On Early Retirement Of Debt	0	(452,935)	0	(452,935)	0
Accrued Compensated Absences	579,170	0	0	579,170	0
<b>TOTAL LIABILITIES</b>	<b>\$ 42,692,728</b>	<b>\$ 54,141,877</b>	<b>\$ 0</b>	<b>\$ 96,834,605</b>	<b>\$ 21,438,889</b>
<b>NET ASSETS</b>					
Investment in Capital Assets, Net of Related Debt	\$ 20,206,555	\$ 178,395	\$ 0	\$ 20,384,950	\$ 0
Restricted for:					
Reserved for Retirement of Long-Term Obligations	12,994,454	3,613,438	0	16,607,892	951,699
Unreserved - Undesignated	(8,043,644)	2,28,006	1,827,557	(5,988,081)	0
<b>TOTAL NET ASSETS</b>	<b>\$ 25,157,365</b>	<b>\$ 4,019,839</b>	<b>\$ 1,827,557</b>	<b>\$ 31,004,761</b>	<b>\$ 951,699</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, 2009

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 15,832,763	\$ 2,894,372	\$ 0	\$ 18,727,135	\$ 4,188,440
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,129,073
Salaries, Wages, and Fringe Benefits	5,635,375	635,885	0	6,271,260	0
Insurance	184,979	252,585	0	437,564	0
Depreciation	3,097,013	968,011	0	4,065,024	0
Other	5,040,801	531,550	60	5,572,411	43,287
Total Operating Expenses	\$ 13,958,168	\$ 2,388,031	\$ 60	\$ 16,346,259	\$ 4,172,360
Income (Loss) from Operations	\$ 1,874,595	\$ 506,341	\$ (60)	\$ 2,380,876	\$ 16,080
Non Operating Revenues (Expenses):					
Investment Income	\$ 122,162	\$ (610,200)	\$ 35,717	\$ (452,321)	\$ 977,420
Interest Expense	(848,764)	(1,883,250)	0	(2,732,014)	0
Bond Discount	0	(11,723)	0	(11,723)	0
State Grant Revenue	72,867	1,160,081	0	1,232,948	0
Other Revenues	360,886	0	0	360,886	0
Amortization of Deferred Charges	(16,135)	(56,499)	0	(72,634)	0
Total Non operating Revenues (Expenses)	\$ (308,984)	\$ (1,401,591)	\$ 35,717	\$ (1,674,858)	\$ 977,420
Change in Net Assets	\$ 1,565,611	\$ (895,250)	\$ 35,657	\$ 706,018	\$ 993,500
Net Assets at Beginning of Year, as restated	23,591,754	4,915,089	1,791,900	30,298,743	(41,801)
NET ASSETS AT END OF YEAR	\$ 25,157,365	\$ 4,019,839	\$ 1,827,557	\$ 31,004,761	\$ 951,699

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	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	\$ 15,923,713	\$ 2,850,063	\$ 0	\$ 18,773,776	\$ 0
Cash Received from Other Funds for Services	0	0	(60)	(60)	3,619,869
Cash Paid To Other Funds	0	0	0	0	(2,950,000)
Cash Payments to Vendors	(10,370,148)	(1,342,296)	0	(11,712,444)	(3,332,729)
Net Cash Provided by (Used In) Operating Activities	\$ 5,553,565	\$ 1,507,767	\$ (60)	\$ 7,061,272	\$ (2,662,860)
Cash Flows From Non Capital Financing Activities:					
Other Revenue Received	\$ 114,352	\$ 0	\$ 0	\$ 114,352	\$ 0
Net Cash Used in Non Capital Financing Activities	\$ 114,352	\$ 0	\$ 0	\$ 114,352	\$ 0
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (5,872,902)	\$ (7,860,159)	\$ 0	\$ (13,733,061)	\$ 0
Proceeds from Issuance of Debt	2,856,580	800,000	0	3,656,580	0
Proceeds Line of Credit	0	750,000	0	750,000	0
Grant Income	0	1,160,898	0	1,160,898	0
Interest Paid on Bonds	(1,478,429)	(2,640,491)	0	(4,118,920)	0
Retirement of Bonds	(1,164,808)	(540,000)	0	(1,704,808)	0
Payment Line of Credit	0	(543,114)	0	(543,114)	0
Net Cash Provided by (Used in) Capital and Related Financing Activities	\$ (5,659,559)	\$ (8,872,866)	\$ 0	\$ (14,532,425)	\$ 0
Cash Flow From Investing Activities:					
Sale of Investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,294,126
Purchase Of Investments	(3,180,407)	(499,636)	0	(3,680,043)	(17,805,453)
Maturity of Certificates of Deposit	3,179,801	0	1,782,650	4,962,451	0
Purchase of Certificates of Deposit	0	0	(1,820,200)	(1,820,200)	0
Interest on Cash and Investments	460,645	151,366	37,550	649,561	702,515
Net Cash (Used In) Provided By Investing Activities	\$ 460,039	\$ (348,270)	\$ 0	\$ 111,769	\$ (2,808,812)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 468,397	\$ (7,713,369)	\$ (60)	\$ (7,245,032)	\$ (5,471,672)
Cash and Cash Equivalents, Beginning of Year	18,709,933	11,011,462	2,513	29,723,908	9,919,532
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 19,178,330	\$ 3,298,093	\$ 2,453	\$ 22,478,876	\$ 4,447,860

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	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	\$ 1,874,595	\$ 506,341	\$ (60)	\$ 2,380,876	\$ 16,080
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities					
Depreciation	3,097,013	968,011	0	4,065,024	0
Change in Assets and Liabilities:					
(Increase) Decrease in:					
Accounts Receivable	690,950	42,622	0	733,572	0
Due From Other Funds	37,385	19,918	0	57,303	(2,950,000)
Other Assets					0
Increase (Decrease):					
Accounts Payable	26,141	3,005	0	29,146	14,881
Accrued Liabilities	(228,872)	(32,130)	0	(261,002)	0
Accrued Compensated Absences	56,353	0	0	56,353	0
Accrued Workers' Compensation Claims Payable	0	0	0	0	256,179
Net Cash Provided by (Used In) Operating Activities	\$ 5,553,565	\$ 1,507,767	\$ (60)	\$ 7,061,272	\$ (2,662,860)
Reconciliation of Total Cash and Cash Equivalents					
Current Assets - Cash and Cash Equivalents	\$ 6,519,769	\$ 437,511	\$ 2,453	\$ 6,959,733	\$ 4,326,165
Restricted Assets - Cash and Cash Equivalents	12,658,561	2,860,582	0	15,519,143	121,695
TOTAL CASH AND CASH EQUIVALENTS	\$19,178,330	\$ 3,298,093	\$ 2,453	\$ 22,478,876	\$ 4,447,860

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
DECEMBER 31, 2009

ASSETS

Cash and Short - Term Investments		\$ 136,452
Receivables:		
Members' Contributions	\$	<u>27,181</u>
Total Receivables		27,181
Investments at Contract Value		<u>53,414,236</u>
<b>TOTAL ASSETS</b>		<b><u>\$53,577,869</u></b>

LIABILITIES & NET ASSETS

Liabilities		
Accrued Investment Expenses	\$	<u>59,700</u>
<b>TOTAL LIABILITIES</b>		<b><u>\$ 59,700</u></b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		<b><u>\$53,518,169</u></b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

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

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

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

As a result of applying these criteria, the following organizations have been categorized and determined to be and are presented as blended component units for the year ended December 31, 2009.

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, 2008 to March 31, 2009.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

#### BASIS OF PRESENTATION

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

The funds of the financial reporting entity are described below:

1)      Governmental Fund Types

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

2. Proprietary Fund Types:

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

Real Estate Taxes: Real Estate Taxes are based upon assessed valuations provided by Lackawanna County. The elected tax collector bills and collects real estate taxes. The assessed value at January 1, 2009, upon which the 2009 levy was based, was approximately \$388 million. Delinquent taxes are collected by an outside collection agency. The schedule for real estate taxes levied is as follows:

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

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

The millage rate at January 1, 2009 was 103.145 mills on the assessed value of land and 22.432 mills on the assessed value of improvements.

