

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2006**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE  
AND SINGLE AUDIT ATTACHMENTS  
YEAR ENDED DECEMBER 31, 2006

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INDEPENDENT AUDITORS' REPORT

December 3, 2007

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, 2006 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 \$45,680,166 at March 31, 2006 and total revenues of \$10,843,128 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$38,670,969 at December 31 2006 and total revenues of \$2,177,023 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$15,831,391 at December 31, 2006 and total revenues of \$364,044 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 general purpose 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, 2006 instead of December 31, 2006. 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, 2006 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, 2006, 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, special revenue fund special cities, capital projects fund, sewer authority and municipal parking authority of the City of Scranton as of December 31, 2006, 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.

The management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 75 through 76 are not a required part of the basic financial statements but are supplementary information required by Accounting Principals 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.

Our audit was conducted for the purpose of opinions on the financial statements that collectively comprise the City of Scranton's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Scranton. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

In Accordance with *Government Auditing Standards*, we have issued a report dated December 3, 2007 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 and grants. 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.

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, 2006. . 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

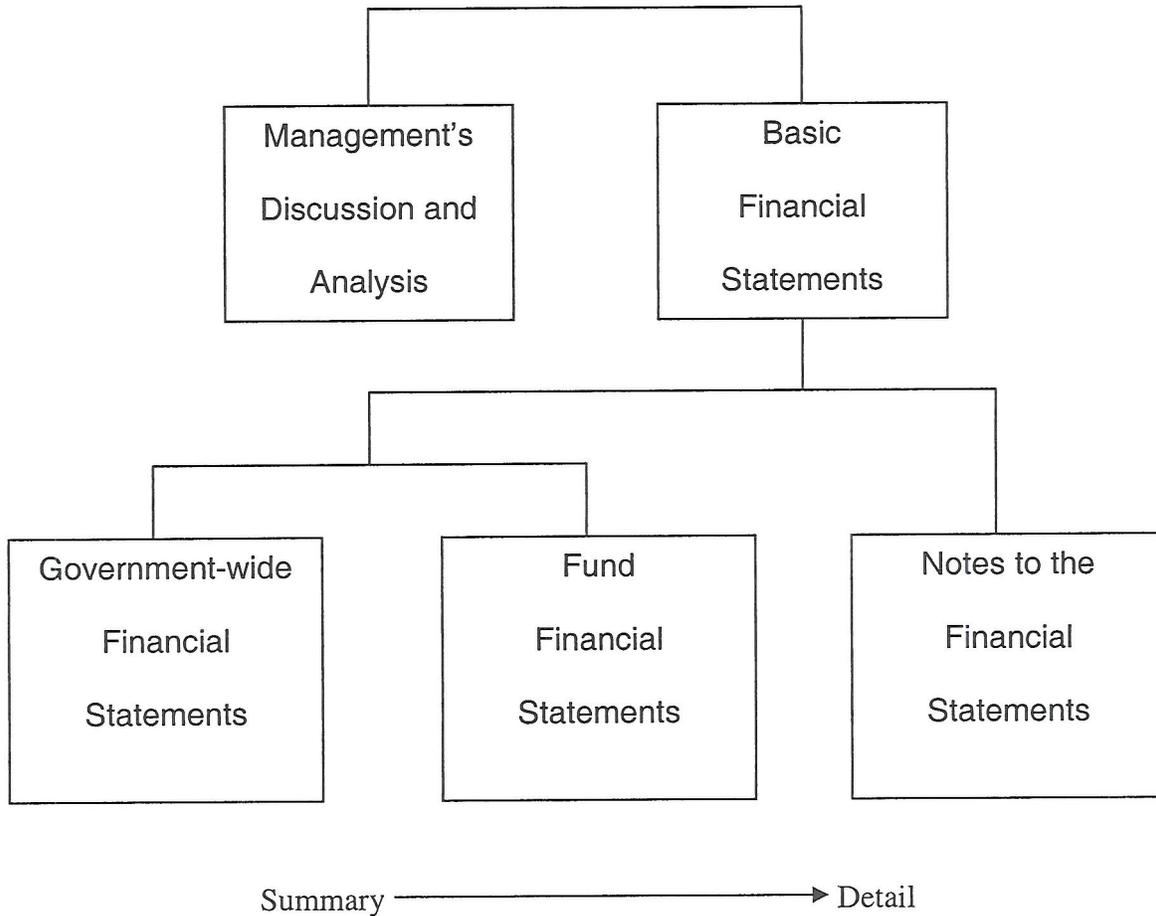
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$24,878,931 (*net assets*).
- The government's total net assets increased by \$9,660,609.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$19,524,674, an increase of \$5,707,086 in comparison with the prior year. The largest increase was in the General Fund of \$6,710,011. Approximately 61% of this total amount or \$11,914,557 is available for spending at the government's discretion (*unreserved fund balance*).
- The City entered into a sublease agreement with the Redevelopment Authority, whereby, the City is obligated to pay rent equal to the principal and interest payments of the bond. This transaction accounts for \$10 million of the City General Fund Revenue. The City utilized \$6 million to cover expenditures in the current budget and reserved the remainder for the following two years.
- The City of Scranton has a BBB 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 16 through 18) 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 19 through 31) 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.

## **Basic Financial Statements (Continued)**

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

## **Government-Wide Financial Statements**

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

The statement of net assets presents the City's assets and liabilities as of the end of the recent fiscal year. The statement of activities shows the City's current year's revenue and expenses as soon as the changes occur, regardless of the timing of the related cash flows (on the accrual basis). Thus, revenue and expenses are reported in this statement for some items that will provide cash flow or use cash flow in a future period. An example of a cash inflow in a future would be when a taxpayer pays a prior year tax or fee in the future (see Taxes and Fees Receivable \$19,549,794). An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$2,573,766). 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, Redevelopment Authority, and the Municipal Recreation Authority (Business-Type Activities). Financial information for these entities is reported in separate columns.

The government-wide financial statements are on pages 16 through 18.

## **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

## **Governmental Funds (Continued)**

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.

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, OECD, the Capital Projects Fund, and the Redevelopment Authority Fund all of which are considered to be major funds. The data for non-major funds consisting of Liquid Fuels Fund, 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 32 through 74 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 75 through 76). 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 \$24,878,931.

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, \$49,776,538. 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, \$12,222,526, 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 \$37,120,133. The governmental activities reported negative unrestricted net assets of \$46,843,503. The business type activities reported positive unrestricted net assets of \$9,723,370.

### The City of Scranton, Pennsylvania's Net Assets

Figure 2

The City of Scranton, Pennsylvania's Net Assets Figure 2									
	Governmental Activities			Business Type Activities			Total Primary Government		
	2006	2005	% Change	2006	2005	% Change	2006	2005	% Change
Current Assets	\$ 129,637,629	\$ 109,375,899	19%	\$ 10,569,746	\$ 9,076,572	16%	\$ 140,207,375	\$ 118,452,471	18%
Restricted Assets	172,000	172,000	0%	5,313,615	7,126,938	-25%	5,485,615	7,298,938	-25%
Capital Assets	52,394,954	47,292,337	11%	70,535,653	59,310,734	19%	122,930,607	106,603,071	15%
Deferred Charges	<u>2,060,063</u>	<u>1,815,217</u>	13%	<u>998,793</u>	<u>943,939</u>	6%	<u>3,058,856</u>	<u>2,759,156</u>	11%
Total Assets	<u>\$ 184,264,646</u>	<u>\$ 158,655,453</u>	16%	<u>\$ 87,417,807</u>	<u>\$ 76,458,183</u>	14%	<u>\$ 271,682,453</u>	<u>\$ 235,113,636</u>	16%
Current Liabilities	\$ 15,811,718	\$ (568,028)	-2884%	\$ 17,996,173	\$ 16,258,623	11%	\$ 33,807,891	\$ 15,690,595	115%
Non-Current Liabilities	<u>182,603,353</u>	<u>169,533,623</u>	8%	<u>30,392,278</u>	<u>26,773,380</u>	14%	<u>212,995,631</u>	<u>196,307,003</u>	9%
Total Liabilities	<u>\$ 198,415,071</u>	<u>\$ 168,965,595</u>	17%	<u>\$ 48,388,451</u>	<u>\$ 43,032,003</u>	12%	<u>\$ 246,803,522</u>	<u>\$ 211,997,598</u>	16%
Net Assets:									
Invested In Capital Assets									
Net of Related Debt	\$ 24,627,354	\$ 23,060,794	7%	\$ 25,149,184	\$ 21,643,396	16%	\$ 49,776,538	\$ 44,704,190	11%
Restricted	8,065,724	8,978,826	-10%	4,156,802	3,891,122	7%	12,222,526	12,869,948	-5%
Unrestricted	<u>(46,843,503)</u>	<u>(42,349,762)</u>	11%	<u>9,723,370</u>	<u>7,891,423</u>	23%	<u>(37,120,133)</u>	<u>(34,458,339)</u>	8%
Total Net Assets	<u>\$ (14,150,425)</u>	<u>\$ (10,310,142)</u>	37%	<u>\$ 39,029,356</u>	<u>\$ 33,425,941</u>	17%	<u>\$ 24,878,931</u>	<u>\$ 23,115,799</u>	8%

## City of Scranton, Pennsylvania Changes in Net Assets

Figure 3

City of Scranton, Pennsylvania's Changes in Net Assets Figure 3									
	Governmental			Business-Type			Total		
	Activities		%	Activities		%	Primary Government		%
	2006	2005		2006	2005		2006	2005	
<b>Revenues</b>									
Program Revenues									
Fees, Fines & Charges for Services	\$ 8,897,915	\$ 8,602,281	3%	\$ 13,020,151	\$ 12,250,959	6.28%	\$ 21,918,066	\$ 20,853,240	5.11%
Operating Grants & Contributions	17,710,510	13,685,686	29%	0	0	0.00%	17,710,510	13,685,686	29.41%
Capital Grants & Contributions	2,174,711	3,381,861	-36%	0	0	0.00%	2,174,711	3,381,861	-35.69%
General Revenues									
Property Taxes	11,148,639	12,558,672	-11%	0	0	0.00%	11,148,639	12,558,672	-11.23%
Act 511 Taxes	26,981,612	26,215,395	3%	0	0	0.00%	26,981,612	26,215,395	2.92%
Cable TV Franchise Revenue	755,087	754,303	0%	0	0	0.00%	755,087	754,303	0.10%
Payments in Lieu of Taxes	15,790	116,000	-86%	0	0	0.00%	15,790	116,000	-86.39%
Investment Earnings	2,313,967	1,308,285	77%	306,223	257,855	18.76%	2,620,190	1,566,140	67.30%
Donations	529,550	63,000	100%	0	0	0.00%	529,550	63,000	100.00%
Sale of Property	1,131,345	21,494	100%	0	0	0.00%	1,131,345	21,494	100.00%
Miscellaneous	73,790	177,450	-58%	2,333,309	1,397,383	66.98%	2,407,099	1,574,833	52.85%
Rents & Concessions	5,785	2,710	113%	0	0	0.00%	5,785	2,710	113.47%
Settlement Storm Water Maintenance	7,897,952	0	0%	0	0	0.00%	7,897,952	0	0.00%
Intergovernmental Revenues	446,965	0	0%	3,036,482	0	0.00%	3,483,447	0	0.00%
Casualty Gain	0	0	0%	0	23,829	0.00%	0	23,829	100.00%
<b>Total Revenue &amp; Transfers</b>	<b>\$ 80,083,618</b>	<b>\$ 66,887,137</b>	<b>20%</b>	<b>\$ 18,696,165</b>	<b>\$ 13,930,026</b>	<b>34.21%</b>	<b>\$ 98,779,783</b>	<b>\$ 80,817,163</b>	<b>22.23%</b>
<b>Expenses</b>									
General Government & Administration	\$ 9,441,675	\$ 8,692,698	9%	\$ 0	\$ 0	0%	\$ 9,441,675	\$ 8,692,698	9%
Public Safety	31,435,830	30,763,622	2%	0	0	0%	31,435,830	30,763,622	2%
Public Works	10,490,156	8,612,927	22%	0	0	0%	10,490,156	8,612,927	22%
Health & Welfare	1,299,937	794,719	64%	0	0	0%	1,299,937	794,719	64%
Community Development	10,319,401	9,569,822	8%	0	0	0%	10,319,401	9,569,822	8%
Cultural & Recreation	1,732,053	1,129,283	53%	0	0	0%	1,732,053	1,129,283	53%
Other Expenditures	12,525	16,970	-26%	0	0	0%	12,525	16,970	-26%
Capital Expenditures	146,722	248,781	-41%	0	0	0%	146,722	248,781	-41%
Court Award Settlement	5,572,094	0	0%	0	0	0%	5,572,094	0	0%
Unallocated Depreciation	34,759	34,759	0%	0	0	0%	34,759	34,759	0%
Interest on Long Term Debt	5,541,272	4,375,812	27%	0	0	0%	5,541,272	4,375,812	27%
Sewer Authority	0	0	0%	10,337,346	10,270,198	1%	10,337,346	10,270,198	1%
Municipal Recreation Authority	0	0	0%	0	0	0%	0	0	0%
Municipal Parking Authority	0	0	0%	2,755,404	1,758,329	56.71%	2,755,404	1,758,329	56.71%
<b>Total Expenses</b>	<b>\$ 76,026,424</b>	<b>\$ 64,239,393</b>	<b>18%</b>	<b>\$ 13,092,750</b>	<b>\$ 12,028,527</b>	<b>8.85%</b>	<b>\$ 89,119,174</b>	<b>\$ 76,267,920</b>	<b>16.85%</b>
<b>Change in Net Assets</b>	<b>\$ 4,057,194</b>	<b>\$ 2,647,744</b>	<b>53%</b>	<b>\$ 5,603,415</b>	<b>\$ 1,901,499</b>	<b>195%</b>	<b>\$ 9,660,609</b>	<b>\$ 4,549,243</b>	<b>112%</b>
Net Assets, Beginning of Year	<u>(18,207,619)</u>	<u>(12,957,886)</u>	41%	<u>33,425,941</u>	<u>31,524,442</u>	6.03%	<u>15,218,322</u>	<u>18,566,556</u>	-18.03%
<b>Net Assets, End of Year</b>	<b>\$ (14,150,425)</b>	<b>\$ (10,310,142)</b>	<b>37%</b>	<b>\$ 39,029,356</b>	<b>\$ 33,425,941</b>	<b>16.76%</b>	<b>\$ 24,878,931</b>	<b>\$ 23,115,799</b>	<b>7.63%</b>

