

THE PARKING AUTHORITY
OF THE CITY OF SCRANTON, PENNSYLVANIA
(A COMPONENT UNIT OF THE CITY OF SCRANTON)
FINANCIAL STATEMENTS
DECEMBER 31, 2010

INDEX

PAGE

| | |
|-------|---|
| 1-2 | Independent Auditor's Report |
| 3-7 | Management's Discussion and Analysis |
| 8 | Statement of Net Assets |
| 9 | Statement of Revenues, Expenses and Changes in Net Assets |
| 10 | Statement of Cash Flows |
| 11-25 | Notes to Financial Statements |

SUPPLEMENTARY INFORMATION

| | | |
|----|-------------------|-------------------|
| 26 | <u>Schedule 1</u> | Restricted Assets |
|----|-------------------|-------------------|

To the Board of Directors of
The Parking Authority of the
City of Scranton, Pennsylvania

Independent Auditor's Report

We have audited the accompanying financial statements of The Parking Authority of the City of Scranton, Pennsylvania, a component unit of the City of Scranton, as of and for the year ended December 31, 2010, as listed in the Index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Parking Authority of the City of Scranton, Pennsylvania as of December 31, 2010, and the changes of its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages three through seven is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority was not in compliance with the provisions of the Trust Indenture between The Parking Authority of the City of Scranton, Pennsylvania and The Bank of New York Trust Company, N.A. and that the Authority has also complied with the provisions of the lease agreement with the City of Scranton, Pennsylvania insofar as they relate to accounting and auditing matters. It should be noted, however, that our audit was not directed primarily toward obtaining knowledge of such noncompliance.

To the Board of Directors of
The Parking Authority of the
City of Scranton, Pennsylvania

Our audit was made for the purpose of forming an opinion on the financial statements of The Parking Authority of the City of Scranton, Pennsylvania taken as a whole. The supplementary information presented in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Michael Merdel Juno
+ Associates, P.C.

Scranton, Pennsylvania
July 15, 2011

THE PARKING AUTHORITY OF THE CITY OF SCRANTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)

The discussion and analysis of The Parking Authority of the City of Scranton's (the Authority) financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the Authority's financial performance; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Authority's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 are as follows:

- Operating revenues accounted for \$3,283,930 in revenue or 92.8 percent of all revenues.
- Total assets decreased by \$2,828,533 as current assets decreased \$163,515, restricted assets decreased \$2,480,135, noncurrent assets decreased \$68,222 and net investment in parking facilities and equipment decreased by \$116,661.
- The Authority had \$1,994,463 in operating expenses before depreciation, \$1,277,784 in depreciation expense and operating income of \$716,679.

USING THIS GENERALLY ACCEPTED ACCOUNTING PRINCIPALS REPORT (GAAP)

This annual report consists of financial statements and notes to those statements. These statements are organized so the reader can understand the Authority, an entire operating entity. The statements provide a detailed look at the Authority's financial activities.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances.

BALANCE SHEET AND THE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

This view of the Authority looks at all the financial transactions and asks the question, "How did we do financially during 2010?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Authority, the financial position of the Authority has improved or diminished. The cause of this change may be the result of many factors, some financial, and some not.

THE PARKING AUTHORITY OF THE CITY OF SCRANTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)

THE BALANCE SHEET

Table 1 provides a summary of the Authority's total assets for 2010 compared to 2009:

| <u>ASSETS</u> | <u>NET ASSETS</u> | |
|--|---------------------------------|---------------------------------|
| | <u>2010</u> | <u>2009</u> |
| Current Assets | \$ 550,703 | \$ 714,218 |
| Restricted Assets | 4,040,351 | 6,520,486 |
| Noncurrent Assets | 1,790,155 | 1,858,377 |
| Net Capital Assets | <u>48,951,974</u> | <u>49,068,635</u> |
| TOTAL ASSETS | <u>\$ 55,333,183</u> | <u>\$ 58,161,716</u> |
| <u>LIABILITIES</u> | | |
| Current Liabilities | \$ 1,037,455 | \$ 964,498 |
| Current Liabilities, payable from Restricted Assets | 1,447,082 | 1,691,762 |
| Other Liabilities | <u>50,568,397</u> | <u>51,485,617</u> |
| TOTAL LIABILITIES | <u>53,052,934</u> | <u>54,141,877</u> |
| <u>NET ASSETS</u> | | |
| Invested in Capital Assets, Net of Debt | (1,993,842) | 178,395 |
| Restricted for debt service | 3,758,878 | 3,613,438 |
| Unrestricted | <u>515,213</u> | <u>228,006</u> |
| TOTAL NET ASSETS | <u>2,280,249</u> | <u>4,019,839</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 55,333,183</u> | <u>\$ 58,161,716</u> |

THE PARKING AUTHORITY OF THE CITY OF SCRANTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)

Total assets decreased by \$2,828,533 and restricted assets decreased by \$2,480,135. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the Authority increased by \$287,207 during the year.

Table 2 shows the changes in net assets for the year ended December 31, 2010.

TABLE 2

CHANGES IN NET ASSETS

| <u>REVENUES</u> | <u>2010</u> | <u>PERCENTAGE</u> |
|-----------------------------------|---------------------------|-------------------|
| <u>Operating revenues:</u> | \$ | |
| Charges for services | 2,792,995 | 78.9% |
| Other operating revenues | 490,935 | 13.9% |
| <u>Non-operating revenue:</u> | | |
| Interest income | 233,237 | 6.5% |
| Grant revenue | 23,340 | 0.7% |
| <u>TOTAL REVENUES</u> | <u>\$ 3,540,507</u> | 100.0% |
| <u>EXPENSES</u> | | |
| Operating expenses | \$ 1,289,467 | 24.3% |
| Depreciation | 1,277,784 | 24.2% |
| Non-operating expenses | 2,712,846 | 51.4% |
| <u>TOTAL EXPENSES</u> | <u>\$ 5,280,097</u> | 100.0% |
| <u>DECREASE IN NET ASSETS</u> | <u>\$ (1,739,590)</u> | |

THE PARKING AUTHORITY OF THE CITY OF SCRANTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)

OPERATING ACTIVITIES

The Authority operates the parking facilities it has purchased since its inception. The Authority also manages the On-Street Parking Program for the City of Scranton. Operating revenues account for 92.8 percent of total revenue while operating expenses account for 24.3 percent of total expenses.

NON-OPERATING ACTIVITIES

For the year ended December 31, 2010, grant revenue accounted for only 0.7 percent of total revenue. The Authority received approximately \$18,000 from the Office of Economic Development to assist with the construction of retail spaces. The Authority also set-up an allowance for uncollectible accounts at December 31, 2010 in the amount of \$157,111.

CAPTIAL ASSETS

At December 31, 2010, the Authority had \$48,951,974 invested in parking facilities and equipment.

Table 3 shows the 2010 balance compared to 2009.

TABLE 3

CAPITAL ASSETS (NET OF DEPRECIATION) AT DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|----------------------------|----------------------|----------------------|
| Land | \$ 1,967,064 | \$ 1,967,064 |
| Construction-in-progress | 38,756 | 14,484,916 |
| Buildings and improvements | 46,901,213 | 32,575,680 |
| Equipment | 44,941 | 40,975 |
| TOTAL | \$ 48,951,974 | \$ 49,068,635 |

Depreciation amounted to \$1,277,784 and capital assets decreased by \$116,661 with a net increase of \$14,325,533 in buildings and improvements with the completion of the new Connell garage and SPA Garage facade project financed through the issue of the 2007 Guaranteed Parking Revenue Bonds by the Authority. The remaining construction in progress is for fit-out of rental spaces to be completed in 2011.