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

Allowance for Doubtful Accounts: Accounts Receivable included in the Enterprise Fund represent amounts outstanding from Sewer Authority customer's reported net of an allowance for doubtful accounts of \$1,900,000 at March 31, 2009. The Authority's policy for providing for uncollectible accounts is to charge current year earnings for accounts receivable considered currently uncollectible, based on the historical collection experience of the Sewer Authority and collection percentages applicable to public utilities.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

#### Government-wide Statements

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

Fund Financial Statements

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Long-term Debt

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

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

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

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

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

Government-wide Statements

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

**Compensated Absences:** The City's vacation policy generally provides that unused vacation benefits lapse at year-end. Unused vacation may be carried over only with the approval of the department head. Unused sick pay accumulates to varying maximum amounts for the various classes of City employees. At December 31, 2009 aggregate liability for unused vacation and sick pay is \$2,130,701.

Note 2      Cash and Cash Equivalents and Investments

Pennsylvania Statues 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 statues 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 statues. 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, 2009, \$37,211,103 of the government's bank balance of \$39,994,453 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 4,326,165
Uninsured and collateral held by pledging banks' trust department not in the city's name	32,884,938
Total	\$ 37,211,103

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2009, the City had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings ( 1 )	Average Months To Maturity ( 2 )
<b>GOVERNMENTAL FUNDS</b>				
Primary Government:				
Internal Service Fund				
Corporate Obligations:				
Domestic	\$ 1,334,255	\$ 1,285,928	A 1	47.14
Domestic	6,141,632	6,132,138	A A A	31.43
Domestic	1,911,859	1,839,812	A 2	44.42
Domestic	905,100	848,298	A 3	64.84
Domestic	521,175	508,615	A a 1	26.43
Domestic	630,809	363,522	A a 2	63.94
Domestic	360,666	348,640	A a 3	10.63
Domestic	522,235	494,000	B A A 1	14.17
Domestic	264,610	234,573	B A A 2	61.37
Mutual Funds				
Equity Funds	199,134	199,134		
Governmental Securities:				
Federal Agency Notes	<u>2,079,060</u>	<u>2,013,359</u>	A A A	45.63
Total Internal Service Fund	<u>\$ 14,870,535</u>	<u>\$ 14,268,019</u>		
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 14,870,535</u>	<u>\$ 14,268,019</u>		
<b>BUSINESS TYPE ACTIVITIES</b>				
Sewer Authority				
Governmental Securities:				
U.S. Government Obligations	<u>\$ 1,590,202</u>	<u>\$ 1,590,202</u>		3.00
Total Sewer Authority	<u>\$ 1,590,202</u>	<u>\$ 1,590,202</u>		
Parking Authority				
Other Obligations				
Interest Earnings Investment				
Contract (At Cost)	\$ 1,173,528	\$ 1,173,528		186.00
Governmental Securities:				
U.S. Government Obligations	<u>2,459,087</u>	<u>2,459,087</u>		175.79
Total Parking Authority	<u>\$ 3,632,615</u>	<u>\$ 3,632,615</u>		
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<u>\$ 5,222,817</u>	<u>\$ 5,222,817</u>		
<b>TOTAL INVESTMENTS</b>	<u>\$ 20,093,352</u>	<u>\$ 19,490,836</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 )	Average Months To Maturity ( 2 )
Fiduciary Funds				
Pension Trust Fund				
Mutual Funds				
Equity Funds	\$ 43,030,706	\$ 43,030,706		
Cash and Cash Equivalents	136,452	136,452		
Fixed Income	<u>10,383,530</u>	<u>10,383,530</u>		
Total Pension Trust Fund	<u>\$ 53,550,688</u>	<u>\$ 53,550,688</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.

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, 2009:

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 3 Taxes and Fees Receivable (Continued)

Current Real Estate Taxes	\$ 477,549
Delinquent Real Estate Taxes	11,800,728
Act 511 Taxes:	
Earned Income	5,297,741
Local Service Tax	398,749
Business Priviledge/Mercantile	96,542
Delinquent Refuse Disposal Fee	<u>0</u>
Total	\$ 18,071,309
Less:	
Allowance for Uncollectible Taxes & Fees	<u>(4,720,291)</u>
Net	<u>\$ 13,351,018</u>

Of the above, the receivables not expected to be collected within one year are \$5,800,000 delinquent real estate taxes and \$4,400,000 delinquent refuse disposal fee after provision for uncollectible taxes and fees.

Note 4 Due From and Due to Other Funds

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2009 is as follows:

	Due From	Due To Other
General Fund		
OECD	\$ 254,934	\$ 0
Special Cities	138,054	34,661
Capital Projects	4,287	0
Parking Authority	14,635	0
Workmen's Compensation Fund	0	2,950,896
Special Cities		
General Fund	34,661	138,054
Capital Projects	0	2,144
OECD		
Redevelopment Authority	474,638	0
General Fund	0	254,934
Redevelopment Authority		
OECD	0	474,638
Capital Projects Fund		
Special Cities	2,144	0
General Fund	0	4,287
Workmen's Compensation Fund		
General Fund	2,950,896	
Parking Authority		
General Fund	<u>0</u>	<u>14,635</u>
	<u>\$ 3,874,249</u>	<u>\$ 3,874,249</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance at January			Balance at
	1, 2009	Additions	Disposals	December 31, 2009
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 3,485,506	\$ 0	\$ 0	\$ 3,485,506
Construction in Progress	10,429,521	4,888,399	0	15,317,920
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 13,915,027</b>	<b>\$ 4,888,399</b>	<b>\$ 0</b>	<b>\$ 18,803,426</b>
Capital assets being depreciated				
Building	\$ 11,907,443	\$ 0	\$ 0	\$ 11,907,443
Land & Building Improvements	6,388,131	1,126,453	0	7,514,584
Infrastructure	99,895,362	3,250,248	0	103,145,610
Vehicles, Furniture & Equipment	15,728,834	1,497,510	(63,689)	17,162,655
<b>Total Capital Assets being Depreciated</b>	<b>\$ 133,919,770</b>	<b>\$ 5,874,211</b>	<b>\$ (63,689)</b>	<b>\$ 139,730,292</b>
<b>Totals at Historical Cost</b>	<b>\$ 147,834,797</b>	<b>\$ 10,762,610</b>	<b>\$ (63,689)</b>	<b>\$ 158,533,718</b>
Less: Accumulated Depreciation				
Building	\$ (3,444,501)	\$ (242,210)	\$ 0	\$ (3,686,711)
Land & Building Improvements	(2,057,764)	(571,288)	0	(2,629,052)
Infrastructure	(39,178,382)	(3,346,258)	0	(42,524,640)
Vehicles, Furniture & Equipment	(8,407,199)	(1,271,937)	9,553	(9,669,583)
<b>Total Accumulated Depreciation</b>	<b>\$ (53,087,846)</b>	<b>\$ (5,431,693)</b>	<b>\$ 9,553</b>	<b>\$ (58,509,986)</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 94,746,951</b>	<b>\$ 5,330,917</b>	<b>\$ (54,136)</b>	<b>\$ 100,023,732</b>
<b>Business - Type Activities:</b>				
Capital assets not being depreciated				
Land	\$ 2,097,093	\$ 0	\$ 0	\$ 2,097,093
Construction in Progress	12,650,929	15,008,892	0	27,659,821
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 14,748,022</b>	<b>\$ 15,008,892</b>	<b>\$ 0</b>	<b>\$ 29,756,914</b>
Capital assets being depreciated				
Land Improvements	\$ 309,045	\$ 0	\$ 0	\$ 309,045
Building & Building Improvements	133,683,616	432,536	0	134,116,152
Equipment	7,906,709	505,061	0	8,411,770
<b>Total Capital Assets being Depreciated</b>	<b>\$ 141,899,370</b>	<b>\$ 937,597</b>	<b>\$ 0</b>	<b>\$ 142,836,967</b>
<b>Totals at Historical Cost</b>	<b>\$ 156,647,392</b>	<b>\$ 15,946,489</b>	<b>\$ 0</b>	<b>\$ 172,593,881</b>
Less: Accumulated Depreciation				
Land Improvements	\$ (3,142,648)	\$ (2,800,946)	\$ 0	\$ (5,943,594)
Building & Building Improvements	(66,806,091)	(948,933)	0	(67,755,024)
Equipment	(6,653,186)	(315,145)	0	(6,968,331)
<b>Total Accumulated Depreciation</b>	<b>\$ (76,601,925)</b>	<b>\$ (4,065,024)</b>	<b>\$ 0</b>	<b>\$ (80,666,949)</b>
<b>Business - Type Capital Assets, Net</b>	<b>\$ 80,045,467</b>	<b>\$ 11,881,465</b>	<b>\$ 0</b>	<b>\$ 91,926,932</b>