**Governmental activities.** Governmental activities increased the City's net assets by \$4,057,194. 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 \$5,603,415. The largest item contributing to this increase was the \$2,996,007 realized by the Scranton Sewer Authority.

## **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 \$1,913,804 from the prior year. Total General Fund Revenue was \$52,854,158 for the year 2006 versus \$50,940,354 for the year 2005. There was a \$559,394 increase in Interest Income. Also, Donations increased by \$466,550. The General Fund expenditures for the year 2006 went up by \$1,752,474. Total General Fund Expenditures were \$53,339,615 for 2006 versus \$51,587,141 in 2005. The single largest increase in expenses was in Public Works for \$950,558. Also, there was a \$444,079 increase in Public Safety expenditures. Total Public Works Expenditures were \$10,760,438 for 2006 versus \$9,809,880 for 2005.

- At December 31, 2006, the Governmental Funds of the City of Scranton reported a combined fund balance of \$19,524,674, a 41% increase over last year. A significant reason for the increase in the combined fund balance is due to \$16,209,343 for capital expenditures in the Capital Projects Fund and Redevelopment Authority.

### **General Fund Highlights**

Revenues and other financing sources were higher than prior year amounts. The City realized an increase in tax collections for the period. Interest income realized a significant increase as well as donations compared to the prior year. Donations increased from \$63,000 to \$529,550 for 2005 and 2006, respectively. Scranton Police officers purchased their own cruisers to be used for business purposes; therefore, the City recognizes the revenue within the current period.

Overall expenditures increased by \$1,752,474 compared to the prior year. Public Safety recognized an increase of \$444,079. The increase can be attributed to increased Health Care costs for the Police and Fire Department. Another increase is Public Work's expenditure which increased by \$950,558 compared to the prior year. The increase is attributed to highways of \$634,000 and traffic maintenance of \$271,000.

Other Financing Sources increased significantly compared to the prior year; from \$1,291,419 in 2005 to \$7,195,468 in 2006. A large portion of the increase can be attributed to Bond Proceeds in 2006. The City borrowed a \$10 million Bond in 2006; the proceeds were used to fund budget shortfalls for a three year period (2006, 2007 & 2008).

The City recognized the entire amount of the proceeds in the current period, while utilizing \$6 million in the current period. Another factor contributing to the increase is a settlement with the Scranton Sewer Authority of \$7,897,952. The City reached a settlement in May 2007 relating to storm water maintenance covered by the City in prior periods. However offsetting the settlement by \$5,572,094 is a payment to American Angelican in 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**

City of Scranton, Pennsylvania's Capital Assets (net of depreciation)  
Figure 4

	Governmental Activities		Incr (Decr)	Business-Type Activities		Incr (Decr)	Total Primary Government		Incr (Decr)
	2006	2005		2006	2005		2006	2005	
	Land & Land Improvements	\$ 4,317,506		\$ 4,317,506	\$ 0		\$ 1,033,322	\$ 1,033,322	
Buildings & Building Improvements	17,106,523	16,594,144	512,379	117,282,191	101,801,353	15,480,838	134,388,714	118,395,497	15,993,217
Infrastructure	21,230,180	20,175,812	1,054,368	0	0	0	21,230,180	20,175,812	1,054,368
Furniture, Equipment & Vehicles	13,303,012	11,711,813	1,591,199	8,118,294	7,882,152	236,142	21,421,306	19,593,965	1,827,341
Construction in Progress	8,703,265	5,104,379	3,598,886	14,104,085	15,517,321	(1,413,236)	22,807,350	20,621,700	2,185,650
Accumulated Depreciation	(12,265,532)	(10,611,317)	(1,654,215)	(70,002,239)	(66,923,414)	(3,078,825)	(82,267,771)	(77,534,731)	(4,733,040)
<b>Total</b>	<b>\$ 52,394,954</b>	<b>\$ 47,292,337</b>	<b>\$ 5,102,617</b>	<b>\$ 70,535,653</b>	<b>\$ 59,310,734</b>	<b>\$ 11,224,919</b>	<b>\$ 122,930,607</b>	<b>\$ 106,603,071</b>	<b>\$ 16,327,536</b>

## City of Scranton, Pennsylvania's Outstanding Debt

### General Obligation and Revenue Bonds

**Figure 5**

City of Scranton, Pennsylvania's Long Term Debt  
Figure 5

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
	Balance January 1, 2006	\$ 98,542,769	\$ 94,920,800	\$ 27,825,407	\$ 26,141,504	\$ 126,368,176
Debt issued in 2006	11,715,646	6,084,449	6,300,479	2,462,981	18,016,125	8,547,430
Accretion & Amortization	27,086	27,664	0	0	27,086	27,664
Less Retirements	(3,138,796)	(2,490,144)	(2,493,859)	(779,078)	(5,632,655)	(3,269,222)
<b>Balance December 31, 2006</b>	<b>\$ 107,146,705</b>	<b>\$ 98,542,769</b>	<b>\$ 31,632,027</b>	<b>\$ 27,825,407</b>	<b>\$ 138,778,732</b>	<b>\$ 126,368,176</b>

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

## **Pension Trust Fund**

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

## **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, 2006 instead of December 31, 2006. This was also the case in 2004 and 2005, and the City received a letter from the actuary addressing this concern. Therefore, the City of Scranton does not view this to be a material or significant issue.

## **Distressed Municipality Status**

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

## **Requests for Information**

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

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2006

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 29,862,456	\$ 3,207,539	\$ 33,069,995
Certificate of Deposit	0	3,882,863	3,882,863
Investments	12,171,173	0	12,171,173
Receivables:			
Taxes and Fees Receivable, Net	19,549,794	0	19,549,794
Accounts Receivable, Net	1,122,652	2,190,818	3,313,470
Accrued Interest	145,837	65,601	211,438
Loans Receivable	42,397,897	0	42,397,897
Other Receivables, Net	9,527,746	0	9,527,746
Due From Other Funds	14,492,120	252,023	14,744,143
Prepaid Assets	0	13,694	13,694
Other Assets	260,403	957,208	1,217,611
Property Held For Resale	107,551	0	107,551
Restricted Assets:			
Restricted Cash and Cash Equivalents	172,000	1,103,958	1,275,958
Restricted Certificate of Deposit	0	2,643,566	2,643,566
Restricted Investments	0	1,173,528	1,173,528
Restricted Accounts Receivable	0	392,563	392,563
Capital Assets:			
Land	4,317,506	1,033,322	5,350,828
Buildings	11,966,958	116,973,146	128,940,104
Improvements	5,139,565	309,045	5,448,610
Infrastructure	21,230,180	0	21,230,180
Vehicles, Furniture & Equipment	13,303,012	8,118,294	21,421,306
Construction In Progress	8,703,265	14,104,085	22,807,350
Accumulated Depreciation	(12,265,532)	(70,002,239)	(82,267,771)
Deferred Charges, Net	2,060,063	998,793	3,058,856
<b>TOTAL ASSETS</b>	<b><u>\$ 184,264,646</u></b>	<b><u>\$ 87,417,807</u></b>	<b><u>\$ 271,682,453</u></b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2006

LIABILITIES	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Short Term Debt	\$ 0	\$ 2,270,231	\$ 2,270,231
Accounts Payable	8,585,929	952,547	9,538,476
Accrued Liabilities	497,514	1,335,684	1,833,198
Accrued Interest	1,076,022	0	1,076,022
Due to Other Funds	2,674,143	12,070,000	14,744,143
Current Liabilities Payable From Restricted Assets:			
Revenue Bonds Payable	0	1,087,257	1,087,257
Lease Payable	439,445	0	439,445
General Obligation Bonds Payable	2,425,000	0	2,425,000
Governmental Notes Payable	113,665	0	113,665
Accrued Revenue Bond Interest Payable	0	280,454	280,454
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	20,657,839	0	20,657,839
Deferred Revenues	50,570,203	0	50,570,203
Long-Term Debt Obligations	82,696,346	30,544,770	113,241,116
Deferred Loss On Early Retirement Of Debt	(2,027,735)	(609,688)	(2,637,423)
Governmental Notes Payable	527,527	0	527,527
Long-Term Liabilities Payable	0	63,097	63,097
Capitalized Lease Debt	20,944,721	0	20,944,721
GASB 47 Benefits Payable	7,054,785		7,054,785
Compensated Absences	2,179,667	394,099	2,573,766
	<u>\$ 198,415,071</u>	<u>\$ 48,388,451</u>	<u>\$ 246,803,522</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	\$ 24,627,354	\$ 25,149,184	\$ 49,776,538
Restricted for:			
Debt Service	1,905,143	0	1,905,143
Reserved for Capital Projects	5,704,974	0	5,704,974
Reserved for Retirement of Long-Term Obligations	455,607	4,156,802	4,612,409
Unreserved - Undesignated	(46,843,503)	9,723,370	(37,120,133)
	<u>\$ (14,150,425)</u>	<u>\$ 39,029,356</u>	<u>\$ 24,878,931</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