See footnotes #5 and 7 for additional information on the Authority's capital assets.

THE PARKING AUTHORITY OF THE CITY OF SCRANTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)

LONG TERM LIABILITIES

At December 31, 2010, the Authority had \$51,200,000 of Revenue Bonds Payable. During the year ended December 31, 2010, the Authority paid \$570,000 of principal on this liability.

See footnote #7 for additional information on these liabilities.

CURRENT FINANCIAL ISSUES AND CONCERNS

Finances of the Authority depend primarily upon operating revenues. Should the Authority have any problems in securing capital funding for future projects, it has the ability to scale back and/or eliminate the projects.

Based on projected cash flows, management of the Authority determined that additional cash flows were necessary for meeting liquidity requirements outlined in the 2011 budget. In July 2011, the Authority issued a request for proposal for a \$2,640,000 bank-qualified, tax-exempt, unsecured note to cover the remaining 2011 bond payments and the installation of the final two garage pay stations. Debt payments are due September 15, 2011, and the anticipated closure date for the new debt is late August 2011. The Official Statements of the Guaranteed Parking Revenue Bonds, Series of 2004, 2006, and 2007 state that in the event of insufficiency of parking revenues for payments, such payments are payable from the tax and other general revenues of the City of Scranton. The Authority has no taxing power.

The Authority plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Robert Scopelliti, Executive Director of the Authority, 140 Adams Avenue, Scranton, Pennsylvania.

THE PARKING AUTHORITY OF THE CITY OF SCRANTON, PENNSYLVANIA

STATEMENT OF NET ASSETS

DECEMBER 31, 2010

ASSETS

| | |
|--|---------------------|
| Current assets | |
| Cash and cash equivalents | \$ 254,215 |
| Accounts receivable, net of allowance if \$157,111 | 216,004 |
| Due from the City of Scranton | 67,793 |
| Prepaid expenses | 12,691 |
| Total current assets | <u>550,703</u> |
| Noncurrent assets | |
| Restricted assets - <u>Schedule 1</u> | |
| Cash and cash equivalents | 780,917 |
| Investments | 3,232,145 |
| Accrued interest receivable | 27,289 |
| Total restricted assets | <u>4,040,351</u> |
| Deferred charges, net of accumulated amortization | 1,790,155 |
| Capital assets (Note 5) | |
| Parking facilities and equipment, net | 48,951,974 |
| Total noncurrent assets | <u>54,782,480</u> |
| Total assets | <u>55,333,183</u> |
| <u>LIABILITIES</u> | |
| Current liabilities (payable from current assets) | |
| Line of credit (Note 6) | 750,000 |
| Current portion of long-term debt (Note 7) | 97,500 |
| Accounts payable | 122,930 |
| Accrued payroll and payroll taxes withheld | 25,684 |
| Other current liabilities | 41,341 |
| Total current liabilities (payable from current assets) | <u>1,037,455</u> |
| Current liabilities (payable from restricted assets) | |
| Accrued construction costs | 188,746 |
| Revenue bonds payable (Note 7) | 855,000 |
| Accrued revenue bond interest payable | 403,336 |
| Total current liabilities (payable from restricted assets) | <u>1,447,082</u> |
| Noncurrent liabilities | |
| Long term debt, net of current portion (Note 7) | 633,881 |
| Revenue bonds payable, net of current portion (Note 7) | 50,345,000 |
| Deferral from refunding, net | (410,484) |
| Total noncurrent liabilities | <u>50,568,397</u> |
| Total liabilities | <u>53,052,934</u> |
| Net assets | |
| Invested in capital assets, net of related debt | (1,993,842) |
| Restricted for debt service | 3,758,878 |
| Unrestricted | 515,213 |
| Total net assets | <u>\$ 2,280,249</u> |

The accompanying Notes are an integral part of these Financial Statements.