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 201,709
Public Safety	548,307
Public Works	3,960,101
Parks & Recreation	685,962
Community Development	855
Unallocated	34,759
<b>Total Depreciation Expense</b>	<b>\$ 5,431,693</b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5      Capital Assets (Continued)

Governmental Activities:

Construction in progress of \$15,317,920 consists of expenditures relating to the construction of flood control projects and improvement to various city roads and bridges. Commitments at December 31, 2009 totaled approximately \$7,000,000.

Business Type Activities:

Construction in progress at December 31, 2009, consisted of expenditures paid in connection with the construction of a new parking facility and the related capitalized interest of the 2007 Series revenue bond issue. The new facility has an estimated cost of \$13,900,000 and is expected to be completed in June, 2010. Also included in construction-in-progress at December 31, 2009 were projects for the exterior building renovations of the Parking Authority Garage and the Electric City Garage, which will be completed in 2010. Construction-in-progress also included the installation of pay stations in the Medallion Garage which was completed in January, 2010.

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, 2009, the County invoiced the Sewer Authority for \$59,618 resulting in the recording of \$72,867 as grant revenue and \$132,485 as construction-in-progress. Total construction in progress for this project at March 31, 2009 amounted to \$5,259,988.

Note 6      Short-Term Debt

The following summarizes the changes in short-term debt of the Enterprise Fund for the year ended December 31, 2009:

	<u>Balance</u> <u>01/01/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/09</u>
Sewer Authority:				
Line of Credit	\$ 251,558	\$5,057,558	\$(4,693,492)	\$ 615,624
Parking Authority:				
Line of Credit	<u>543,114</u>	<u>750,000</u>	<u>(543,114)</u>	<u>750,000</u>
	<u>\$ 794,672</u>	<u>\$5,807,558</u>	<u>\$(5,236,606)</u>	<u>\$ 1,365,624</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 6 Short-Term Debt (Continued)

Sewer Authority

Line of Credit: In August 2005, the Sewer Authority renewed a \$4,000,000 line of credit to provide interim financing for a capital improvement program. Interest is payable monthly at a variable rate equal to 70% of the prime rate (2.275% at March 31, 2009). 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, 2009 amounted to \$615,624.

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, 2009). The balance drawn down on the line of credit at December 31, 2009 amounts to \$750,000.

Note 7 Long-Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2009:

	Balance 01/01/09	Additions	(Amortization) Accretion	Retirements	Balance 12/31/09	Due With In One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
<b>General Obligations Bonds:</b>						
Emmaus General Authority Series 2002	\$ 6,470,000	\$ 0	\$ 0	\$ 230,000	\$ 6,240,000	\$ 235,000
Series A of 2003	2,900,000	0	0	450,000	2,450,000	460,000
Series B of 2003	32,145,000	0	0	735,000	31,410,000	760,000
Series C of 2003	16,520,000	0	0	350,000	16,170,000	360,000
Series D of 2003	11,025,000	0	0	530,000	10,495,000	545,000
(Amortization) / Accretion	(376,614)	0	27,447	0	(349,167)	0
<b>Total General Obligation Bonds</b>	<b>\$ 68,683,386</b>	<b>\$ 0</b>	<b>\$ 27,447</b>	<b>\$ 2,295,000</b>	<b>\$ 66,415,833</b>	<b>\$ 2,360,000</b>
<b>Lease Obligations Payable</b>						
2005 Capitalized Lease Vehicles	\$ 69,306	\$ 0	\$ 0	\$ 69,306	\$ 0	\$ 0
2005 Capitalized Lease Vehicles	132,329	0	0	42,417	89,912	89,912
2006 Capitalized Lease Vehicles	44,967	0	0	44,967	0	0
2007 Capitalized Lease Vehicles	299,401	0	0	69,414	229,987	72,920
2007 Capitalized Lease Vehicles	39,337	0	0	19,111	20,226	20,226
2008 Capitalized Lease Vehicles	188,052	0	0	64,568	123,484	68,859
2006 Capitalized Lease Equipment Energy System	1,375,903	0	0	76,957	1,298,946	80,918
2004 Capitalized Lease Buildings	3,345,000	0	0	270,000	3,075,000	305,000
2006 Capitalized Lease Buildings	9,905,000	0	0	95,000	9,810,000	85,000
2008 Capitalized Lease Buildings	5,900,000	0	0	0	5,900,000	5,000
<b>Total Lease Obligations Payable</b>	<b>\$ 21,299,295</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 751,740</b>	<b>\$ 20,547,555</b>	<b>\$ 727,835</b>
<b>Redevelopment Authority:</b>						
Note Payable	\$ 411,772	\$ 0	\$ 0	\$ 118,316	\$ 293,456	\$ 120,859
Note Payable	2,051,375	0	0	178,385	1,872,990	648,840
<b>Total Redevelopment Authority</b>	<b>\$ 2,463,147</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 296,701</b>	<b>\$ 2,166,446</b>	<b>\$ 769,699</b>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 92,445,828</b>	<b>\$ 0</b>	<b>\$ 27,447</b>	<b>\$ 3,343,441</b>	<b>\$ 89,129,834</b>	<b>\$ 3,857,534</b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

	Balance 01/01/09	Additions	(Amortization) Accretion	Retirements	Balance 12/31/09	Due With In One Year
<b>BUSINESS-TYPE ACTIVITIES</b>						
Revenue Bonds:						
Major Enterprise Fund:						
Parking Authority						
2004 Series	\$ 15,095,000	\$ 0	\$ 0	\$ 195,000	\$ 14,900,000	\$ 205,000
2006 Series	5,015,000	0	0	275,000	4,740,000	280,000
2007 Series	32,200,000	0	0	70,000	32,130,000	85,000
Sewer Authority						
2007 Series	16,810,000	0	0	5,000	16,805,000	75,000
Total Revenue Bonds	\$ 69,120,000	\$ 0	\$ 0	\$ 545,000	\$ 68,575,000	\$ 645,000
Notes Payable:						
Major Enterprise Fund:						
Sewer Authority						
Equipment Note Payable	\$ 2,226	\$ 0	\$ 0	\$ 2,226	\$ 0	\$ 0
Equipment Note Payable	49,384	0	0	49,384	0	0
Equipment Note Payable	80,828	0	0	59,965	20,863	20,863
Equipment Note Payable	127,356	0	0	75,037	52,319	52,319
Equipment Note Payable	87,346	0	0	44,661	42,685	42,685
Equipment Note Payable	7,806,162	0	0	244,619	7,561,543	263,092
2000 Series Pennvest	3,816,085	0	0	212,803	3,603,282	851,302
2002 Series Pennvest	3,871,968	0	0	212,702	3,659,266	0
2003 Series Pennvest	2,097,270	0	0	111,389	1,985,881	0
2004 Series Pennvest	3,380,411	0	0	147,022	3,233,389	0
2007 Series Pennvest	0	2,492,514	0	0	2,492,514	0
Parking Authority						
2009 Loan Payable	0	800,000	0	0	800,000	61,448
	\$ 21,319,036	\$ 3,292,514	\$ 0	\$ 1,159,808	\$ 23,451,742	\$ 1,291,709
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 90,439,036	\$ 3,292,514	\$ 0	\$ 1,704,808	\$ 92,026,742	\$ 1,936,709
TOTAL LONG-TERM DEBT	\$ 182,884,864	\$ 3,292,514	\$ 27,447	\$ 5,048,249	\$ 181,156,576	\$ 5,794,243