PROGRAM ACTIVITIES	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	FEES, FINES AND CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
Governmental Activities							
General Government and Administration	\$ 9,441,675	\$ 877,220	\$ 6,745	\$ 0	\$ (8,557,710)	\$ 0	\$ (8,557,710)
Public Safety	31,435,830	974,359	3,502,313	0	(26,959,158)	0	(26,959,158)
Public Works	10,490,156	5,408,896	2,903,514	1,116,761	(1,060,985)	0	(1,060,985)
Health & Welfare	1,299,937	0	717,437	0	(582,500)	0	(582,500)
Community Development	10,319,401	1,581,743	10,580,501	1,057,950	2,900,793	0	2,900,793
Culture and Recreation	1,732,053	55,697	0	0	(1,676,356)	0	(1,676,356)
Other Expenditure	12,525	0	0	0	(12,525)	0	(12,525)
Capital Expenditures	146,722	0	0	0	(146,722)	0	(146,722)
Court Award Settlement	5,572,094	0	0	0	(5,572,094)	0	(5,572,094)
Unallocated Depreciation	34,759	0	0	0	(34,759)	0	(34,759)
Interest on Long Term Debt	5,541,272	0	0	0	(5,541,272)	0	(5,541,272)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 76,026,424</b>	<b>\$ 8,897,915</b>	<b>\$ 17,710,510</b>	<b>\$ 2,174,711</b>	<b>\$ (47,243,288)</b>	<b>\$ 0</b>	<b>\$ (47,243,288)</b>
Business-Type Activities							
Sewer Authority	\$ 10,337,346	\$ 10,843,128	\$ 0	\$ 0	\$ 0	\$ 505,782	\$ 505,782
Municipal Parking Authority	2,755,404	2,177,023	0	0	0	(578,381)	(578,381)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 13,092,750</b>	<b>\$ 13,020,151</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (72,599)</b>	<b>\$ (72,599)</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 89,119,174</b>	<b>\$ 21,918,066</b>	<b>\$ 17,710,510</b>	<b>\$ 2,174,711</b>	<b>\$ (47,243,288)</b>	<b>\$ (72,599)</b>	<b>\$ (47,315,887)</b>
General Revenues:							
Property taxes, levied for general purposes		\$ 11,148,639			\$ 11,148,639	\$ 0	\$ 11,148,639
Act 511 Taxes		26,981,612			26,981,612	0	26,981,612
Cable Television Franchise Revenue		755,087			755,087	0	755,087
Payments in Lieu of Taxes		15,790			15,790	0	15,790
Investment Earnings		2,313,967			2,313,967	306,223	2,620,190
Miscellaneous		73,790			73,790	2,333,309	2,407,099
Gain On Disposal Of Fixed Assets		1,131,345			1,131,345	0	1,131,345
Rents and Concessions		5,785			5,785	0	5,785
Donations		529,550			529,550	0	529,550
Settlement Storm Water Maintenance		7,897,952			7,897,952	0	7,897,952
Intergovernmental Revenues		446,965			446,965	3,036,482	3,483,447
<b>Total General Revenues and Transfers</b>		<b>\$ 51,300,482</b>			<b>\$ 51,300,482</b>	<b>\$ 5,676,014</b>	<b>\$ 56,976,496</b>
Change in Net Assets		\$ 4,057,194			\$ 4,057,194	\$ 5,603,415	\$ 9,660,609
Net Assets, Beginning of Year As Restated		(18,207,619)			(18,207,619)	33,425,941	15,218,322
<b>NET ASSETS, END OF YEAR</b>		<b>\$ (14,150,425)</b>			<b>\$ (14,150,425)</b>	<b>\$ 39,029,356</b>	<b>\$ 24,878,931</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 DECEMBER 31, 2006

	GENERAL	OECD	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and Cash Equivalents	\$ 5,056,522	\$ 3,717,144	\$ 2,451,210	\$ 1,073,153	\$ 7,435,926	\$ 19,733,955
Investments	0	0	2,469,420	24,698	0	2,494,118
Taxes and Fees Receivable, Net	19,549,794	0	0	0	0	19,549,794
Accounts Receivable, Net	0	0	0	16,509	1,106,143	1,122,652
Loans Receivable	0	41,069,630	0	1,328,267	0	42,397,897
Other Receivables, Net	9,525,776	0	1,970	0	0	9,527,746
Due From Other Funds	495,466	423,599	1,240,988	0	44,234	2,204,287
Other Assets	0	260,403	0	0	0	260,403
Property Held for Resale	0	0	0	107,551	0	107,551
<b>TOTAL ASSETS</b>	<b>\$ 34,627,558</b>	<b>\$ 45,470,776</b>	<b>\$ 6,163,588</b>	<b>\$ 2,550,178</b>	<b>\$ 8,586,303</b>	<b>\$ 97,398,403</b>

"See accompanying notes and independent auditors' report."

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006

	GENERAL	OECD	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 7,208,722	\$ 132,864	\$ 54,952	\$ 98,647	\$ 943,726	\$ 8,438,911
Other Current Liabilities	497,514	0	0	0	0	497,514
Due to Other Funds	1,444,259	230,804	403,806	423,599	171,675	2,674,143
Deferred Revenues	14,364,691	44,470,601	0	1,848,298	5,579,571	66,263,161
<b>TOTAL LIABILITIES</b>	<b>\$ 23,515,186</b>	<b>\$ 44,834,269</b>	<b>\$ 458,758</b>	<b>\$ 2,370,544</b>	<b>\$ 6,694,972</b>	<b>\$ 77,873,729</b>
<b>FUND BALANCES</b>						
Reserve for Debt Service	\$ 0	\$ 0	\$ 0	\$ 24,554	\$ 1,880,589	\$ 1,905,143
Reserved for Capital Projects	0	0	5,704,830	144	0	5,704,974
Unreserved - Undesignated	11,112,372	636,507	0	154,936	10,742	11,914,557
<b>TOTAL FUND BALANCES</b>	<b>\$ 11,112,372</b>	<b>\$ 636,507</b>	<b>\$ 5,704,830</b>	<b>\$ 179,634</b>	<b>\$ 1,891,331</b>	<b>\$ 19,524,674</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 34,627,558</b>	<b>\$ 45,470,776</b>	<b>\$ 6,163,588</b>	<b>\$ 2,550,178</b>	<b>\$ 8,586,303</b>	<b>\$ 97,398,403</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, 2006

	GENERAL	OECD	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
Taxes	\$ 39,025,117	0	0	0	0	\$ 39,025,117
Intergovernmental	3,299,681	6,851,837	0	838,203	5,065,706	16,055,427
Departmental Earnings	2,055,343	0	0	0	64,500	2,119,843
Refuse Disposal Fee	4,650,062	0	0	0	0	4,650,062
Licenses and Permits	1,554,270	0	0	0	0	1,554,270
Cable Television Franchise Revenue	755,087	0	0	0	0	755,087
Payments in Lieu of Taxes	15,790	0	0	0	0	15,790
Investment Income	839,771	8,886	224,509	35,234	194,437	1,302,837
User Fee	55,697	0	0	0	0	55,697
Other Revenues	73,790	0	0	0	977,248	1,051,038
Rents and Concessions	0	0	0	247,665	0	247,665
Donations	529,550	0	0	0	0	529,550
Program Income	0	3,326,705	0	0	0	3,326,705
<b>Total Revenues</b>	<b>\$ 52,854,158</b>	<b>\$ 10,187,428</b>	<b>\$ 224,509</b>	<b>\$ 1,121,102</b>	<b>\$ 6,301,891</b>	<b>\$ 70,689,088</b>
Expenditures:						
Current:						
General Government	\$ 12,660,052	0	0	0	224,190	\$ 12,884,242
Public Safety	28,300,863	0	0	0	0	28,300,863
Public Works	10,760,438	0	0	0	1,116,760	11,877,198
Health and Welfare	0	0	0	0	1,299,937	1,299,937
Community Development	506,034	9,547,756	0	472,090	1,156,159	11,682,039
Culture and Recreation	1,112,228	0	0	0	0	1,112,228
Other Expenditures	0	0	0	6,413	6,112	12,525
Debt Service						
Debt Service-Principal	0	0	0	671,372	2,345,000	3,016,372
Debt Service-Interest	0	0	0	437,306	3,934,948	4,372,254
Capital Outlay	0	0	3,395,846	196,724	0	3,592,570
<b>Total Expenditures</b>	<b>\$ 53,339,615</b>	<b>\$ 9,547,756</b>	<b>\$ 3,395,846</b>	<b>\$ 1,783,905</b>	<b>\$ 10,083,106</b>	<b>\$ 78,150,228</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (485,457)	\$ 639,672	\$ (3,171,337)	\$ (662,803)	\$ (3,781,215)	\$ (7,461,140)

"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, 2006

	GENERAL	OECD	CAPITAL PROJECTS	REDEVELOPMENT AUTHORITY	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):						
Lease Proceeds	\$ 10,215,646	\$ 0	\$ 1,500,000	\$ 0	\$ 0	\$ 11,715,646
Proceeds From Tax Anticipation Note	14,500,000	0	0	0	0	14,500,000
Operating Transfers In	1,432,272	0	954,261	0	5,959,736	8,346,269
Operating Transfers Out	(5,905,030)	0	(54,706)	0	(2,386,533)	(8,346,269)
Bond Issuance Cost Relative to Capitalizing Lease	(491,941)	0	0	0	0	(491,941)
Settlement Storm Water Maintenance	7,897,952	0	0	0	0	7,897,952
Settlement American Angelican	(5,572,094)	0	0	0	0	(5,572,094)
Repayment of Tax Anticipation Note	(14,881,337)	0	0	0	0	(14,881,337)
Net Other Financing Sources (Uses)	\$ 7,195,468	\$ 0	\$ 2,399,555	\$ 0	\$ 3,573,203	\$ 13,168,226
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 6,710,011	\$ 639,672	\$ (771,782)	\$ (662,803)	\$ (208,012)	\$ 5,707,086
Fund Balances, Beginning of Year	4,402,361	(3,165)	6,476,612	842,437	2,099,343	13,817,588
FUND BALANCES, END OF YEAR	\$ 11,112,372	\$ 636,507	\$ 5,704,830	\$ 179,634	\$ 1,891,331	\$ 19,524,674

"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, 2006

Net Changes in Fund Balances - Total Governmental Funds \$ 5,707,086

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	\$ 8,157,791	
Loss On Disposal Of Fixed Assets	(18,655)	
Depreciation	<u>(2,205,536)</u>	5,933,600

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. (894,866)

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. 518,043

Elimination of Expenditures Related to Lease Receivable/ Lease Payable Between Scranton Parking Authority and Scranton Redevelopment Authority. 139,116

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	\$ 1,011,130	
Elimination of expenditure on general fund and revenue on internal service fund	3,879,046	
Recording on expenditures on internal service fund in governmental activities	<u>(4,467,646)</u>	422,530

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. (27,194)

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. (66,033)

"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, 2006

Contribution of property from City to SRA held for resale by SRA  
 eliminated and restated at original cost and net book value 1,150,000

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. 11,707

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

Bond Proceed Relative to Capitalized Lease	\$	(11,715,646)	
Bond Discount, Net of Amortization		(27,086)	
Deferred Loss on Early Retirement of Debt, Net of Amortization		(453,125)	
Repayment of General Bond Principal		2,370,000	
Repayment of Governmental Note Payable		446,372	
Repayment of Capitalized Lease Principal		322,424	
Bond Issuance Cost, Net of Amortization		<u>244,846</u>	(8,812,215)

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. (24,580)