THE PARKING AUTHORITY OF THE CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010

| | Total | Parking Authority Garage | Electric City Garage | South Washington Lot | Casey Garage | Medallion Garage | Connell Garage | On Street Parking Program |
|--|---------------------|--------------------------------|-------------------------|----------------------------|---------------------|---------------------|---------------------|---------------------------------|
| Operating revenues | | | | | | | | |
| Daily parking | \$ 629,468 | \$ 242,382 | \$ 81,176 | \$ - | \$ 101,598 | \$ 137,949 | \$ 66,363 | \$ - |
| Monthly parking | 1,710,210 | 467,018 | 520,007 | 10,620 | 308,413 | 339,664 | 64,488 | - |
| Validations | 66,410 | 54,702 | 2,727 | - | 5,971 | 2,610 | 400 | - |
| Tenant rentals | 386,907 | 120,688 | - | - | 146,791 | 118,542 | 886 | - |
| Other revenue | 490,935 | 332,805 | - | - | - | - | - | 158,130 |
| Total operating revenues | 3,283,930 | 1,217,595 | 603,910 | 10,620 | 562,773 | 598,765 | 132,137 | 158,130 |
| Operating expenses | | | | | | | | |
| Salaries and wages | 425,976 | 258,403 | 61,361 | - | 35,417 | 34,731 | 36,064 | - |
| Payroll taxes | 40,104 | 25,349 | 5,403 | - | 3,118 | 3,058 | 3,176 | - |
| Pension plan | 37,454 | 23,914 | 5,000 | - | 2,847 | 2,847 | 2,846 | - |
| Maintenance and supplies and expense | 173,036 | 87,303 | 21,943 | 140 | 21,666 | 30,106 | 11,878 | - |
| Utilities and telephone | 243,505 | 74,814 | 7,042 | - | 66,356 | 50,629 | 44,664 | - |
| Insurance | 214,977 | 144,091 | 25,948 | - | 14,981 | 14,976 | 14,981 | - |
| Real estate taxes | 40,537 | 40,537 | - | - | - | - | - | - |
| Trustee and professional fees | 99,375 | 99,375 | - | - | - | - | - | - |
| Miscellaneous | 14,503 | 2,657 | 2,012 | - | 2,842 | 4,407 | 2,585 | - |
| Total operating expenses | 1,289,467 | 756,443 | 128,709 | 140 | 147,227 | 140,754 | 116,194 | - |
| Operating income before depreciation | 1,994,463 | 461,152 | 475,201 | 10,480 | 415,546 | 458,011 | 15,943 | 158,130 |
| Less: Depreciation | 1,277,784 | 189,986 | 131,232 | 3,308 | 255,213 | 396,043 | 302,002 | - |
| Operating income (loss) | 716,679 | 271,166 | 343,969 | 7,172 | 160,333 | 61,968 | (286,059) | 158,130 |
| Non-operating revenues (expenses) | | | | | | | | |
| Interest earned | 233,237 | 15,968 | 18,052 | - | 69,259 | 60,699 | 69,259 | - |
| State Grant Revenue | 23,340 | 23,340 | - | - | - | - | - | - |
| Provision for uncollectible accounts | (157,111) | (28,498) | (61,536) | - | (67,077) | - | - | - |
| Line of credit | (85,994) | (85,994) | - | - | - | - | - | - |
| Bond interest - current | (2,401,519) | (62,547) | (342,760) | - | (525,529) | (769,977) | (700,706) | - |
| Bond discount | (11,723) | (402) | (3,126) | - | (1,005) | (5,849) | (1,341) | - |
| Prepaid expenses | (56,499) | (829) | (6,335) | - | (13,824) | (17,080) | (18,431) | - |
| Total non-operating revenues (expenses) | (2,456,269) | (138,962) | (395,705) | - | (538,176) | (732,207) | (651,219) | - |
| Change in net assets | (1,739,590) | 132,204 | (51,736) | 7,172 | (377,843) | (670,239) | (937,278) | 158,130 |
| Net assets, beginning (restated) | 4,019,839 | 1,147,502 | (1,557,118) | 1,559,640 | (186,203) | 1,541,077 | - | 1,514,941 |
| Net assets, ending | \$ 2,280,249 | \$ 1,279,706 | \$ (1,608,854) | \$ 1,566,812 | \$ (564,046) | \$ 870,838 | \$ (937,278) | \$ 1,673,071 |

The accompanying Notes are an integral part of these Financial Statements.