A summary of long-term debt outstanding at December 31, 2009 is as follows:

Emmaus General Authority Series 2002:

Variable rate demand bonds, Series of 1996 of Emmaus General Authority, due in annual principal installments of \$190,000 to \$440,000 commencing August 2004 through August 2028. Monthly payments of interest based upon a pro rata share of the interest accrued on the variable rate bonds calculated by the administrator based on the interest rates determined by the remarketing agent for the current month plus interest at the rate estimated by the administrator for the remaining portion of the month which has not been determined by the Remarketing Agent, plus 55 basis points. Interest rate at December 31, 2008 is 1.139%.

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, 2009 was \$293,456. Interest payments in 2009 totaled \$7,684.

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, 2009 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, 2009 was \$1,872,990. Interest payments in 2009 totaled \$65,429.

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. The loss resulting from these transactions amounted to \$772,656 and has been recorded as a deferred charge. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$45,662 for the year ended December 31, 2009. The loss was fully amortized at December 31, 2009 for the 1969 Series.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

2006 Parking Revenue Bonds:

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

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

2007 Parking Revenue Bonds:

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

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

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 (see Note 6) 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.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Mandatory Redemption:

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

Sewer Authority Notes Payable:

The Sewer Authority has three (3) equipment notes payable outstanding at March 31, 2009 amounting to \$115,867. Interest rates range between 4.29% and 4.74% with monthly payments totaling \$15,806. Maturities range between July 2009 and March 2010.

In 2008 the Sewer Authority received an \$8,000,000 note payable with monthly payments \$52,576 including interest at 4.95% through May 2017, when all remaining principal is due. The balance outstanding at March 31, 2009 was \$7,561,543.

Sewer Authority 2000 Series (PENNVEST Loan):

The balance outstanding at March 31, 2009 amounted to \$3,603,282. The loan is secured by the gross revenues of the Authority and the guarantee of the City of Scranton. Interest only was payable on advances until July 1, 2003, when monthly principal and interest payments are due up to and including January 2023. Interest is at 1.522% for the first 75 months and 3.045% thereafter. Legal fees relating to obtaining the financing amounted to \$44,338 and have been recorded as deferred charges.

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2009 amounted to \$3,659,266. 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, 2009 amounted to \$1,985,881. 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, 2009 was \$3,233,389. The

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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 \$2,492,514. The security is the same as above. Monthly principal and interest payments begin 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 is expected to be completed during 2009.

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, 2009 was \$3,075,000. Interest is payable on June 15th and December 15th each year with final maturity on December 15, 2016. Principal is payable annually starting on December 15, 2006. The City has guaranteed the Sewer Authority Debt.

On December 1, 2006, the Redevelopment Authority issued \$10,000,000 6.10% Federally Taxable Guaranteed Lease Revenue Bonds, Series of 2006, for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2024. The 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, 2009 was \$9,810,000. 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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

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, 2009 was \$5,900,000.

Interest is payable monthly based upon whether the Bonds are on the weekly mode or term rate mode. If interest is on the weekly rate interest shall be computed based upon 365 or 366 days as applicable for the number of days actually elapsed. Interest under the term mode will be calculated on a 30/360 basis. The remarketing advisor shall determine the current rate on the immediately preceding weekly rate calculation date. If the remarketing agent does not determine a weekly rate, the rate shall be the 30 day taxable commercial paper rate published for that weekly rate period by Munifacts Wire System, Inc. or a replacement publisher designated in writing by the issuer to the trustee and the remarketing agent. The Bonds are subject to mandatory redemption starting on November 1, 2010. Interest rate at December 31, 2009 is .344%.

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

Capitalized Vehicles:

In 2005, the City entered into two capitalized leases for equipment purchases. The lease interest rates are 4.41% and 9.0% respectively. The leases contain quarterly and annual payments of \$72,424 and 13,279 respectively. One lease was paid off in March 2009 and the other matures October 2010.

In 2006, the City entered into a Master Equipment Lease Purchase Agreement to purchase eight (8) police vehicles. The lease requires monthly payments of \$6,560. The lease rate is 6.349%. The lease was paid off in July 2009.

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Capitalized Equipment:

In 2007, the City entered into a Master Equipment Lease Purchase Agreement to purchase a backhoe. The lease requires annual payments of \$21,426. The lease rate is 5.89%. Maturity October 2010.

Future Debt Service Requirements as of December 31, 2009 are as follows:

Governmental Activities City General Obligation Bonds				Governmental Activities Redevelopment Authority Note Payable			
Year Ending December 31,	Principal	Interest	Total	Year Ending December 31,	Principal	Interest	Total
2010	\$ 2,360,000	\$ 2,910,526	\$ 5,270,526	2010	\$ 769,699	\$ 56,402	\$ 826,101
2011	2,460,000	2,824,507	5,284,507	2011	793,624	32,477	826,101
2012	2,545,000	2,742,714	5,287,714	2012	603,123	8,538	611,661
2013	2,640,000	2,654,526	5,294,526	2013	0	0	0
2014	2,745,000	2,559,268	5,304,268	2014	0	0	0
2015-2019	13,720,000	11,165,092	24,885,092				
2020-2024	16,935,000	7,693,551	24,628,551		<u>\$ 2,166,446</u>	<u>\$ 97,417</u>	<u>\$ 2,263,863</u>
2025-2029	16,015,000	4,069,940	20,084,940				
2030-2034	<u>7,345,000</u>	<u>788,900</u>	<u>8,133,900</u>				
	<u>\$66,765,000</u>	<u>\$37,409,024</u>	<u>\$ 104,174,024</u>				
Business-Type Activities Revenue Bonds & Notes Payable Parking Authority				Business-Type Activities Revenue Bonds & Notes Payable Sewer Authority			
Year Ending December 31,	Principal	Interest	Total	Year Ending December 31,	Principal	Interest	Total
2010	\$ 631,448	\$ 2,616,367	\$ 3,247,815	2010	\$ 1,305,261	\$ 1,508,323	\$ 2,813,584
2011	952,500	2,583,953	3,536,453	2011	1,191,009	1,513,708	2,704,717
2012	999,289	2,543,363	3,542,652	2012	1,225,659	1,477,640	2,703,299
2013	1,041,551	2,500,165	3,541,716	2013	1,235,915	1,465,295	2,701,210
2014	1,084,318	2,454,491	3,538,809	2014	1,247,270	1,431,040	2,678,310
2015-2019	5,760,894	11,487,830	17,248,724	2015-2019	11,040,218	6,301,941	17,342,159
2020-2024	6,740,000	10,070,797	16,810,797	2020-2024	4,712,803	4,619,924	9,332,727
2025-2029	8,525,000	8,217,065	16,742,065	2025-2029	2,253,607	3,954,359	6,207,966
2030-2034	10,890,000	5,766,424	16,656,424	2030-2034	7,305,000	3,056,418	10,361,418
2035-2039	<u>15,945,000</u>	<u>2,350,558</u>	<u>18,295,558</u>	2035-2037	<u>7,940,000</u>	<u>315,000</u>	<u>8,255,000</u>
	<u>\$52,570,000</u>	<u>\$50,591,013</u>	<u>\$ 103,161,013</u>		<u>\$ 39,456,742</u>	<u>\$ 25,643,648</u>	<u>\$ 65,100,390</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

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

Year Ending December 31,	Principal	Interest	Total
2010	\$ 727,835	\$ 889,431	\$ 1,617,266
2011	626,311	846,046	1,472,357
2012	609,924	812,464	1,422,388
2013	559,065	777,205	1,336,270
2014	588,906	744,567	1,333,473
2015-2019	5,491,326	2,908,316	8,399,642
2020-2024	7,204,188	1,227,639	8,431,827
2025-2029	4,740,000	17,074	4,757,074
TOTAL	<u>\$ 20,547,555</u>	<u>\$ 8,222,742</u>	<u>\$ 28,770,297</u>

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

The cost of the assets are \$ 6,361,185

The accumulated depreciation expense through December 31, 2009 is (1,124,636)

The net book value of the capitalized leased building and vehicles is \$ 5,236,549

At December 31, 2009, \$1,440,207. of the \$1,500,000 borrowed for the new Energy Management System was expended.