Change in Net Assets of Governmental Activities \$ 4,057,194

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2006

ASSETS	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR		TOTAL	
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY			
Cash and Cash Equivalents	\$ 2,256,280	\$ 948,668	\$ 2,591		\$ 3,207,539	\$ 10,128,501
Certificate of Deposit	882,030	0	3,000,833		3,882,863	0
Investments	0	0	0		0	9,677,055
Accounts Receivable, Net	2,147,206	43,612	0		2,190,818	0
Accrued Interest	0	2,353	63,248		65,601	145,837
Due From Other Funds	0	252,023	0		252,023	217,833
Prepaid Assets	0	13,694	0		13,694	0
Other Assets	957,208	0	0		957,208	0
Restricted Assets:						
Restricted Cash and Cash Equivalents	0	1,103,958	0		1,103,958	172,000
Restricted Certificate of Deposit	2,643,566	0	0		2,643,566	0
Restricted Investments	0	1,173,528	0		1,173,528	0
Restricted Accounts Receivable	391,117	1,446	0		392,563	0
Capital Assets:						
Land	130,029	903,293	0		1,033,322	0
Land Improvements	0	309,045	0		309,045	0
Buildings and Improvements	78,035,048	38,938,098	0		116,973,146	0
Equipment	7,744,442	373,852	0		8,118,294	0
Construction In Progress	14,104,085	0	0		14,104,085	0
Accumulated Depreciation	(63,885,342)	(6,116,897)	0		(70,002,239)	0
Deferred Charges, Net	274,497	724,296	0		998,793	0
<b>TOTAL ASSETS</b>	<b>\$ 45,680,166</b>	<b>\$ 38,670,969</b>	<b>\$ 3,066,672</b>		<b>\$ 87,417,807</b>	<b>\$ 20,341,226</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR MUNICIPAL RECREATION AUTHORITY			
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY				
LIABILITIES						
Short-Term Debt	\$ 2,270,231	\$ 0	\$ 0	\$ 0	\$ 2,270,231	\$ 0
Accounts Payable	435,485	517,062		0	952,547	147,020
Accrued Liabilities	744,213	591,471		0	1,335,684	0
Due to Other Funds	0	12,070,000		0	12,070,000	0
Current Liabilities Payable From Restricted Assets						
Revenue Bonds Payable	647,257	440,000		0	1,087,257	0
Accrued Revenue Bond Interest Payable	0	280,454		0	280,454	0
Noncurrent Liabilities						
Workers' Compensation Claims Payable	0	0		0	0	20,657,836
Long-Term Debt Obligations	9,979,770	20,565,000		0	30,544,770	0
Deferred Loss On Early Retirement Of Debt	0	(609,688)		0	(609,688)	0
Long-Term Liabilities Payable	63,097	0		0	63,097	0
Compensated Absences	394,099	0		0	394,099	0
<b>TOTAL LIABILITIES</b>	<b>\$ 14,534,152</b>	<b>\$ 33,854,299</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 48,388,451</b>	<b>\$ 20,804,856</b>
NET ASSETS						
Investment in Capital Assets, Net of Related Debt	\$ 23,231,004	\$ 1,918,180	\$ 0	\$ 0	\$ 25,149,184	\$ 0
Restricted for:						
Reserved for Retirement of Long-Term Obligations	2,643,566	1,513,236		0	4,156,802	(463,630)
Unreserved - Undesignated	5,271,444	1,385,254		3,066,672	9,723,370	0
<b>TOTAL NET ASSETS</b>	<b>\$ 31,146,014</b>	<b>\$ 4,816,670</b>	<b>\$ 3,066,672</b>	<b>\$ 3,066,672</b>	<b>\$ 39,029,356</b>	<b>\$ (463,630)</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, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 10,843,128	\$ 2,177,023	\$ 0	\$ 13,020,151	\$ 3,879,046
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,426,403
Salaries, Wages, and Fringe Benefits	3,714,308	563,012	0	4,277,320	0
Insurance	153,471	269,952	0	423,423	0
Depreciation	2,446,982	631,843	0	3,078,825	0
Other	3,495,376	348,960	0	3,844,336	41,243
Total Operating Expenses	\$ 9,810,137	\$ 1,813,767	\$ 0	\$ 11,623,904	\$ 4,467,646
Income (Loss) from Operations	\$ 1,032,991	\$ 363,256	\$ 0	\$ 1,396,247	\$ (588,600)
Non Operating Revenues (Expenses):					
Investment Income	\$ 150,531	\$ 44,879	\$ 110,813	\$ 306,223	\$ 1,011,130
Interest Expense	(524,486)	(924,744)	0	(1,449,230)	0
Other	2,339,694	0	(6,385)	2,333,309	0
State Grant Revenue	0	3,036,482	0	3,036,482	0
Amortization of Deferred Charges	(2,723)	(16,893)	0	(19,616)	0
Total Non operating Revenues (Expenses)	\$ 1,963,016	\$ 2,139,724	\$ 104,428	\$ 4,207,168	\$ 1,011,130
Change in Net Assets	\$ 2,996,007	\$ 2,502,980	\$ 104,428	\$ 5,603,415	\$ 422,530
Net Assets at Beginning of Year	28,150,007	2,313,690	2,962,244	33,425,941	(886,160)
NET ASSETS AT END OF YEAR	\$ 31,146,014	\$ 4,816,670	\$ 3,066,672	\$ 39,029,356	\$ (463,630)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	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	\$ 10,919,435	\$ 2,499,328	\$ 0	\$ 13,418,763	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	3,879,046
Cash Payments to Vendors	(8,664,159)	(1,288,275)	0	(9,952,434)	(4,419,080)
Net Cash Provided by (Used In) Operating Activities	\$ 2,255,276	\$ 1,211,053	\$ 0	\$ 3,466,329	\$ (540,034)
Cash Flows From Non Capital Financing Activities:					
Other Revenue Received	\$ 307,242	\$ 0	\$ 0	\$ 307,242	\$ 0
Net Cash Provided by Non Capital Financing Activities	\$ 307,242	\$ 0	\$ 0	\$ 307,242	\$ 0
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (4,263,560)	\$ (8,446,305)	\$ 0	\$ (12,709,865)	\$ 0
Proceeds from Capital Debt	2,852,381	6,059,116	0	8,911,497	0
Grant Income	561,357	3,506,739	0	4,068,096	0
Interest Paid on Bonds	(219,420)	(1,294,708)	0	(1,514,128)	0
Retirement of Bonds	(1,048,557)	(2,390,000)	0	(3,438,557)	0
Payments on Deferred Charges	0	(254,946)	0	(254,946)	0
Net Cash Used in Capital and Related Financing Activities	\$ (2,117,799)	\$ (2,820,104)	\$ 0	\$ (4,937,903)	\$ 0
Cash Flow From Investing Activities:					
Sale of Investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,000,000
Purchase of Certificates of Deposit	(89,259)	0	(156,429)	(245,688)	0
Interest on Cash and Investments	51,180	74,722	156,463	282,365	1,008,537
Net Cash (Used In) Provided By Investing Activities	\$ (38,079)	\$ 74,722	\$ 34	\$ 36,677	\$ 2,008,537
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 406,640	\$ (1,534,329)	\$ 34	\$ (1,127,655)	\$ 1,468,503
Cash and Cash Equivalents, Beginning of Year	1,849,640	3,586,955	2,557	5,439,152	8,831,998
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,256,280	\$ 2,052,626	\$ 2,591	\$ 4,311,497	\$ 10,300,501

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
	\$ 1,032,991	\$ 363,256	\$ 0	\$ 1,396,247	\$ (588,600)
	2,446,982	631,843	0	3,078,825	0
	76,306 (302,423)	(153,907) 30,542	0 0	(77,601) (271,881)	0 0
	(749,355) (249,225)	435,622 (96,303)	0 0	(313,733) (345,528)	(1,965) 0
	0	0	0	0	50,531
	\$ 2,255,276	\$ 1,211,053	\$ 0	\$ 3,466,329	\$ (540,034)
	\$ 2,256,280	\$ 948,668	\$ 2,591	\$ 3,207,539	\$ 10,128,501
	0	1,103,958	0	1,103,958	172,000
	\$ 2,256,280	\$ 2,052,626	\$ 2,591	\$ 4,311,497	\$ 10,300,501

Reconciliation Of Income from Operations to Net Cash  
Provided by Operating Activities:  
Income from Operations  
Adjustments to Reconcile Income from Operations to  
Net Cash Provided by Operating Activities  
Depreciation  
Change in Assets and Liabilities:  
(Increase) Decrease in:  
Accounts Receivable  
Other Assets  
Increase (Decrease):  
Accounts Payable  
Accrued Liabilities  
Accrued Workers' Compensation Claims Payable

Net Cash Provided (Used In) Operating Activities

Reconciliation of Total Cash and Cash Equivalents  
Current Assets - Cash and Cash Equivalents  
Restricted Assets - Cash and Cash Equivalents

TOTAL CASH AND CASH EQUIVALENTS

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
DECEMBER 31, 2006

ASSETS	
Receivables:	
Members' Contributions	\$ 17,008
Pension Reimbursements	474
Accrued Interest	<u>3,669</u>
Total Receivables	\$ 21,151
Investments at Contract Value	<u>77,120,300</u>
TOTAL ASSETS	<u><u>\$77,141,451</u></u>
LIABILITIES & NET ASSETS	
Liabilities	
Accrued Administrative Expenses	\$ 13,125
Accrued Investment Expenses	<u>85,953</u>
TOTAL LIABILITIES	<u>\$ 99,078</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$77,042,373</u></u>

"See Accompanying Notes and Independent Auditors' Report."

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The City complies with generally accepted accounting principles (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, 2006.

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 and approves all rates. 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, 2005 to March 31, 2006.

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 Redevelopment Authority of the City of Scranton and OECD are classified as major funds. Liquid Fuels 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 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, 2006, upon which the 2006 levy was based, was approximately \$389 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, 2006 was 82.122 mills on the assessed value of land and 17.86 mills on the assessed value of improvements.

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

Allowance for Doubtful Accounts: Accounts Receivable included in the Enterprise Fund represent amounts outstanding from Sewer Authority customer's reported net of an allowance for doubtful accounts of \$1,300,000 at December 31, 2006. 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

GASB No. 34 requires 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 has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2007. The City hopes to implement 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 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, 2006 aggregate liability for unused vacation and sick pay is \$2,179,667.

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, 2006, \$50,795,405. of the government's bank balance of \$52,325,830 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 12,308,878
Uninsured and collateral held by pledging banks' trust department not in the city's name	<u>38,486,527</u>
Total	<u><u>\$ 50,795,405</u></u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2006, the City had the following Investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings ( 1 )	Weighted Average Months To Maturity ( 2 )
<b>GOVERNMENTAL FUNDS</b>				
Primary Government:				
Internal Service Fund				
Corporate Obligations:				
Domestic	\$ 983,200	\$ 1,000,000	A 2	10.63
Domestic	595,815	600,000	A 3	9.22
Domestic	49,973	50,000	Aa 1	2.17
Domestic	1,986,115	2,000,000	Aa 2	7.55
Domestic	1,047,991	1,050,000	Aa 3	15.95
Domestic	2,280,401	2,300,000	Aaa	6.55
Governmental Securities:				
Federal Agency Bonds	1,935,090	2,000,000	Aaa	25.89
Federal Agency Notes	798,470	825,000	Aaa	53.94
Total Internal Service Fund	<u>\$ 9,677,055</u>	<u>\$ 9,825,000</u>		
Capital Projects				
Governmental Securities:				
U.S. Treasury Notes	<u>\$ 2,469,420</u>	<u>\$ 2,500,000</u>	N/A	17
Total Capital Projects	<u>\$ 2,469,420</u>	<u>\$ 2,500,000</u>		
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><b>\$12,146,475</b></u>	<u><b>\$12,325,000</b></u>		
Component Units:				
Redevelopment Authority				
Governmental Securities:				
Money market funds investing in obligations of the U.S government	<u>\$ 24,698</u>	<u>\$ 24,698</u>	N/A	N/A
Total Redevelopment Authority	<u>\$ 24,698</u>	<u>\$ 24,698</u>		
<b>TOTAL GOVERNMENTAL FUNDS</b>	<u><b>\$12,171,173</b></u>	<u><b>\$12,349,698</b></u>		
<b>BUSINESS TYPE ACTIVITIES</b>				
Parking Authority				
Governmental Securities:				
U.S. Government Obligations	<u>\$ 1,173,528</u>	<u>\$ 1,173,528</u>	N/A	N/A
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<u><b>\$ 1,173,528</b></u>	<u><b>\$ 1,173,528</b></u>		
<b>TOTAL INVESTMENTS</b>	<u><b>\$13,344,701</b></u>	<u><b>\$13,523,226</b></u>		

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

Fiduciary Funds

Pension Trust Fund

Mutual Funds

Equity Funds	\$53,785,052	\$53,785,052	N/A	N/A
Fixed Income	<u>22,371,057</u>	<u>22,371,057</u>	N/A	N/A

Total Pension Trust Fund	<u>\$76,156,109</u>	<u>\$76,156,109</u>		
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The Composition of pension trust fund is shown in the following table.

	Total
Mutual Funds	
EB FPA Core Large Cap Stock Fund	\$30,702,605
EB FPA Mid Cap Stock Fund	7,645,435
EB Small Cap Stock Fund	7,701,348
TBC International Equity Fund	7,735,625
EB Mellon Bank Total Return Fund	22,371,057
ED Temporary Investment Fund	962,631
Cash & Cash Equivalents	<u>1,599</u>
 Total	 <u><u>\$77,120,300</u></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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2      Cash and Cash Equivalents and Investments (Continued)

The City does not have a formal investment policy. Investments are measured through an investment advisor.