THE PARKING AUTHORITY OF THE CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

| | |
|--|----------------------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 2,938,844 |
| Cash paid to vendors | <u>1,621,557</u> |
| Net cash flows from operating activities | <u>1,317,287</u> |
| | |
| Cash flows from noncapital financing activities | |
| None | <u>-</u> |
| | |
| Cash flows from capital and related financing activities | |
| Receipt of state grants | 36,281 |
| Payment of debt | (638,619) |
| Payment of interest | (2,649,559) |
| Purchase of capital assets | <u>(973,245)</u> |
| Net cash flows from capital and related financing activities | <u>(4,225,142)</u> |
| | |
| Cash flows from investing activities | |
| Receipt of interest | 145,258 |
| Sale of restricted investments | <u>499,636</u> |
| Net cash flows from investing activities | <u>644,894</u> |
| | |
| Net change in cash | (2,262,961) |
| | |
| Cash and cash equivalents, beginning | <u>3,298,093</u> |
| | |
| Cash and cash equivalents, ending | <u><u>\$ 1,035,132</u></u> |
| | |
| Reconciliation of operating income to net cash flows from operating activities | |
| Operating income | \$ 716,679 |
| Depreciation | 1,277,784 |
| Increase in accounts receivable | (205,672) |
| Increase in other assets | 1,204 |
| Decrease in accounts payable | (479,697) |
| Increase in other liabilities | 6,989 |
| Net cash provided by operating activities | <u><u>\$ 1,317,287</u></u> |

The accompanying Notes are an integral part of these Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Organization

The Parking Authority of the City of Scranton, Pennsylvania (the Authority) is a body corporate and politic organized by the City of Scranton on March 30, 1953, and reactivated on April 7, 1966, under the Pennsylvania Parking Authority Law (the Act of June 5, 1947, P.L. 458) as amended. Construction commenced on a multi-level parking garage and ground level commercial space on the northwest corner of North Washington Avenue and Linden Street in Scranton, Pennsylvania. The facility became operational in August, 1970.

In 1995, a new parking facility was constructed on the corner of Penn and Lackawanna Avenues. The 1995 parking facility was designed to connect with the adjacent Globe Parking Facility, which was purchased in 1995. The facility, known as the Electric City Garage, became operational in November, 1995.

In 2005, the Authority leased a newly constructed parking facility from the Scranton Redevelopment Authority; the Casey Garage is located on the corner of Adams and Lackawanna Avenues. In 2007, the Authority purchased the Casey Garage from the Scranton Redevelopment Authority.

In 2006, construction was completed on the Medallion Garage, located on Adams Avenue.

In 2010, construction was completed on the Connell Garage, located on North Washington Avenue.

The Authority also manages an open air parking lot located on South Washington Avenue and a metered on-street parking program. The Parking Authority of the City of Scranton, Pennsylvania, has determined that it is a component unit of the City of Scranton and it is included in the reporting entity of the City of Scranton.

Original Trust Indenture

In May, 1969, a bond issue of \$3,135,000, to run to April 1, 2009, with interest costs varying from 4.75% to 5.85%, was sold. This bond issue was redeemed in 2004.

Supplemental Trust Indenture

In July, 1988, a bond issue of \$2,595,000, to run to September 15, 2014, with interest costs varying from 5.75% to 8.125%, was sold. This bond issue was redeemed in 1995.