Advance Refunding:

On August 7, 2003 the City issued \$ 5,025,000 in General Obligation Bonds Series A dated August 1, 2003 with an average interest rate (coupon) of 2.934% to advance refund \$4,885,000 of outstanding 2001 A series bonds with an average interest rate of 5.620%. Total proceeds including bond discount and accrued interest was \$ 5,000,406. Underwriting fees and other issuance cost were \$ 123,247. Net proceeds of \$ \$ 4,875,047 were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 504,997 from the debt service fund (sinking fund) and an additional \$ 233,318 from the 2004 B issue were deposited in the irrevocable trust with subsequent debt service payments on the refunded bond issue to be paid from the irrevocable trust. As a result, refunded series 2001 A is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and new debt show a cash flow benefit of \$ 540,303. In 2005, the United States Treasury Securities - State and Local Government were refinanced and the City received an additional \$108,435 from the escrow account. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$58,748 for the year ended December 31, 2009.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

On August 7, 2003 the City issued \$ 20,870,000 in General Obligation Bonds Series B dated August 1, 2003 with an average interest rate (coupon) of 4.407% to advance refund \$17,440,000 of outstanding 2001 C series bonds with an average interest rate of 6.407%. Total proceeds included bond discount and accrued interest was \$20,792,205. Underwriting fees and other issuance cost were \$ 645,712. Net proceeds of \$ 19,516,640 were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 1,700,162 from the debt service fund (sinking fund) and \$355,629 from the sinking fund applicable to the 2001 C bonds were deposited in the irrevocable trust. Additional proceeds of \$233,318 were deposited in the irrevocable trust to advance refund the 2001 A bonds noted above. Additional proceeds of \$207,611 were deposited in the irrevocable trust to advance refund the 1997 A bonds noted below. Additional proceeds of \$174,232 were deposited into the 2004 sinking fund to fund the September 1, 2003 interest payments. Subsequent debt service payments on the refunded bond issue will be paid from the irrevocable trust, as a result, refunded series 2001 C is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and new debt show cash flow benefit of \$3,992,959. In 2005, the United States Treasury Securities - State and Local Government were refinanced and the City received an additional \$387,123. from the escrow account. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$394,377 for the year ended December 31, 2009.

The amount of defeased debt outstanding at December 31, 2009 is as follows:

2001 Series A General Obligation Bonds	\$ 2,695,000.
2001 Series C General Obligation Bonds	\$ 17,130,000.

The breakdown of interest expense as of December 31, 2009 is as follows:

	Interest Expense <u>Charged to Expense</u>	Interest Expense <u>Capitalized</u>
City of Scranton	\$ 5,200,512	\$ 0
Sewer Authority of the City of Scranton	848,764	839,372
Parking Authority of the City of Scranton	1,825,844	797,845
Redevelopment Authority of the City of Scranton	73,112	0
	<u>\$ 7,948,232</u>	<u>\$ 1,637,217</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management

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

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

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

At December 31, 2009, 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

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim Loss Reserve of \$21,237,277 at December 31, 2009 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, 2009. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2009 is calculated as follows:

Claims and Costs Paid	\$3,872,895
Increase in Actuarial Discounted Loss Reserve	<u>256,178</u>
Worker's Compensation Claims	<u>\$4,129,073</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management (Continued)

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

Calendar Year Ended	Balance Beginning of Calendar Year	Current Year Claims and Changes In Estimates	Claim Payments	Balance End of Calendar Year
31-Dec-09	\$ 20,981,099	\$ 4,129,073	\$ 3,872,895	\$ 21,237,277
31-Dec-08	\$ 18,558,363	\$ 7,402,933	\$ 4,980,197	\$ 20,981,099

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2009 were as follows:

Operating Transfers

	In	Out
General Fund		
Debt Service Fund	\$ 0	\$ 6,955,636
Liquid Fuels Fund	1,809,389	0
Special Cities	141,716	0
Special Cities		
Capital Projects Fund	0	202,501
General Fund	0	141,716
Capital Projects		
Special Cities	202,501	0
Debt Service		
General Fund	6,955,636	0
Liquid Fuels		
General Fund	0	1,809,389
	<u>\$ 9,109,242</u>	<u>\$ 9,109,242</u>

Note 10 Pension Plans/Other Postemployment Benefits

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

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

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

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

Contributions, based on the MMO, in 2009 consisted of the following:

	Police	Firemen	Non- Uniformed	Total
City/Commonwealth	\$ 1,000,029	\$ 1,800,980	\$ 789,308	\$ 3,590,317
Employees	<u>222,012</u>	<u>203,620</u>	<u>46,249</u>	<u>471,881</u>
Total	<u>\$ 1,222,041</u>	<u>\$ 2,004,600</u>	<u>\$ 835,557</u>	<u>\$ 4,062,198</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

January 1, 2009				
	Police	Firemen	Non-Uniformed	Total
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>
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>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)  
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>

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

	Police	Firemen	Non-Uniformed	Total
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>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)  
January 1, 2007

	Police	Firemen	Non-Uniformed	Total
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>

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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
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 \$261,599 in 2009.

The Parking Authority sponsors a defined contribution pension plan covering all eligible employees. Pension expense was \$37,378 for the year ended December 31, 2009.

The Sewer Authority contributes to the Central Pennsylvania Teamsters Pension Fund, a defined contribution pension plan covering substantially all of its full time employees. Employees become eligible after they have been on the payroll for thirteen weeks. Contributions made by the Authority were \$366 per month for the year ended March 31, 2009 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2009 amounted to \$322,807.

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, 2009, employer contributions totaled \$16,477 and employee contributions totaled \$14,603.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

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

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

The City uses the cash basis to account for these expenditures. The City has not determined the amount of such expenditures for 2009 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 \$433,973 have been projected to increase at an annual rate of 8% and have been discounted to 4.25% estimated yield on investments expected to be used to figure the benefits.

Beginning of year net present value	\$10,190,072
Payment benefits made during the year	(480,590)
Change in net present value of benefits	<u>936,717</u>
End of year present value	<u>\$10,646,199</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 11      Credit Risk and Market Risk

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 90% of the total taxes collected by the City in 2009. 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 \$714,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$43,022,000 of tax revenues on behalf of the City in 2009.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

The City and its police and firefighters were unable to agree to an amicable collective bargaining agreement. The arbitration panel issued an award covering the 2003-2007 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. If the vacated award is overturned, the potential exposure could be material to the financial statements.

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

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

The City is involved in a labor arbitration in which the Union contended that the City unilaterally violated it's Collective Bargaining Agreement, changed certain health care provisions. The Arbitration found in favor of the Union and ordered the City to have the third party provider audit its accounts to determine how many individuals were effected. The City filed a petition to vacate the award and the petition was denied. Potential exposure could be material to the Financial Statements.