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, 2006:

Current Real Estate Taxes	\$ 326,425
Delinquent Real Estate Taxes	12,750,525
Act 511 taxes:	
Earned Income	4,258,474
Emergency & Municipal Service Tax	78,809
Business privilege/mercantile	27,961
Delinquent refuse disposal fee	<u>6,229,684</u>
Total	<u>\$23,671,878</u>
 Less allowance for uncollectible taxes and fees	 <u>(4,122,084)</u>
Net	 <u>\$19,549,794</u>

Of the above, the receivables not expected to be collected within one year are \$8,562,000 delinquent real estate taxes and \$4,295,000 delinquent refuse disposal fee.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 4      Due From and Due to Other Funds

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2006 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund		
OECD	\$ 230,804	\$ 0
Special Cities	78,689	44,234
Capital Projects	185,973	1,148,002
Parking Authority	0	252,023
Special Cities		
General Fund	44,234	78,689
Capital Projects	0	92,986
OECD		
Redevelopment Authority	423,599	0
General Fund	0	230,804
Redevelopment Authority		
OECD	0	423,599
Capital Projects Fund		
Special Cities	92,986	0
General Fund	1,148,002	185,973
Internal Service Fund	0	217,833
Parking Authority		
General Fund	252,023	0
Internal Service Fund		
Capital Projects	<u>217,833</u>	<u>0</u>
	<u>\$2,674,143</u>	<u>\$2,674,143</u>

## Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance at January 1, 2006	Additions	Disposals	Balance at December 31, 2006
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 4,317,506	\$ 0	\$ 0	\$ 4,317,506
Construction in Progress	5,104,379	5,368,269	(1,769,383)	8,703,265
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 9,421,885</b>	<b>\$ 5,368,269</b>	<b>\$ (1,769,383)</b>	<b>\$ 13,020,771</b>
Capital assets being depreciated				
Building	\$ 11,937,008	\$ 29,950	\$ 0	\$ 11,966,958
Land & Building Improvements	4,657,136	482,429	0	5,139,565
Infrastructure	19,260,099	1,970,081	0	21,230,180
Vehicles, Furniture & Equipment	11,711,813	2,076,445	(485,246)	13,303,012
<b>Total Capital Assets being Depreciated</b>	<b>\$ 47,566,056</b>	<b>\$ 4,558,905</b>	<b>\$ (485,246)</b>	<b>\$ 51,639,715</b>
<b>Totals at Historical Cost</b>	<b>\$ 56,987,941</b>	<b>\$ 9,927,174</b>	<b>\$ (2,254,629)</b>	<b>\$ 64,660,486</b>
Less: Accumulated Depreciation				
Building	\$ (2,808,773)	\$ (252,267)	\$ 0	\$ (3,061,040)
Land & Building Improvements	(735,563)	(397,413)	0	(1,132,976)
Infrastructure	(609,836)	(812,372)	0	(1,422,208)
Vehicles, Furniture & Equipment	(6,372,415)	(743,484)	466,591	(6,649,308)
<b>Total Accumulated Depreciation</b>	<b>\$ (10,526,587)</b>	<b>\$ (2,205,536)</b>	<b>\$ 466,591</b>	<b>\$ (12,265,532)</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 46,461,354</b>	<b>\$ 7,721,638</b>	<b>\$ (1,788,038)</b>	<b>\$ 52,394,954</b>
<b>Business - Type Activities:</b>				
Capital assets not being depreciated				
Land	\$ 1,033,322	\$ 0	\$ 0	\$ 1,033,322
Construction in Progress	15,517,321	4,561,027	(5,974,263)	14,104,085
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 16,550,643</b>	<b>\$ 4,561,027</b>	<b>\$ (5,974,263)</b>	<b>\$ 15,137,407</b>
Capital assets being depreciated				
Land Improvements	\$ 309,045	\$ 0	\$ 0	\$ 309,045
Building & Building Improvements	101,492,308	15,480,838	0	116,973,146
Equipment	7,882,152	236,142	0	8,118,294
<b>Total Capital Assets being Depreciated</b>	<b>\$ 109,683,505</b>	<b>\$ 15,716,980</b>	<b>\$ 0</b>	<b>\$ 125,400,485</b>
<b>Totals at Historical Cost</b>	<b>\$ 126,234,148</b>	<b>\$ 20,278,007</b>	<b>\$ (5,974,263)</b>	<b>\$ 140,537,892</b>
Less: Accumulated Depreciation				
Land Improvements	\$ (297,454)	\$ (19,716)	\$ 0	\$ (317,170)
Building & Building Improvements	(59,678,456)	(2,817,661)	0	(62,496,117)
Equipment	(6,947,504)	(241,448)	0	(7,188,952)
<b>Total Accumulated Depreciation</b>	<b>\$ (66,923,414)</b>	<b>\$ (3,078,825)</b>	<b>\$ 0</b>	<b>\$ (70,002,239)</b>
<b>Business - Type Capital Assets, Net</b>	<b>\$ 59,310,734</b>	<b>\$ 17,199,182</b>	<b>\$ (5,974,263)</b>	<b>\$ 70,535,653</b>

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 80,694
Public Safety	468,694
Public Works	1,166,500
Parks & Recreation	454,889
Unallocated	34,759
<b>Total Depreciation Expense</b>	<b>\$ 2,205,536</b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5      Capital Assets (Continued)

Governmental Activities:

Construction in progress of \$8,703,265 consists of expenditures relating to the construction of flood control projects and improvement to various city roads and bridges. Commitments at December 31, 2006 totaled approximately \$17,000,000.

Business Type Activities:

At March 31, 2006, expenditures amounting to \$9,462,843 are recorded as construction in progress. Total contracts signed at March 31, 2006 amounted to approximately \$4,000,000.

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, 2006, the County invoiced the Sewer Authority for \$632,151, resulting in the recording of \$772,629 as grant revenue and \$1,404,780 as construction-in-progress. Total construction in progress for this project at March 31, 2006 amounted to \$4,641,242.

Note 6      Short-Term Debt

The following summarizes the changes in short-term debt of the Enterprise Fund for the year ended December 31, 2006:

	<u>Balance</u> <u>01/01/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/06</u>
Sewer Authority:				
Line of Credit	\$ 724,190	\$ 0	\$ (344,879)	\$ 379,311
Line of Credit	18,837	0	(18,837)	0
Loan	0	1,890,920	0	1,890,920
	<u>\$ 743,027</u>	<u>\$1,890,920</u>	<u>\$ ( 363,716)</u>	<u>\$ 2,270,231</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 6 Short-Term Debt (Continued)

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 (5.425% at March 31, 2006). 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, 2006 amounted to \$379,311.

In December, 2004, the Authority closed on a fourth loan in the amount of \$3,690,127. There was no balance outstanding at March 31, 2005. The balance outstanding at March 31, 2006 was \$1,890,920. The loan is secured by the same collateral as the PENNVEST loans in Note 7. At March 31, 2006, interest only was payable on advances.

Note 7 Long Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2006

	Balance 01/01/06	Additions	(Amortization) Accretion      Retirements		Balance 12/31/06	Due With In One Year
GOVERNMENTAL ACTIVITIES						
General Obligations Bonds:						
Emmaus General Authority Series 2002	\$ 7,110,000	\$ 0	\$ 0	\$ 205,000	\$ 6,905,000	\$ 215,000
Series A of 2003	4,195,000	0	0	425,000	3,770,000	430,000
Series B of 2003	34,280,000	0	0	700,000	33,580,000	710,000
Series C of 2003	17,515,000	0	0	325,000	17,190,000	330,000
Series D of 2003	12,525,000	0	0	490,000	12,035,000	500,000
(Amortization) / Accretion	(455,739)	0	27,086	0	(428,653)	0
Total General Obligation Bonds	<u>\$ 75,169,261</u>	<u>\$ 0</u>	<u>\$ 27,086</u>	<u>\$ 2,145,000</u>	<u>\$ 73,051,347</u>	<u>\$ 2,185,000</u>
Lease Obligations Payable						
Capitalized Lease Vehicles	259,823	0	0	60,732	\$ 199,091	68,820
Capitalized Lease Vehicles	231,121	0	0	33,144	197,977	36,253
Capitalized Lease Vehicles	0	215,646	0	28,548	187,098	63,465
Capitalized Lease Equipment	0	1,500,000	0	0	1,500,000	50,907
Capitalized Lease Buildings	4,000,000	0	0	195,000	3,805,000	215,000
Capitalized Lease Buildings	5,500,000	0	0	5,000	5,495,000	5,000
Capitalized Lease Buildings	0	10,000,000	0	0	10,000,000	0
Total Lease Obligations Payable	<u>\$ 9,990,944</u>	<u>\$ 11,715,646</u>	<u>\$ 0</u>	<u>\$ 322,424</u>	<u>\$ 21,384,166</u>	<u>\$ 439,445</u>
Redevelopment Authority:						
Bond Payable	\$ 12,295,000	\$ 0	\$ 0	\$ 225,000	\$ 12,070,000	\$ 240,000
Note Payable	1,087,564	0	0	446,372	641,192	113,665
Total Redevelopment Authority	<u>\$ 13,382,564</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 671,372</u>	<u>\$ 12,711,192</u>	<u>\$ 353,665</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 98,542,769</u>	<u>\$ 11,715,646</u>	<u>\$ 27,086</u>	<u>\$ 3,138,796</u>	<u>\$ 107,146,705</u>	<u>\$ 2,978,110</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

BUSINESS-TYPE ACTIVITIES

Revenue Bonds:

Major Enterprise Fund:

Parking Authority							
1995 Series	\$ 1,805,000	\$ 0	\$ 0	\$ 1,805,000	\$ 0	\$ 0	
2004 Series	15,670,000	0	0	190,000	15,480,000	190,000	
2006 Series	0	5,695,000	0	170,000	5,525,000	250,000	
Sewer Authority							
2002 Series	4,488,621	0	0	220,776	4,267,845	569,959	
2002 Series	3,693,903	605,479	0	0	4,299,382	0	
2003 Series	<u>1,884,378</u>	<u>0</u>	<u>0</u>	<u>29,262</u>	<u>1,855,116</u>	<u>0</u>	
Total Revenue Bonds	<u>\$ 27,541,902</u>	<u>\$ 6,300,479</u>	<u>\$ 0</u>	<u>\$ 2,415,038</u>	<u>\$ 31,427,343</u>	<u>\$ 1,009,959</u>	

Notes Payable:

Major Enterprise Fund:

Sewer Authority	\$ 83,768	\$ 0	\$ 0	\$ 26,492	\$ 57,276	\$ 27,128	
Sewer Authority	<u>199,737</u>	<u>0</u>	<u>0</u>	<u>52,329</u>	<u>147,408</u>	<u>50,170</u>	

TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 27,825,407</u>	<u>\$ 6,300,479</u>	<u>\$ 0</u>	<u>\$ 2,493,859</u>	<u>\$ 31,632,027</u>	<u>\$ 1,087,257</u>	
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TOTAL LONG-TERM DEBT	<u>\$ 126,368,176</u>	<u>\$ 18,016,125</u>	<u>\$ 27,086</u>	<u>\$ 5,632,655</u>	<u>\$ 138,778,732</u>	<u>\$ 4,065,367</u>	
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A summary of long-term debt outstanding at December 31, 2006 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.

General Obligation Bonds, Series A of 2003:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

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%.

Redevelopment Authority:

Note Payable: the Authority has a note payable with a Fidelity Deposit and Discount Bank with maximum borrowings of \$2,500,000, dated November 1998, maturing in August of 2012. The note carries an interest rate that will adjust every five years to a rate equal to 51.65 percent of the New York Prime Rate on each

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

adjustment date. The rate was adjusted in November, 2003 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, 2006 was \$641,192. Interest payments in 2006 totaled \$17,240.

Variable Rate Demand Lease Revenue Bonds, Series 2004: During 2004, the Authority issued Guaranteed Variable Rate Demand Lease Revenue Bonds, Series of 2004, in the amount of \$12,295,000 for the benefit of the Parking Authority of the City of Scranton pursuant to a lease agreement dated April 15, 2004. The proceeds of the Bonds will be used to provide funds for the construction and development of a parking facility with commercial retail space on a parcel of land owned by the Redevelopment Authority in the City of Scranton.

The Guaranteed Variable Rate Demand Lease Revenue Bonds will bear interest at a weekly rate or a term rate, as determined in accordance with the Trust Indenture. The Bonds have a variable interest rate not to exceed 5% for the initial five year period and, thereafter, 12% for the weekly rate bonds and 25% for the term rate bonds. The interest rate is determined by a Remarketing Agent responsible for the remarketing of the tendered bonds. The interest rate at December 31, 2006 was 3.96%. The bonds are guaranteed by the City of Scranton. The maturities and interest are based upon the current interest rates.

Parking Authority:

1969 Parking Authority Bonds, due in annual installments through 2009, bearing interest rates of 4.75% to 5.85%. In January 2004, the Authority used a portion of the proceeds from the 2004 series bonds to redeem and retire the 1969 series bonds. The loss resulting from this transaction amounted to \$68,683 recorded as a deferred charge. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$13,094 for the year ended December 31, 2006.

In January, 2004, the Authority used a portion of the proceeds from the 2004 Series Bonds to advance refund \$4,580,000 of the outstanding 1995 Series Bonds. The Authority established an escrow account with the Trustee in the amount of \$5,087,024. These bonds were redeemed on September 15, 2005. In June, 2006, the Authority refunded the remaining \$1,805,000 outstanding 1995 Series Bonds. The loss resulting from these transactions amounted to \$703,973 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 \$47,718 for the year ended December 31, 2006.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

2004 Parking Revenue Bonds:

On January 1, 2004, the Authority issued \$16,145,000 of Guaranteed Parking Revenue Bonds through the Third Supplemental Trust Indenture. The Bonds carry interest rates of 1.1% to 5.0%. The proceeds from the issue will be 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 \$4,590,000 of the 1995 Series Bonds.

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

Sewer Authority:

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2006 amounted to \$4,267,845. 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. Construction was completed for this phase in July 2003, and the final disbursement on this loan was received June 2004 in the amount of \$86,866.

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2006 amounted to \$4,299,382. This loan closed in October 2002 in the amount of \$4,947,000. The security is the same

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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, 2006 amounted to \$1,855,116. 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. 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. Interest is payable on June 15th and December 15th each year with final maturity on December 15, 2016. Principal is payable annually starting on December 15, 2006. The City has guaranteed the Sewer Authority Debt.