Note 1 - Summary of Significant Accounting Policies - (Continued)

Second Supplemental Trust Indenture

In June, 1995, a bond issue of \$7,645,000, to run to September 14, 2015 and September 15, 2020, with interest costs varying from 5.00% to 7.1%, was sold. This bond issue was partially advance refunded in 2004, with the remaining outstanding bonds redeemed in 2006.

Third Supplemental Trust Indenture

In January, 2004, a bond issue of \$16,145,000, to run to September 15, 2025, September 15, 2028 and September 15, 2033, with interest costs varying from 1.10% to 5.0%, was sold. Proceeds from the sale were turned over to the Trustee for initial distribution to various funds in accordance with the terms of the Trust Indenture of the Authority. The Trustee maintains all funds enumerated in Note 2 and shall continue to function for the life of this bond issue in the collection of rentals, the payment of operating expenses and semi-annual interest payments, and the repurchase and retirement of bonds until the ultimate retirement of all outstanding bonds.

Fourth Supplemental Trust Indenture

In June 2006, a bond issue of \$5,695,000, to run to September 15, 2018, September 15, 2022, September 15, 2030, and September 15, 2033, with interest costs varying from 3.65% to 4.80%, was sold. Proceeds from the sale were turned over to the Trustee for initial distribution to various funds in accordance with the terms of the Trust Indenture of the Authority. The Trustee maintains all funds enumerated in Note 2 and shall continue to function for the life of this bond issue in the collection of rentals, the payment of operating expenses and semi-annual interest payments, and the repurchase and retirement of bonds until the ultimate retirement of all outstanding bonds.

Fifth Supplemental Trust Indenture

In October 2007, a bond issue of \$32,295,000, to run to June 1, 2017, June 1, 2022, June 1, 2027, June 1, 2034 and June 1, 2039, with interest costs varying from 4.20% to 5.25% was sold. Proceeds from the sale were turned over the Trustee for initial distribution to various funds in accordance with the terms of the Trust Indenture of the Authority. The Trustee maintains all funds enumerated in Note 2 and shall continue to function for the life of this bond issue in the collection of rentals, the payment of operating expenses and semi-annual interest payments, and the repurchase and retirement of bonds until the ultimate retirement of all outstanding bonds.

Basis of Accounting

The Parking Authority of the City of Scranton, Pennsylvania is a proprietary fund and uses the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses are recognized when the obligation is incurred. The Authority applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Note 1 - Summary of Significant Accounting Policies - (Continued)

Measurement Focus and Basis of Accounting

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. The principal operating revenues are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments

All of the Authority's investments are reported at fair value except for investments in non-participating investment contracts which are reported at amortized cost.

Parking Facilities and Equipment

Parking facilities and equipment are recorded at cost. Normal maintenance and repairs are charged to expense as incurred; major renewals and extraordinary repairs, which extend the useful life of an asset, are capitalized. Depreciation is provided using the straight-line method based on the following estimated useful lives:

| | <u>Years</u> |
|-------------------------------------|--------------|
| Land improvements | 10 - 15 |
| Buildings and building improvements | 10 - 50 |
| Equipment | 3 - 10 |

Accounts Receivable and Allowance for Doubtful Accounts

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

Note 1 - Summary of Significant Accounting Policies - (Continued)

Lease Agreement

Under a lease dated April 1, 1969, and supplemented July 15, 1988, June 1, 1995, January 1, 2004 and June 1, 2006, the City of Scranton, Pennsylvania agreed to lease the Parking Garage facilities from the Authority under the terms indicated therein. If the Authority's current revenues in any fiscal year are insufficient to pay the fixed rent and additional rent, the City will include the entire amount of the deficiency created in its budget for each subsequent fiscal year until such deficiency has been paid. For expediency purposes, the Trustee has transferred payments directly from the Revenue Fund, described in Note 2, to the other funds.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand, in banks and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Cash and cash equivalents, at December 31, 2010, were as follows:

| | |
|---------------------------------|---------------------|
| Unrestricted | \$ 254,215 |
| Restricted | 780,917 |
| Total cash and cash equivalents | <u>\$ 1,035,132</u> |

Interest paid by the Authority for the year ended December 31, 2010, was \$2,649,559 of which \$119,064 was capitalized as construction-in-progress.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Subsequent Events

The Authority has evaluated subsequent events through July 15, 2011, the date on which the financial statements were available to be issued.