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 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

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 award, which was denied by the Court of Common Pleas. The City has appealed to the Commonwealth Court. The City believes that the suit is without merit and is vigorously defending its position. If the vacated award is overturned, the potential exposure could be material to the financial statements.

The City 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 was involved with a civil rights action brought by two female police officers. The case was settled in 2010 and the settlement has been accrued in the accompanying financial statements in the amount of \$100,000.

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

Current real estate taxes collected at December 31, 2009

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	93,394,804	300,827,957	394,222,761
Millage Rates	<u>10.3145%</u>	<u>2.2432%</u>	
Total Original Taxes Levied	9,633,207	6,748,173	\$16,381,380
Add: Additions			0
Less: Abatements			(103,214)
Real Estate Taxes To be Collected At Face			<u>\$16,278,166</u>
Add: Penalties Collected			103,767
Total Before Deductions			\$16,381,933
Less: Discounts Taken			(236,874)
Less: Home Vouchers			(14,227)
Less: KOZ Credits			(446,981)
Less: Delinquent Taxes Returned			(2,041,496)
Add: Payment Under Protest 25% Reserved			42,115
Less: Other Miscellaneous			(2,507)
<b>TOTAL REAL ESTATE TAXES COLLECTED</b>			<u><u>\$13,681,963</u></u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 16 Restatement of Prior Year Net Assets

The Parking Authority restated its net asset. A prior period adjustment in the amount of \$750,000 was made to land at the beginning of the year to recognize the acquisition of land associated with the transfer of the parking facility from the Scranton Redevelopment Authority that occurred in 2007. Beginning net assets detailed in the Statement of Revenues, Expenses, and Changes in Net Assets also increased by \$750,000.

Note 17 Subsequent Events

Pursuant to ASC 855 (formerly FASB No. 165), subsequent events were evaluated through January 10, 2011, 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 BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$48,541,113	\$48,541,113	\$ 44,320,538	\$ (4,220,575)
Intergovernmental	2,910,000	2,910,000	2,801,326	(108,674)
Departmental Earnings	2,107,209	2,107,209	1,884,630	(222,579)
Refuse Disposal Fees	4,912,666	4,912,666	4,308,606	(604,060)
Licenses and Permits	2,365,015	2,365,015	1,753,926	(611,089)
Cable Television Franchise Revenue	780,000	780,000	783,431	3,431
Payments in Lieu of Taxes	118,250	118,250	132,386	14,136
Interest Income	420,000	420,000	73,593	(346,407)
User Fees	56,682	56,682	78,057	21,375
Other Revenues	69,000	69,000	36,076	(32,924)
Donations	0	0	2,292,172	2,292,172
Rents and Concessions	0	0	700	700
<b>Total Revenues</b>	<b>\$62,279,935</b>	<b>\$62,279,935</b>	<b>\$ 58,465,441</b>	<b>\$ (3,814,494)</b>
Expenditures				
General Government	\$13,987,788	\$13,967,602	\$ 14,093,964	\$ (126,362)
Public Safety	27,565,227	27,567,221	28,827,485	(1,260,264)
Public Works	11,715,463	11,713,469	13,850,325	(2,136,856)
Community Development	503,455	503,455	464,038	39,417
Culture and Recreation	1,431,052	1,481,052	1,481,297	(245)
<b>Total Expenditures</b>	<b>\$55,202,985</b>	<b>\$55,232,799</b>	<b>\$ 58,717,109</b>	<b>\$ (3,484,310)</b>
Excess of Revenues Over Expenditures	<b>\$ 7,076,950</b>	<b>\$ 7,047,136</b>	<b>\$ (251,668)</b>	<b>\$ (7,298,804)</b>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP BASIS	FINAL BUDGET POSITIVE (NEGATIVE)
Other Financing Sources (Uses)				
Proceeds from Tax Anticipation				
Notes	\$ 14,500,000	\$ 14,500,000	\$ 14,500,000	\$ 0
Operating Transfers In	1,877,819	1,877,819	1,951,105	73,286
Operating Transfers Out	(7,103,017)	(7,103,017)	(6,955,636)	147,381
Contingency	(1,025,300)	(995,486)	0	995,486
South Side Library	(100,000)	(100,000)	0	100,000
Payments of Tax Anticipation				
Notes	(15,190,000)	(15,190,000)	(14,823,155)	366,845
Net Other Financing Sources (Uses)	<u>\$ (7,040,498)</u>	<u>\$ (7,010,684)</u>	<u>\$ (5,327,686)</u>	<u>\$ 1,682,998</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 36,452	\$ 36,452	\$ (5,579,354)	\$ (5,615,806)
Fund Balance, Beginning of Year	<u>9,895,364</u>	<u>9,895,364</u>	<u>9,895,364</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 9,931,816</u>	<u>\$ 9,931,816</u>	<u>\$ 4,316,010</u>	<u>\$ (5,615,806)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2009

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 50,298	\$ 795,216	\$ 1,392,091	\$ 1,899,963	\$ 1,992,834	\$ 6,130,402
Taxes and Fees Receivable, Net	0	0	1,116,108	0	0	1,116,108
Accounts Receivable, Net	6	205	22,768	456,929	0	479,908
Loans Receivable	0	0	948,356	0	0	948,356
Due From Other Funds	0	2,144	0	34,661	0	36,805
Property Held for Resale	0	0	412,933	0	0	412,933
<b>TOTAL ASSETS</b>	<b><u>\$ 50,304</u></b>	<b><u>\$ 797,565</u></b>	<b><u>\$ 3,892,256</u></b>	<b><u>\$ 2,391,553</u></b>	<b><u>\$ 1,992,834</u></b>	<b><u>\$ 9,124,512</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 0	\$ 25,527	\$ 375	\$ 499,283	\$ 0	\$ 525,185
Due to Other Funds	0	4,287	474,638	140,198	0	619,123
Deferred Revenues	0	0	2,716,721	1,752,072	0	4,468,793
<b>TOTAL LIABILITIES</b>	<b><u>\$ 0</u></b>	<b><u>\$ 29,814</u></b>	<b><u>\$ 3,191,734</u></b>	<b><u>\$ 2,391,553</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 5,613,101</u></b>
<b>FUND BALANCES</b>						
Reserve for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,992,834	\$ 1,992,834
Reserved for Capital Projects	0	767,751	0	0	0	767,751
Unreserved - Undesignated	50,304	0	700,522	0	0	750,826
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 50,304</u></b>	<b><u>\$ 767,751</u></b>	<b><u>\$ 700,522</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,992,834</u></b>	<b><u>\$ 3,511,411</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 50,304</u></b>	<b><u>\$ 797,565</u></b>	<b><u>\$ 3,892,256</u></b>	<b><u>\$ 2,391,553</u></b>	<b><u>\$ 1,992,834</u></b>	<b><u>\$ 9,124,512</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, 2009