On December 29, 2005, the Sewer Authority issued \$5,500,000 6.99% Guaranteed Lease Revenue Notes for the benefit of the City of Scranton pursuant to a Sublease and Guaranty agreement entered into between the Sewer Authority and the City. In 2004, the Sewer Authority had purchased the new DPW complex located on Popular Street and leased the complex back to the City at the same terms as the Guaranteed Lease Revenue Bonds. The City will purchase the complex for \$1 at the end of the lease term. Interest is payable on June 15th and December 15th each year with final maturity on December 16, 2008. Principal is payable annually starting on December 15, 2006. The City has guaranteed the Sewer Authority Debt.

On December 1, 2006, the Redevelopment Authority issued \$10,000,000 6.10% Federally Taxable Guaranteed Lease Revenue Bonds, Series of 2006, for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2024. The Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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, 2006 was \$10,000,000. Interest is payable on May 1<sup>st</sup> and November 1<sup>st</sup> each year, starting on May 1, 2007. Principal is payable annually starting on November 1, 2008.

Capitalized Vehicles:

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

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

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%.

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

Future Debt Service Requirements as of December 31, 2006 are as follows:

Year Ending December 31,	Governmental Activities City General Obligation Bonds			Year Ending December 31,	Governmental Activities Redevelopment Authority General Obligation Bonds		
	Principal	Interest	Total		Principal	Interest	Total
2007	\$ 2,185,000	\$ 3,288,407	\$ 5,473,407	2007	240,000	447,972	\$ 687,972
2008	2,235,000	3,233,654	5,468,654	2008	250,000	468,468	718,468
2009	2,295,000	3,170,658	5,465,658	2009	260,000	458,568	718,568
2010	2,360,000	3,098,850	5,458,850	2010	270,000	448,272	718,272
2011	2,460,000	3,005,498	5,465,498	2011	285,000	437,580	722,580
2012-2016	12,940,000	13,556,791	26,496,791	2012-2016	1,625,000	2,088,710	3,713,710
2017-2021	15,405,000	10,462,544	25,867,544	2017-2021	2,020,000	1,656,666	3,676,666
2022-2026	16,385,000	6,472,386	22,857,386	2022-2026	2,520,000	1,219,086	3,739,086
2027-2031	14,945,000	2,652,518	17,597,518	2027-2031	3,140,000	673,002	3,813,002
2032-2033	2,270,000	192,360	2,462,360	2032-2033	1,460,000	87,318	1,547,318
	<u>\$73,480,000</u>	<u>\$49,133,666</u>	<u>\$ 122,613,666</u>		<u>\$12,070,000</u>	<u>\$ 7,985,642</u>	<u>\$ 20,055,642</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

Governmental Activities Redevelopment Authority  
Note Payable

Year Ending December 31,	Principal	Interest	Total
2007	113,665	12,335	\$ 126,000
2008	115,283	10,717	\$ 126,000
2009	110,238	15,762	126,000
2010	115,028	10,972	126,000
2011	120,026	5,974	126,000
2012	66,952	1,158	68,110
	<u>\$ 641,192</u>	<u>\$ 56,918</u>	<u>\$ 698,110</u>

Business-Type Activities  
Revenue Bonds  
Parking Authority

Year Ending December 31,	Principal	Interest	Total
2007	440,000	948,811	\$ 1,388,811
2008	455,000	935,445	1,390,445
2009	470,000	920,657	1,390,657
2010	485,000	904,393	1,389,393
2011	505,000	887,042	1,392,042
2012-2016	2,825,000	4,129,849	6,954,849
2017-2021	3,455,000	3,494,844	6,949,844
2022-2026	4,310,000	2,640,102	6,950,102
2027-2031	5,470,000	1,481,640	6,951,640
2032-2033	2,590,000	194,030	2,784,030
	<u>\$21,005,000</u>	<u>\$16,536,813</u>	<u>\$ 37,541,813</u>

Business-Type Activities  
Revenue Bonds  
Sewer Authority

Year Ending December 31,	Principal	Interest	Total
2007	647,257	167,840	\$ 815,097
2008	658,217	156,879	815,096
2009	615,708	188,256	803,964
2010	555,681	230,409	786,090
2011	551,508	258,365	809,873
2012-2016	4,838,784	1,471,083	6,309,867
2017-2021	1,481,486	122,202	1,603,688
2022-2026	1,278,386	64,583	1,342,969
	<u>\$10,627,027</u>	<u>\$ 2,659,617</u>	<u>\$ 13,286,644</u>

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

Year Ending December 31,	Principal	Interest	Total
2007	439,445	1,281,635	\$ 1,721,080
2008	6,082,484	1,308,934	7,391,418
2009	599,595	883,122	1,482,717
2010	549,614	848,363	1,397,977
2011	490,082	816,391	1,306,473
2012-2016	3,765,774	3,582,637	7,348,411
2017-2021	5,606,638	2,154,609	7,761,247
2022-2024	3,850,534	469,283	4,319,817
TOTAL	<u>\$ 21,384,166</u>	<u>\$11,344,974</u>	<u>\$ 32,729,140</u>

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

The interest rate on the capital leases is 5.99% & 6.99% for the lease with The Scranton Sewer Authority, 4.41%, 6.349% & 9.0% for the capitalized vehicles, 6.10% for the lease with the Redevelopment Authority of Scranton and 5.05% for the energy management.

The cost of the assets is	\$ 6,423,114
The accumulated depreciation expense through December 31, 2006 is	<u>(351,617)</u>
The net book value of the capitalized leased building and vehicles is	<u>\$ 6,071,497</u>

At December 31, 2006, \$978,550. 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, 2006.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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, 2006.

The amount of defeased debt outstanding at December 31, 2006 is as follows:

2001 Series A General Obligation Bonds	\$ 3,730,000.
2001 Series C General Obligation Bonds	\$ 17,245,000.

Bond Closing Cost was incurred for the 2006 Capitalized Lease in the amount of \$491,941 as follows:

Bond Counsel	\$ 60,362
Trustee & Counsel Fees	19,500
Rating Agency Fees	10,000
Printing Fees	2,202
Underwriter Discount	70,000
Bond Insurance	329,877

The breakdown of interest expense as of December 31, 2006 is as follows:

	Interest Expense <u>Charged to Expense</u>	Interest Expense <u>Capitalized</u>
City of Scranton	\$ 5,103,966	\$ 0
Sewer Authority of the City of Scranton	524,486	140,714
Parking Authority of the City of Scranton	924,744	507,623
Redevelopment Authority of the City of Scranton	437,306	0
	<u>\$ 6,990,502</u>	<u>\$ 648,337</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, 2006, the City's self-insured retention limits are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance Retention (SIR) (All Claims Up To)</u>	<u>Excess Coverage Policy (From SIR Up To)</u>
General liability	\$ 50,000	\$ 950,000
Law enforcement liability	\$ 50,000	\$ 950,000
Public officials liability	\$ 50,000	\$ 950,000
Property	\$ 50,000	\$15,000,000
Automobile Liability	\$ 50,000	\$ 950,000
Excess worker's compensation	\$350,000	\$ Unlimited
Boiler and machinery	\$ 50,000	\$15,000,000

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim loss reserve of \$20,657,839 at December 31, 2006 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, 2006 and in prior years the actuarial valuation was determined as of December, 31. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2006 is calculated as follows:

Claims and Costs Paid	\$4,375,872
Increase in Actuarial	
Discounted Loss Reserve	<u>50,531</u>
Worker's Compensation Claims	<u>\$4,426,403</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-06	\$ 20,607,305	\$ 4,426,403	\$ 4,375,869	\$ 20,657,839
31-Dec-05	\$ 20,582,695	\$ 3,912,686	\$ 3,888,076	\$ 20,607,305

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2006 were as follows:

Operating Transfers

General Fund		
Debt Service Fund	\$ 0	\$5,905,030
Special Cities	100,387	0
Liquid Fuel Fund	1,331,885	0
Special Cities		
Capital Projects Fund	0	871,126
General Fund	0	100,387
Capital Projects		
Special Cities	871,126	0
Debt Service Fund	0	54,706
Debt Service		
General Fund	5,905,030	0
Capital Projects Fund	54,706	0
Liquid Fuels		
General Fund	<u>0</u>	<u>1,331,885</u>
	<u>\$8,263,134</u>	<u>\$8,263,134</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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

205 and the City's Home Rule Charter assign the authority to establish and amend benefit provisions to the Pension Fund Board as authorized by City Council. The Plans have been designated as severely distressed under Pennsylvania Act 205

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Contributions, based on the MMO, in 2006 consisted of the following:

	<u>POLICE</u>	<u>FIREMEN</u>	<u>NON- UNIFORMED</u>	<u>TOTAL</u>
City/Commonwealth	\$1,412,879	\$2,617,984	\$ 681,623	\$ 4,712,486
Employees	<u>231,455</u>	<u>219,210</u>	<u>33,041</u>	<u>483,706</u>
Total	<u>\$1,644,334</u>	<u>\$2,837,194</u>	<u>\$ 714,664</u>	<u>\$ 5,196,192</u>

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

	<u>January 1, 2007</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 1,845,580	\$ 1,566,065	\$ 242,525	\$ 3,654,170
Interest on pension benefit obligation	<u>3,588,921</u>	<u>6,005,386</u>	<u>972,674</u>	<u>10,566,981</u>
Annual pension costs	\$ 5,434,501	\$ 7,571,451	\$ 1,215,199	14,221,151
Contributions made	(3,484,670)	(5,917,976)	(1,590,026)	\$ (10,992,672)
Net actuarial (gain)/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)

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

	<u>January 1, 2003</u>			<u>Total</u>
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	
Annual required contribution	\$ 824,602	\$ 788,789	\$ 140,983	\$ 1,754,374
Interest on pension benefit obligation	1,113,188	3,250,691	125,461	4,489,340
Adjustment to annual required contribution	<u>853,473</u>	<u>1,039,706</u>	<u>14,778</u>	<u>1,907,957</u>
Annual pension costs	\$ 2,791,263	\$ 5,079,186	\$ 281,222	\$ 8,151,671
Contributions made	(1,380,194)	(4,315,202)	(242,085)	(5,937,481)
Net actuarial loss on plan assets	<u>10,777,467</u>	<u>8,192,385</u>	<u>2,190,365</u>	<u>21,160,217</u>
Net increase in pension benefit obligation	\$12,188,536	\$ 8,956,369	\$ 2,229,502	\$23,374,407
Pension benefit obligation, beginning	<u>13,914,845</u>	<u>40,633,641</u>	<u>1,568,268</u>	<u>56,116,754</u>
Pension benefit obligation, ending	<u>\$26,103,381</u>	<u>\$49,590,010</u>	<u>\$ 3,797,770</u>	<u>\$79,491,161</u>

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2007. The actuarial cost method used is the Entry Age Normal Cost Valuation Method. Significant assumptions used include a rate of return on investment of present and future assets of 8% per year, projected salary increases of 5% per year and no post-retirement benefit increases. Plan assets are valued using a four year smoothing method described in Internal Revenue Service Procedure 2000-40, Approval 15. The unfunded actuarial liability

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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.

	<u>January 1, 2007</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$60,404,883	\$65,113,943	\$10,552,330	\$ 136,071,156
Actuarial value of assets	<u>40,317,435</u>	<u>32,569,581</u>	<u>4,155,357</u>	<u>77,042,373</u>
Pension benefit obligation	<u>\$20,087,448</u>	<u>\$32,544,362</u>	<u>\$ 6,396,973</u>	<u>\$ 59,028,783</u>
Funded ratio	<u>67%</u>	<u>50%</u>	<u>39%</u>	<u>57%</u>
Covered payroll	<u>\$ 6,319,358</u>	<u>\$5,785,293</u>	<u>\$ 5,315,947</u>	<u>\$ 17,420,598</u>
Pension benefit obligation to covered payroll	<u>318%</u>	<u>563%</u>	<u>120%</u>	<u>339%</u>

	<u>January 1, 2005</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$60,538,073	\$67,678,929	\$10,259,212	\$138,476,214
Actuarial value of assets	<u>38,594,923</u>	<u>30,083,378</u>	<u>4,286,131</u>	<u>72,964,432</u>
Pension benefit obligation	<u>\$21,943,150</u>	<u>\$37,595,551</u>	<u>\$ 5,973,081</u>	<u>\$ 65,511,782</u>
Funded ratio	<u>64%</u>	<u>44%</u>	<u>42%</u>	<u>53%</u>
Covered payroll	<u>\$6,574,028</u>	<u>\$5,955,465</u>	<u>\$ 4,997,027</u>	<u>17,526,520</u>
Pension benefit obligation to covered payroll	<u>334%</u>	<u>631%</u>	<u>120%</u>	<u>374%</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2003

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

Historical trend information for the Plans is presented below:

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

Police Pension Fund

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

Firemen Pension Fund

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Non-Uniformed Pension Fund

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

Defined Contribution Plan: The City contributes to a union sponsored, multi-employer plan for certain employees. The Plan is not administered by the City and contributions are determined in accordance with labor contracts. Pension expense was \$222,051. in 2006.