Note 2 - Restricted Assets

The aforementioned Trust Indentures, among other things, provide for the creation of the following funds which are restricted by terms of these indentures:

(A) Revenue Funds

The Trust Indentures required the Trustee to establish Revenue Funds into which all fixed rents received by the Authority under the Parking Facilities Lease and any other amounts shall be deposited. The Trustee shall reserve in the Revenue Funds, and from time to time pay the Authority on its request, amounts necessary to pay the Authority's administrative expenses allocable to the Projects up to, but not exceed, \$2,500 a year.

(B) Debt Service Funds

Terms of the Third Supplemental Indenture require the Trustee to transfer from the Revenue Fund interest falling due on the 2004 Series Bonds on the next succeeding March 15 and September 15, respectively, plus on March 1 and September 1, one-half of the aggregate principal amount of the 2004 Bonds maturing or subject to mandatory redemption on the next succeeding September 15.

Terms of the Fourth Supplemental Indenture require the Trustee to transfer from the Revenue Fund interest falling due on the 2006 Series Bonds on the next succeeding March 15 and September 15, respectively, plus on September 15, the aggregate principal amount of the 2006 bonds maturing or subject to mandatory redemption on the next succeeding September 15.

Terms of the Fifth Supplemental Indenture require the Trustee to transfer from the Revenue Fund interest falling due on the 2007 Series Bonds on the next succeeding June 1 and December 1, respectively, plus on June 1, the aggregate principal amount of the 2007 bonds maturing or subject to mandatory redemption on the next succeeding June 1.

Should a deficiency have existed in the Funds at any time, the Indentures provided that required funds be transferred from the Debt Service Reserve Funds in the amount required to make up any deficiency.

(C) Debt Service Reserve Funds

The Third Supplemental Indenture established a 2004 Series Debt Service Reserve Account of \$1,173,528, consisting of \$768,934 available funds in the 1969 and 1995 Debt Service Reserve Fund and \$404,594 of 2004 Bond proceeds to be used to make up any deficiency in the Debt Service Fund or any Sinking Fund.

The Fourth Supplemental Indenture established a 2006 Series Debt Service Reserve Account of \$312,219 to be used for the same purposes.

The Fifth Supplemental Indenture established a 2007 Series Debt Service Reserve Account of \$1,946,073 to be used for the same purposes.

Note 2 - Restricted Assets - (Continued)

(D) Bond Redemption and Improvement Funds

The surplus from time to time in the Revenue Funds, after payments and deposits mentioned above are satisfied, is to be deposited in the Bond Redemption and Improvement Fund and applied to make good any deficiencies in the Debt Service Funds, Bond Sinking Funds, the Debt Service Reserve Funds or the Maintenance Reserve Funds. If there is no deficiency in any of such Funds, monies may be applied as follows and as more fully provided in the Indenture:

- (1) to make capital additions;
- (2) to make up any deficiency in the Construction Fund;
- (3) to purchase or redeem Bonds issued under the Indenture.

(E) Bond Sinking Funds

For specified periods of time, the Trustee shall transfer to these Funds from each semi-annual installment of rent, those amounts specified in the Indentures. These monies will be applied to the purchase or redemption of bonds maturing. If, at any time, all the bonds have been purchased or redeemed, the Trustee shall make no further transfers to the Funds and shall transfer any balance in the Sinking Funds to the Bond Redemption and Improvement Funds.