	LIQUID FUELS	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>Revenues:</b>						
Taxes	\$ 0	\$ 0	\$ 260,932	\$ 0	\$ 0	\$ 260,932
Intergovernmental	1,576,690	0	4,998,977	5,156,283	0	11,731,950
Departmental Earnings	0	0	0	117,362	0	117,362
Interest Income	5,395	5,652	3,806	8,009	13,165	36,027
Other Revenues	0	0	76,144	1,163,388	0	1,239,532
Rents and Concessions	0	0	4,360	0	0	4,360
<b>Total Revenues</b>	<b>\$ 1,582,085</b>	<b>\$ 5,652</b>	<b>\$ 5,344,219</b>	<b>\$ 6,445,042</b>	<b>\$ 13,165</b>	<b>\$ 13,390,163</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	\$ 0	\$ 68	\$ 1,118	\$ 548,046	\$ 0	\$ 549,232
Public Works	0	0	0	3,907,128	0	3,907,128
Health and Welfare	0	0	0	1,416,688	0	1,416,688
Community Development	0	0	5,083,117	227,419	0	5,310,536
Other Expenditures	161	0	0	1,544	0	1,705
Debt Service						
Debt Service-Principal	0	0	296,702	0	2,660,000	2,956,702
Debt Service-Interest	0	0	73,112	0	4,165,551	4,238,663
Capital Outlay	0	405,002	0	0	0	405,002
<b>Total Expenditures</b>	<b>\$ 161</b>	<b>\$ 405,070</b>	<b>\$ 5,454,049</b>	<b>\$ 6,100,825</b>	<b>\$ 6,825,551</b>	<b>\$ 18,785,656</b>
Excess (Deficiency) of Revenues Over Expenditures	<b>\$ 1,581,924</b>	<b>\$ (399,418)</b>	<b>\$ (109,830)</b>	<b>\$ 344,217</b>	<b>\$ (6,812,386)</b>	<b>\$ (5,395,493)</b>
<b>Other Financing Sources (Uses):</b>						
Sale Of Property	\$ 0	\$ 0	\$ 2,001	\$ 0	\$ 0	\$ 2,001
Operating Transfers In	0	202,501	0	0	6,955,636	7,158,137
Operating Transfers Out	(1,809,389)	0	0	(344,217)	0	(2,153,606)
<b>Net Other Financing Sources (Uses)</b>	<b>\$ (1,809,389)</b>	<b>\$ 202,501</b>	<b>\$ 2,001</b>	<b>\$ (344,217)</b>	<b>\$ 6,955,636</b>	<b>\$ 5,006,532</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	<b>\$ (227,465)</b>	<b>\$ (196,917)</b>	<b>\$ (107,829)</b>	<b>\$ 0</b>	<b>\$ 143,250</b>	<b>\$ (388,961)</b>
Fund Balances, Beginning of Year	277,769	964,668	808,351	0	1,849,584	3,900,372
<b>FUND BALANCES, END 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>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
YEAR ENDED DECEMBER 31, 2009

Additions:

Contributions

Employee	\$ 471,881	
Employer	890,841	
Commonwealth State Aid	<u>2,699,476</u>	
Total Contributions		\$ 4,062,198

Investment Income:

Investment Return (Depreciation)	<u>\$ 10,117,721</u>	
Total Investment Income		<u>10,117,721</u>

TOTAL ADDITIONS \$ 14,179,919

DEDUCTIONS

Benefit Payments	\$ 9,787,455	
Administrative Expenses	<u>321,932</u>	
Total Deductions		<u>10,109,387</u>

CHANGE IN NET ASSETS \$ 4,070,532

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

Beginning of Year 49,447,637

END OF YEAR \$ 53,518,169

"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, 2009

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes				
Act 511:				
Wage	\$22,400,000	\$22,400,000	\$20,965,425	\$ (1,434,575)
Delinquent Wage Tax	5,500,000	5,500,000	2,573,344	(2,926,656)
Real Estate Transfer	2,597,564	2,597,564	2,212,139	(385,425)
Mercantile	1,333,328	1,333,328	1,134,228	(199,100)
Business Privilege	772,832	772,832	610,025	(162,807)
Local Service Tax	1,328,437	1,328,437	1,628,348	299,911
Delinquent Mercantile	55,000	55,000	129,225	74,225
Delinquent Business Privilege	54,020	54,020	46,089	(7,931)
Total Act 511	<u>\$34,041,181</u>	<u>\$34,041,181</u>	<u>\$29,298,823</u>	<u>\$ (4,742,358)</u>
Current Real Estate	\$13,600,794	\$13,600,794	\$13,681,963	\$ 81,169
Delinquent Real Estate	800,000	800,000	1,237,876	437,876
Public Utility	58,412	58,412	60,913	2,501
Penalties & Interest	40,726	40,726	40,963	237
Total Taxes	<u>\$48,541,113</u>	<u>\$48,541,113</u>	<u>\$44,320,538</u>	<u>\$ (4,220,575)</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,710,000	\$ 2,710,000	\$ 2,699,476	\$ (10,524)
OECD Reimbursement Demolition Program	200,000	200,000	77,630	(122,370)
Other Governmental Grants	0	0	5,921	5,921
FEMA Emergency Grants	0	0	18,299	18,299
Total Intergovernmental	<u>\$ 2,910,000</u>	<u>\$ 2,910,000</u>	<u>\$ 2,801,326</u>	<u>\$ (108,674)</u>
Departmental Earnings				
Parking Meters	\$ 895,000	\$ 895,000	\$ 816,379	\$ (78,621)
Fines and Forfeits	825,934	825,934	743,143	(82,791)
Pave Cuts	198,000	198,000	187,264	(10,736)
Report Copies Fire & Police	90,000	90,000	77,126	(12,874)
Alarm Fees	65,000	65,000	35,000	(30,000)
Zoning	33,275	33,275	25,718	(7,557)
Total Departmental Earnings	<u>\$ 2,107,209</u>	<u>\$ 2,107,209</u>	<u>\$ 1,884,630</u>	<u>\$ (222,579)</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, 2009

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 4,912,666	\$ 4,912,666	\$ 4,308,606	\$ (604,060)
Licenses and Permits	2,365,015	2,365,015	1,753,926	(611,089)
Cable Television Franchise Revenue	780,000	780,000	783,431	3,431
Payments in Lieu of Taxes	118,250	118,250	132,386	14,136
Interest Income	420,000	420,000	73,593	(346,407)
User Fees	56,682	56,682	78,057	21,375
Other Revenues	69,000	69,000	36,076	(32,924)
Donations	0	0	2,292,172	2,292,172
Rents and Concessions	0	0	700	700
Total Other Revenues	<u>\$ 8,721,613</u>	<u>\$ 8,721,613</u>	<u>\$ 9,458,947</u>	<u>\$ 737,334</u>
Total Revenues	<u>\$62,279,935</u>	<u>\$62,279,935</u>	<u>\$58,465,441</u>	<u>\$ (3,814,494)</u>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$14,500,000	\$14,500,000	\$14,500,000	\$ 0
Operating Transfers in from:				
Liquid Fuels Fund	1,577,819	1,577,819	1,809,389	231,570
Special Cities Fund	0	0	131,476	131,476
Other Funds	300,000	300,000	10,240	(289,760)
Total Other Financing Sources	<u>\$16,377,819</u>	<u>\$16,377,819</u>	<u>\$16,451,105</u>	<u>\$ 73,286</u>
Total Revenues and Other Financing Sources	<u>\$78,657,754</u>	<u>\$78,657,754</u>	<u>\$74,916,546</u>	<u>\$ (3,741,208)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009

Expenditures	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>General Government</b>				
Salaries and Wages	\$ 2,409,717	\$ 2,414,531	\$ 2,413,509	\$ 1,022
Employee Benefits	3,021,971	3,064,461	3,559,009	(494,548)
Workers' Compensation Claims	4,100,000	4,129,072	4,129,073	(1)
General Insurance	973,000	1,078,945	1,078,945	0
Office Supplies and Expense	328,146	353,819	306,211	47,608
Professional Fees	661,144	597,493	597,248	245
Telephone	146,000	139,616	131,487	8,129
Equipment	65,500	62,554	57,360	5,194
Travel	10,830	9,754	4,798	4,956
Other	206,500	206,500	45,784	160,716
Boards and Commissions	190,000	140,000	120,290	19,710
Utilities	780,000	780,000	695,652	84,348
Grants and Contributions	15,150	15,150	15,100	50
Court Awards & Settlements	200,000	200,000	235,411	(35,411)
Parking Authority Ticket Issuers	879,830	775,707	704,087	71,620
<b>Total General Government</b>	<b>\$13,987,788</b>	<b>\$13,967,602</b>	<b>\$14,093,964</b>	<b>\$ (126,362)</b>
<b>Public Safety</b>				
Salaries and Wages	\$14,593,383	\$14,593,383	\$15,233,510	\$ (640,127)
Employee Benefits	12,291,874	12,293,484	12,952,507	(659,023)
Supplies	211,970	213,203	202,533	10,670
Equipment	435,500	430,873	407,510	23,363
Training	27,000	26,899	21,923	4,976
Travel	5,000	8,804	8,926	(122)
Professional Fees	500	575	576	(1)
<b>Total Public Safety</b>	<b>\$27,565,227</b>	<b>\$27,567,221</b>	<b>\$28,827,485</b>	<b>\$ (1,260,264)</b>
<b>Public Works</b>				
Salaries and Wages	\$ 4,345,155	\$ 4,345,155	\$ 4,313,034	\$ 32,121
Employee Benefits	1,821,111	1,821,111	2,180,359	(359,248)
Supplies	405,100	393,550	372,209	21,341
Professional Fees	232,100	195,543	177,696	17,847
Equipment	1,718,739	1,623,275	1,549,879	73,396
Electric	400,000	400,000	328,473	71,527
Landfill Fees	1,600,000	1,632,077	1,627,050	5,027
Salt	196,000	305,500	298,002	7,498
Flood Protection	329,258	329,258	2,407,239	(2,077,981)
Street Lighting	668,000	668,000	596,384	71,616
<b>Total Public Works</b>	<b>\$11,715,463</b>	<b>\$11,713,469</b>	<b>\$13,850,325</b>	<b>\$ (2,136,856)</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, 2009