The Parking Authority sponsors a defined contribution pension plan covering all eligible employees. Pension expense was \$32,581 for the year ended December 31, 2006.

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 \$351 per month for the year ended March 31, 2006 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2006, amounted to \$220,747.

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 21, 2006, employer contributions totaled \$2,123 and employee contributions totaled \$1,823.

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 12      Related Party Transactions

The City paid approximately \$690,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$37,683,000 of tax revenues on behalf of the City in 2006.

Note 13      Commitments and Contingencies

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

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

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

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

The City is involved in arbitration proceedings with its civilian police clerks for the reassignment of personnel of the Police Department. In 2004, a judgment was recorded against the City which the City appealed and was denied. The matter is currently before the Pennsylvania Labor Relations Board for enforcement of the award. 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.

The City and its Police Union are involved in a pay period arbitration process. The arbitration found that the City's method of payment violates the collective bargaining agreement. The matter is currently before an arbitrator. Counsel for the City cannot determine the likelihood of success at the present time. The City believes the suit is without

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13 Commitments and Contingencies (Continued)

merit and is vigorously defending its position. If the award is not vacated, the potential exposure could be material to the financial statements.

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

Collective Bargaining Agreements: Substantially all of the City's nonmanagement employees are covered by collective bargaining agreements between the City and various unions. The Police and Fire Departments agreements expired at the end of 2002 and continue to be negotiated.

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

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

In February 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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 15      Current Real Estate Taxes

Current real estate taxes collected at December 31, 2006

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	93,895,579	295,638,247	389,533,826
Millage Rates	<u>0.082122</u>	<u>0.017860</u>	
Total Original Taxes Levied	7,710,893	5,280,099	\$12,990,992
Add: Additions			1,356
Less: Abatements			<u>(96,941)</u>
Real Estate Taxes To be Collected At Face			\$12,895,407
Add: Penalties Collected			<u>63,228</u>
Total Before Deductions			\$12,958,635
Less: Discounts Taken			(444,713)
Less: Home Vouchers			(13,770)
Less: Delinquent Taxes Returned			<u>(1,704,059)</u>
<b>TOTAL REAL ESTATE TAXES COLLECTED</b>			<u><u>\$10,796,093</u></u>

Note 16      Restatement of Prior Year Net Assets

For the year ended December 31, 2006, the City implemented Statement 47 of the Governmental Accounting Standards Board which resulted in recording of a net present value for future termination benefits.

The Financial Statements for the year ended December 31, 2006 have not been restated because the statement did not require financial statements for prior periods to be restated. The beginning net assets of Government Activities for the year ended December 31, 2006 has been restated as follows:

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 16      Restatement of Prior Year Net Assets (Continued)

In the financial statements for the year ended December 31, 2003 through December 31, 2005, an error was made in accounting for capitalization of sidewalks. The City was capitalizing sidewalks that it had installed through its Community Development Programs. The sidewalks were installed on residential and commercial properties and required the property owners to maintain the sidewalks. Fixed assets and accumulated depreciation at the beginning of the year have been adjusted by \$915,713. and \$84,730., respectively.

Net Assets Governmental Activities As Previously Reported	\$(10,310,142)
Adjustment for Capitalized Sidewalks	\$ (830,983)
Adjustment for GASB 47	<u>\$ (7,066,494)</u>
Net Assets, as Restated	<u>\$(18,207,619)</u>

Note 17      Subsequent Events

In 2007, the City of Scranton and the Sewer Authority of the City of Scranton entered into Global Settlement and General Release. As consideration for termination of the 1968 Lease Agreement used to secure and collateralize the Sewer Authority bonded debt under the 1968 Trust Indenture, the City received \$7,897,952. The City used \$5,572,094 of the proceeds to settle the American Angelican Breach of Contract Claim for Professional Service Agreement for privatization of the Sewer Authority Operations.

To finance the settlement, the Sewer Authority obtained an \$8 million promissory note on April 24, 2007, Monthly principal and interest payments begin June 15, 2007 in the amount of \$52,576 with an interest rate of 4.9%. Security is accounts on deposit with the bank and the note matures on May 15, 2017. The Sewer Authority recorded an accrual for this settlement on its March 31, 2007 Financial Statements resulting in a non-operating expense for the Authority.

On October 1, 2007, the Parking 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 purchase the parking facility leased from the Scranton Redevelopment Authority and construct and equip a new parking facility.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 17      Subsequent Events (Continued)

<u>Year End, December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$           0	\$           0	\$           0
2008	95,000	1,943,905	2,038,905
2009	70,000	1,662,427	1,732,427
2010	85,000	1,659,173	1,744,173
2011	350,000	1,650,038	2,000,038
Thereafter	<u>31,695,000</u>	<u>33,327,119</u>	<u>65,022,119</u>
Total	<u>\$32,295,000</u>	<u>\$40,242,662</u>	<u>\$72,537,662</u>

**SUPPLEMENTARY INFORMATION**

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$ 39,523,970	\$ 39,523,970	\$ 39,025,117	\$ (498,853)
Intergovernmental	2,931,000	2,931,000	3,299,681	368,681
Departmental Earnings	1,930,000	1,930,000	2,055,343	125,343
Refuse Disposal Fees	5,200,000	5,200,000	4,650,062	(549,938)
Licenses and Permits	1,777,621	1,777,621	1,554,270	(223,351)
Cable Television Franchise				
Revenue	780,000	780,000	755,087	(24,913)
Payments in Lieu of Taxes	116,000	116,000	15,790	(100,210)
Interest Income	150,000	150,000	839,771	689,771
User Fees	35,000	35,000	55,697	20,697
Other Revenues	0	0	73,790	73,790
Donations	0	0	529,550	529,550
Rents and Concessions	3,000	3,000	0	(3,000)
<b>Total Revenues</b>	<b><u>\$ 52,446,591</u></b>	<b><u>\$ 52,446,591</u></b>	<b><u>\$ 52,854,158</u></b>	<b><u>\$ 407,567</u></b>
Expenditures				
General Government	\$ 12,803,354	\$ 12,869,887	\$ 12,660,052	\$ 209,835
Public Safety	28,146,920	28,253,316	28,300,863	(47,547)
Public Works	10,747,249	10,624,426	10,760,438	(136,012)
Community Development	544,653	516,744	506,034	10,710
Culture and Recreation	1,196,811	1,196,811	1,112,228	84,583
<b>Total Expenditures</b>	<b><u>\$ 53,438,986</u></b>	<b><u>\$ 53,461,184</u></b>	<b><u>\$ 53,339,615</u></b>	<b><u>\$ 121,568</u></b>
Excess of Revenues Over Expenditures	<u>\$ (992,395)</u>	<u>\$ (1,014,593)</u>	<u>\$ (485,457)</u>	<u>\$ 529,135</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Financing Sources (Uses)				
Lease Proceeds	\$ 6,232,025	\$ 6,232,025	\$ 10,215,646	\$ 3,983,621
Proceeds from Tax Anticipation Notes	14,500,000	14,500,000	14,500,000	0
Operating Transfers In	1,516,930	1,516,930	1,432,272	(84,658)
Operating Transfers Out	(5,859,000)	(6,249,000)	(5,905,030)	343,970
Bond Cost	0	0	(491,941)	(491,941)
Contingency	(417,559)	(5,362)	0	5,362
Settlement Storm Water Maintenance	0	0	7,897,952	7,897,952
Settlement American Angelican	0	0	(5,572,094)	(5,572,094)
Payments of Tax Anticipation Notes	<u>(14,980,000)</u>	<u>(14,980,000)</u>	<u>(14,881,337)</u>	<u>98,663</u>
Net Other Financing Sources (Uses)	<u>\$ 992,396</u>	<u>\$ 1,014,593</u>	<u>\$ 7,195,468</u>	<u>\$ 6,180,875</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 0	\$ 0	\$ 6,710,011	\$ 6,710,010
Fund Balance, Beginning of Year	<u>4,402,361</u>	<u>4,402,361</u>	<u>4,402,361</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 4,402,361</u>	<u>\$ 4,402,361</u>	<u>\$ 11,112,372</u>	<u>\$ 6,710,010</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2006

	LIQUID FUELS	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 10,742	\$ 5,544,595	\$ 1,880,589	\$ 7,435,926
Accounts Receivable, Net	0	1,106,143	0	1,106,143
Due From Other Funds	0	44,234	0	44,234
TOTAL ASSETS	\$ 10,742	\$ 6,694,972	\$ 1,880,589	\$ 8,586,303
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 0	\$ 943,726	\$ 0	\$ 943,726
Due to Other Funds	0	171,675	0	171,675
Deferred Revenues	0	5,579,571	0	5,579,571
TOTAL LIABILITIES	\$ 0	\$ 6,694,972	\$ 0	\$ 6,694,972
FUND BALANCES				
Debt Service	\$ 0	\$ 0	\$ 1,880,589	\$ 1,880,589
Unreserved - Undesignated	10,742	0	0	10,742
TOTAL FUND BALANCES	\$ 10,742	\$ 0	\$ 1,880,589	\$ 1,891,331
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,742	\$ 6,694,972	\$ 1,880,589	\$ 8,586,303

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	LIQUID FUELS	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>Revenues:</b>				
Intergovernmental	\$ 1,324,483	\$ 3,741,223	\$ 0	\$ 5,065,706
Departmental Earnings	0	64,500	0	64,500
Interest Income	15,726	74,835	103,876	194,437
Other Revenues	<u>0</u>	<u>977,248</u>	<u>0</u>	<u>977,248</u>
<b>Total Revenues</b>	<b><u>\$ 1,340,209</u></b>	<b><u>\$ 4,857,806</u></b>	<b><u>\$ 103,876</u></b>	<b><u>\$ 6,301,891</u></b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	\$ 0	\$ 224,190	\$ 0	\$ 224,190
Public Works	0	1,116,760	0	1,116,760
Health and Welfare	0	1,299,937	0	1,299,937
Community Development	0	1,156,159	0	1,156,159
Other Expenditures	0	6,112	0	6,112
<b>Debt Service</b>				
Debt Service-Principal	0	0	2,345,000	2,345,000
Debt Service-Interest	<u>0</u>	<u>0</u>	<u>3,934,948</u>	<u>3,934,948</u>
<b>Total Expenditures</b>	<b><u>\$ 0</u></b>	<b><u>\$ 3,803,158</u></b>	<b><u>\$ 6,279,948</u></b>	<b><u>\$ 10,083,106</u></b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b><u>\$ 1,340,209</u></b>	<b><u>\$ 1,054,648</u></b>	<b><u>\$ (6,176,072)</u></b>	<b><u>\$ (3,781,215)</u></b>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	\$ 0	\$ 0	\$ 5,959,736	\$ 5,959,736
Operating Transfers Out	<u>(1,331,885)</u>	<u>(1,054,648)</u>	<u>0</u>	<u>(2,386,533)</u>
<b>Net Other Financing Sources (Uses)</b>	<b><u>\$ (1,331,885)</u></b>	<b><u>\$ (1,054,648)</u></b>	<b><u>\$ 5,959,736</u></b>	<b><u>\$ 3,573,203</u></b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses</b>	<b>\$ 8,324</b>	<b>\$ 0</b>	<b>\$ (216,336)</b>	<b>\$ (208,012)</b>
<b>Fund Balances, Beginning of Year</b>	<b><u>2,418</u></b>	<b><u>0</u></b>	<b><u>2,096,925</u></b>	<b><u>2,099,343</u></b>
<b>FUND BALANCES, END OF YEAR</b>	<b><u>\$ 10,742</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,880,589</u></b>	<b><u>\$ 1,891,331</u></b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
YEAR ENDED DECEMBER 31, 2006