(F) Rebate Fund (2004 Series)

Terms of the Third Supplemental Indenture require the Trustee establish and maintain a Rebate Fund so long as the 2004 Bonds are outstanding, and for 60 days thereafter, for the purpose of paying the United States Treasury the amount required to be rebated pursuant to Section 148(f) of the Internal Revenue Code of 1986. All amounts in the rebate fund shall be held by the Trustee free and clear of the lien of the indenture.

Note 3 - Deposits and Investments

Custodial Credit Risk- Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2010, \$780,917 of the Authority's bank balance of \$1,035,132 was exposed to custodial credit risk as follows:

| | |
|---|-------------------|
| Uninsured and uncollateralized | \$ - |
| Uninsured and collateral held by pledging financial institution not in the Authority's name | <u>780,917</u> |
| Total | <u>\$ 780,917</u> |

Note 3 - Deposits and Investments - (Continued)

The Authority has few investments and chooses to disclose its investments by specifically identifying each. The Authority has not adopted a formal investment policy, but has hired PNC Advisors to make investment decisions. The Authority bases the value of government securities on quoted market prices. The Authority has chosen to value the investment contract at cost due to the uncertainty in the valuation and associated calculations. As of December 31, 2010, the Authority's investments were as follows:

| | | |
|--|--------------------|---------------------|
| Interest-earning investment contract (at cost) | Maturing 9/16/2024 | \$ 1,173,528 |
| U.S. Treasury Bond (at fair value) | Maturing 5/15/2037 | <u>2,058,617</u> |
| Total | | <u>\$ 3,232,145</u> |

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

At the request of the Authority, restricted assets are invested by the Trustee in direct obligations of the United States Government or in time accounts secured by a pledge of securities as required by law for such deposits. Unrestricted funds are invested at management's discretion.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

Note 4 - Deferred Charges

Costs incurred in connection with the bond issues, the bond discounts, and those interest payments made to bondholders before the facilities became operational have been deferred and are being amortized over the remaining life of the bond issues. Amortization is provided on the straight-line basis over the following years:

| | <u>Years</u> |
|-------------|--------------|
| 2004 Series | 30 |
| 2006 Series | 27 |
| 2007 Series | 31 |

Amortization expense, included as a non-operating expense for December 31, 2010 was \$68,222.

Note 5 - Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2010:

| | <u>Beginning Balance 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance 2010</u> |
|--|---------------------------------------|-------------------|-------------------|------------------------------------|
| Capital assets; not being depreciated: | | | | |
| Land | \$ 1,967,064 | \$ - | \$ - | \$ 1,967,064 |
| Construction-in-progress | 14,484,916 | 1,078,073 | 15,524,233 | 38,756 |
| Total capital assets not being Depreciated | <u>16,451,980</u> | <u>1,078,073</u> | <u>15,524,233</u> | <u>2,005,820</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 309,045 | - | - | 309,045 |
| Buildings and building Improvements | 40,874,825 | 15,582,208 | - | 56,457,033 |
| Equipment | 408,512 | 25,075 | - | 433,587 |
| Total capital assets being Depreciated | <u>41,592,382</u> | <u>15,607,283</u> | <u>-</u> | <u>57,199,665</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 303,133 | 1,112 | - | 304,245 |
| Building and building improvements | 8,305,057 | 1,255,563 | - | 9,560,620 |
| Equipment | 367,537 | 21,109 | - | 388,646 |
| Total accumulated Depreciation | <u>8,975,727</u> | <u>1,277,784</u> | <u>-</u> | <u>10,253,511</u> |
| Total capital assets, being depreciated, net | <u>32,616,655</u> | <u>14,329,499</u> | <u>-</u> | <u>46,946,154</u> |
| Capital assets, net | <u>\$ 49,068,635</u> | <u>15,407,572</u> | <u>\$ -</u> | <u>49,951,974</u> |

Depreciation expense for the year ended December 31, 2010 amounted to \$1,277,784.

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