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 459,809	\$ 455,409	\$ 421,248	\$ 34,161
Employee Benefits	6,400	10,800	10,426	374
Supplies	<u>37,246</u>	<u>37,246</u>	<u>32,364</u>	<u>4,882</u>
Total Community Development	<u>\$ 503,455</u>	<u>\$ 503,455</u>	<u>\$ 464,038</u>	<u>\$ 39,417</u>
Culture and Recreation				
Salaries and Wages	\$ 966,852	\$ 966,852	\$ 980,971	\$ (14,119)
Employee Benefits	2,400	2,400	2,560	(160)
Supplies	446,800	479,791	465,157	14,634
Programs	<u>15,000</u>	<u>32,009</u>	<u>32,609</u>	<u>(600)</u>
Total Culture and Recreation	<u>\$ 1,431,052</u>	<u>\$ 1,481,052</u>	<u>\$ 1,481,297</u>	<u>\$ (245)</u>
Total Expenditures	<u>\$55,202,985</u>	<u>\$55,232,799</u>	<u>\$58,717,109</u>	<u>\$ (3,484,310)</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$15,190,000	\$15,190,000	\$14,823,155	\$ 366,845
Contingency	1,025,300	995,486	0	995,486
South Side Library	100,000	100,000	0	100,000
Operating Transfers Out to: Debt Service Fund	<u>7,103,017</u>	<u>7,103,017</u>	<u>6,955,636</u>	<u>147,381</u>
Total Other Financing Uses	<u>\$23,418,317</u>	<u>\$23,388,503</u>	<u>\$21,778,791</u>	<u>\$ 1,609,712</u>
Total Expenditures and Other Financing Uses	<u>\$78,621,302</u>	<u>\$78,621,302</u>	<u>\$80,495,900</u>	<u>\$ (1,874,598)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Community Development Block Grants/Entitlement Grants	14.218		\$ 4,635,156
Community Development Block Grants/Recovery Program	14.253		39,726
Emergency Shelter Grants Program	14.231		144,307
Homeless Prevention & Rapid Re-Housing	14.262		2,290
Economic Development Initiative-Special Project	14.251		137,200
Home Investment Partnerships Program	14.239		1,035,611
Total U.S. Department of Housing and Urban Development			<u>\$ 5,994,290</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: Passed through the PA Department of Community & Economic Neighborhood Stabilization Program			
	14.225		\$ 6,357
Total PA Department of Community & Economic Development			<u>\$ 6,357</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 6,000,647</u>
U.S. Department of Energy			
Energy Efficiency Conservation Block	81.128		\$ 24,162
Total U.S. Department of Energy			<u>\$ 24,162</u>
U.S. DEPARTMENT OF JUSTICE:			
Recovery Act Edward Byrne Memorial Justice Assistance Grant Program	16.804		\$ 124,147
Justice Grant Assistance Program	16.580		18,061
Total U.S. Department of Justice			<u>\$ 142,208</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation Highway Planning and Construction			
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 0441761 & 0408098	
Incurred 2009 Paid 2009			0
Incurred 2009 Paid 2010			16,621
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Contract # 7763 Reimbursement agreement # 040809	
Incurred 2009 Paid 2009			3,033,733
Incurred 2009 Paid 2010			199,442
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222	
Incurred 2009 Paid 2009			4,031
Incurred 2009 Paid 2010			0
Lackawanna Park Project MPMS 74738	20.205	Reimbursement Agreement Number 04R007	
Incurred 2009 Paid 2009			0
Incurred 2009 Paid 2010			0
Lackawanna Streetscape Project MPMS 73200	20.205	Reimbursement Agreement Number 048764	
Incurred 2009 Paid 2009			520,153
Incurred 2009 Paid 2010			0
Providence Square Phase II	20.205	Reimbursement Agreement Number 048656	
Incurred 2009 Paid 2009			359,020
Incurred 2009 Paid 2010			0
Total U.S. Department of Transportation			<u>\$ 4,133,000</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2009

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Program Operation and Safety	97.044		\$ 318,777
Total U.S. Department of Homeland Security			<u>\$ 318,777</u>
U.S. General Service Administration			
Passed through the Pennsylvania Department of General Services			
Donation of Federal Surplus Property Program	39.003		\$ 14,288
Total U.S. General Service Administration			<u>\$ 14,288</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 10,633,082</u>

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

"See accompanying notes and independent auditors' report."

ROBERT ROSSI & CO.  
CERTIFIED PUBLIC ACCOUNTANTS

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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**

January 24, 2011

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, 2009 and have issued our report thereon dated January 24, 2011. 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, 2009 and not December 31, 2009. 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, 2009-01. 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.

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CERTIFIED PUBLIC ACCOUNTANTS

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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**

January 24, 2011

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, 2009. 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, 2009. 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 2009-2 through 2009-6.

### 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.

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.

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2009

Section I – Auditor’s Result Section

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

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

- (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, 2009

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

2009-1

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

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

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

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

2009-2

**Condition:** 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, new chart of accounts were not added as new programs were added.

**Effect:** Journal entries were required to correct mispostings, properly track, report revenues, and expenditures by each program.

**Recommendation:** Procedures should be implemented whereby as new grants are received the proper chart of accounts are updated on the OECD books and records.

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

2009-3

Condition: 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.

Effect: Journal entries were required to correct the overstating of program revenues and program expenses on OECD books and records.

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

2009-4

Condition: For the year ended December 31, 2009, we noted that some program expenditures were not tracked to the appropriate program and general ledger account. They were all being recorded as CDGB expenditures.

Effect: Journal entries were required to correct mispostings, properly track, and report expenditures by each program and general ledger account.

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

2009-5

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

Condition: During the year ended December 31, 2009, The OECD stopped paying the Home 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.

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.

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

2009-6

FEMA U.S. Department of Homeland Security  
Program Operation and Safety  
CFDA # 97.044

**Condition:** 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.

**Effect:** Grant funds could be jeopardized when program rules on filing of reports and period of availability of expenditures are not complied with.

**Recommendation:** Procedures should be implemented whereby grants are administered in compliance with grant agreements.

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

2009-1      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

2009-2      Tracking and Recording of New Grants

Recommendation: Procedures should be implemented whereby as new grants are received the proper charts of accounts are updated 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

2009-3      Proper Recording of Revenues

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

2009-4      Proper Recording of Revenues

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

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

2009-5      Paying Expenditures out of Appropriate Funds

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

2009-6      Properly Filing of Reports and Expenditure of funds

Recommendation: Procedures should be implemented whereby grants are administered in compliance with grant agreements.

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



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Frank S. Renda  
Business Administrator