Additions:		
Contributions		
Employee	\$ 483,706	
Employer	1,989,015	
Commonwealth State Aid	<u>2,705,546</u>	
Total Contributions		\$ 5,178,267
Investment Income:		
Investment Return	<u>\$ 8,516,301</u>	
Total Investment Income		8,516,301
Other Income:		
Miscellaneous Receipts	<u>\$ 5,130</u>	
Total Other Income		<u>5,130</u>
TOTAL ADDITIONS		\$ 13,699,698
DEDUCTIONS		
Benefit Payments	\$ 9,060,135	
Administrative Expenses	<u>85,417</u>	
Total Deductions		<u>9,145,552</u>
CHANGE IN NET ASSETS		\$ 4,554,146
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year		<u>72,488,227</u>
END OF YEAR		<u><u>\$77,042,373</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP BASIS	FINAL BUDGET POSITIVE (NEGATIVE)
Revenues				
Taxes				
Act 511:				
Wage	\$19,720,000	\$19,720,000	\$19,258,233	\$ (461,767)
Real Estate Transfer	3,000,000	3,000,000	3,933,133	933,133
Mercantile	1,100,000	1,100,000	1,133,572	33,572
Business Privilege	687,930	687,930	605,102	(82,828)
Emergency & Municipal Services	2,100,000	2,100,000	1,957,549	(142,451)
Delinquent Mercantile	95,000	95,000	0	(95,000)
Delinquent Business Privilege	70,000	70,000	0	(70,000)
Total Act 511	<u>\$26,772,930</u>	<u>\$26,772,930</u>	<u>\$26,887,589</u>	<u>\$ 114,659</u>
Current Real Estate	\$10,871,175	\$10,871,175	\$10,796,093	\$ (75,082)
Delinquent Real Estate	1,740,865	1,740,865	1,247,412	(493,453)
Public Utility	60,000	60,000	60,853	853
Penalties & Interest	79,000	79,000	33,170	(45,830)
Total Taxes	<u>\$39,523,970</u>	<u>\$39,523,970</u>	<u>\$39,025,117</u>	<u>\$ (498,853)</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,560,000	\$ 2,560,000	\$ 2,705,546	\$ 145,546
Attorney General, Drug Task Force	51,000	51,000	115,484	64,484
OECD Reimbursement Demolition Program	150,000	150,000	0	(150,000)
Cops Ahead Program	60,000	60,000	0	(60,000)
FEMA Emergency Grants	0	0	381,395	381,395
Act 101	110,000	110,000	97,256	(12,744)
Total Intergovernmental	<u>\$ 2,931,000</u>	<u>\$ 2,931,000</u>	<u>\$ 3,299,681</u>	<u>\$ 368,681</u>
Departmental Earnings				
Parking Meters	\$ 705,000	\$ 705,000	\$ 812,720	\$ 107,720
Fines and Forfeits	857,500	857,500	805,747	(51,753)
Pave Cuts	195,000	195,000	240,791	45,791
Report Copies Fire & Police	65,000	65,000	72,512	7,512
Alarm Fees	75,000	75,000	90,350	15,350
Rescue Fees	7,500	7,500	5,750	(1,750)
Zoning	25,000	25,000	27,473	2,473
Total Departmental Earnings	<u>\$ 1,930,000</u>	<u>\$ 1,930,000</u>	<u>\$ 2,055,343</u>	<u>\$ 125,343</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, 2006

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 5,200,000	\$ 5,200,000	\$ 4,650,062	\$ (549,938)
Licenses and Permits	1,777,621	1,777,621	1,554,270	(223,351)
Cable Television Franchise Revenue	780,000	780,000	755,087	(24,913)
Payments in Lieu of Taxes	116,000	116,000	15,790	(100,210)
Interest Income	150,000	150,000	839,771	689,771
User Fees	35,000	35,000	55,697	20,697
Other Revenues	0	0	73,790	73,790
Donations	0	0	529,550	529,550
Rents and Concessions	3,000	3,000	0	(3,000)
<b>Total Other Revenues</b>	<b>\$ 8,061,621</b>	<b>\$ 8,061,621</b>	<b>\$ 8,474,017</b>	<b>\$ 412,396</b>
<b>Total Revenues</b>	<b>\$52,446,591</b>	<b>\$52,446,591</b>	<b>\$52,854,158</b>	<b>\$ 407,567</b>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$14,500,000	\$14,500,000	\$14,500,000	\$ 0
Lease Proceeds	6,232,025	6,232,025	10,215,646	3,983,621
Settlement Storm Water Maintenance	0	0	7,897,952	7,897,952
Operating Transfers in from:				
Liquid Fuels Fund	1,316,930	1,316,930	1,331,885	14,955
Internal Service Fund	100,000	100,000	0	(100,000)
Other Funds	100,000	100,000	100,387	387
<b>Total Other Financing Sources</b>	<b>\$22,248,955</b>	<b>\$22,248,955</b>	<b>\$34,045,870</b>	<b>\$ 11,796,915</b>
<b>Total Revenues and Other Financing Sources</b>	<b>\$74,695,546</b>	<b>\$74,695,546</b>	<b>\$86,900,028</b>	<b>\$ 12,204,482</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, 2006

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>Expenditures</b>				
<b>General Government</b>				
Salaries and Wages	\$ 2,033,357	\$ 2,033,931	\$ 1,953,589	\$ 80,341
Employee Benefits	3,059,378	3,040,380	3,073,097	(32,716)
Workers' Compensation Claims	3,900,000	3,909,230	3,879,046	30,184
General Insurance	900,000	904,330	904,330	-
Office Supplies and Expense	324,548	259,820	219,769	40,051
Professional Fees	629,370	614,449	625,341	(10,893)
Telephone	200,000	147,196	132,920	14,276
Equipment	42,650	28,500	23,771	4,728
Travel	17,000	14,830	10,603	4,227
Other	75,500	66,349	9,712	56,637
Boards and Commissions	171,400	176,100	178,818	(2,718)
Utilities	755,000	740,468	779,109	(38,641)
Grants and Contributions	15,150	15,150	15,150	0
Court Awards & Settlements	80,000	158,130	48,670	109,460
Parking Authority Ticket Issuers	450,000	674,725	725,936	(51,211)
Capital Expenditures	150,000	86,301	80,190	6,111
<b>Total General Government</b>	<b>\$12,803,354</b>	<b>\$12,869,887</b>	<b>\$12,660,052</b>	<b>\$ 209,835</b>
<b>Public Safety</b>				
Salaries and Wages	\$14,048,203	\$14,217,637	\$14,263,010	\$ (45,373)
Employee Benefits	13,052,079	12,986,846	12,881,738	105,109
Supplies	164,259	156,123	138,811	17,312
Equipment	822,241	823,587	959,848	(136,261)
Training	40,000	41,055	40,167	888
Travel	10,000	19,241	16,795	2,446
Professional Fees	10,137	8,827	494	8,333
<b>Total Public Safety</b>	<b>\$28,146,920</b>	<b>\$28,253,316</b>	<b>\$28,300,863</b>	<b>\$ (47,547)</b>
<b>Public Works</b>				
Salaries and Wages	\$ 3,993,525	\$ 3,873,810	\$ 3,568,355	\$ 305,455
Employee Benefits	1,804,152	1,793,393	1,994,695	(201,302)
Supplies	399,505	352,488	347,689	4,799
Professional Fees	106,600	88,997	97,165	(8,168)
Equipment	1,688,467	1,681,555	1,722,531	(40,976)
Electric	265,000	332,171	347,137	(14,966)
Landfill Fees	1,625,000	1,624,046	1,653,534	(29,488)
Salt	195,000	79,852	79,800	52
Flood Protection	100,000	269,603	421,022	(151,419)
Street Lighting	570,000	528,511	528,511	0
<b>Total Public Works</b>	<b>\$10,747,249</b>	<b>\$10,624,426</b>	<b>\$10,760,438</b>	<b>\$ (136,012)</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, 2006

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 517,503	\$ 489,608	\$ 480,572	\$ 9,035
Employee Benefits	10,000	10,000	9,973	27
Supplies	<u>17,150</u>	<u>17,137</u>	<u>15,489</u>	<u>1,647</u>
Total Community Development	<u>\$ 544,653</u>	<u>\$ 516,744</u>	<u>\$ 506,034</u>	<u>\$ 10,710</u>
Culture and Recreation				
Salaries and Wages	\$ 898,520	\$ 898,520	\$ 871,960	\$ 26,560
Employee Benefits	2,000	2,000	1,960	40
Supplies	274,791	274,791	223,788	51,003
Programs	<u>21,500</u>	<u>21,500</u>	<u>14,521</u>	<u>6,979</u>
Total Culture and Recreation	<u>\$ 1,196,811</u>	<u>\$ 1,196,811</u>	<u>\$ 1,112,228</u>	<u>\$ 84,583</u>
Total Expenditures	<u>\$53,438,986</u>	<u>\$53,461,184</u>	<u>\$53,339,615</u>	<u>\$ 121,568</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$14,980,000	\$14,980,000	\$14,881,337	\$ 98,663
Bond Issuance Cost Relative to Capitalized Leasing	0	0	491,941	(491,941)
Contingency	417,559	5,362	0	5,362
Settlement American Angelican	0	0	5,572,094	(5,572,094)
Operating Transfers Out to: Debt Service Fund	<u>5,859,000</u>	<u>6,249,000</u>	<u>5,905,030</u>	<u>343,970</u>
Total Other Financing Uses	<u>\$21,256,559</u>	<u>\$21,234,362</u>	<u>\$26,850,402</u>	<u>\$ (5,616,040)</u>
Total Expenditures and Other Financing Uses	<u>\$74,695,546</u>	<u>\$74,695,546</u>	<u>\$80,190,017</u>	<u>\$ (5,494,472)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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		\$ 4,974,668
Emergency Shelter Grants Program	14.231		128,180
Home Investment Partnerships Program	14.239		<u>624,614</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 5,727,462</u>
U.S. DEPARTMENT OF JUSTICE:			
COPS	16.710		<u>\$ 5,000</u>
Total U.S. Department of Justice			<u>\$ 5,000</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation Highway Planning and Construction			
West Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 040810	
Incurred 2006 Paid 2006			\$ 0
Incurred 2006 Paid 2007			0
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 0441761	
Incurred 2006 Paid 2006			57,394
Incurred 2006 Paid 2007			156,937
East Mountain Road Betterment Project	20.205	Reimbursement Agreement Number 048401	
Incurred 2006 Paid 2006			141,100
Incurred 2006 Paid 2007			111,234
Scranton K Routes	20.205	Reimbursement Agreement Number 048748	
Incurred 2006 Paid 2006			623,185
Incurred 2006 Paid 2007			0
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement Number 041439	
Incurred 2006 Paid 2006			14,367
Incurred 2006 Paid 2007			26,219
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222	
Incurred 2006 Paid 2006			37,560
Incurred 2006 Paid 2007			37,044
East Market Street Bridge	20.205	Reimbursement Agreement Number 042345	
Incurred 2006 Paid 2006			56,290
Incurred 2006 Paid 2007			0
Nay Aug Pedestrian Bridge	20.205	Reimbursement Agreement Number 048606	
Incurred 2006 Paid 2006			288,805
Incurred 2006 Paid 2007			<u>0</u>
Total U.S. Department of Transportation			<u>\$ 1,550,135</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
DEPARTMENT OF HOMELAND SECURITY FEDERAL EMERGENCY MANAGEMENT AGENCY Pass Through Pennsylvania Emergency Management Agency Public Assistance Grants	97.036		\$ <u>328,871</u>
Total Direct Assistance Department of Homeland Security			\$ <u>328,871</u>
Total Department of Homeland Security			\$ <u>328,871</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through the Pennsylvania Department of Health Childhood Lead Poisoning Prevention Projects	93.197	PALAG0025-94	\$ <u>215,294</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>7,826,762</u></u>

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

"See accompanying notes and independent auditors' report."

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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

December 3, 2007

To Honorable Members of City Council  
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 as of and for the year ended December 31, 2006, which collectively comprise the City of Scranton, Pennsylvania basic financial statements and have issued our report thereon dated December 3, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Scranton, Pennsylvania internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Scranton, Pennsylvania ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Scranton, Pennsylvania in a separate letter dated December 3, 2007.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Scranton, Pennsylvania 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*.

This report is intended solely for the information and use of the Mayor, City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robert Rossi & CO

**ROBERT ROSSI & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

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

December 3, 2007

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

COMPLIANCE

We have audited the compliance of the City of Scranton, Pennsylvania with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The City of Scranton, Pennsylvania's major federal programs are identified in the summary of auditor's 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, Pennsylvania's management. Our responsibility is to express an opinion on the City of Scranton, Pennsylvania'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, Pennsylvania 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, Pennsylvania's compliance with those requirements.

In our opinion, the City of Scranton, Pennsylvania 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, 2006.

#### INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Scranton, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Scranton, Pennsylvania'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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robert Rossi & CO*

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

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) Reportable condition was disclosed by the audit of the financial statements in Internal Control. The condition is not reported as a material weakness.
- (3) The audit did not disclose any noncompliance which is material to the financial statements of the auditee.
- (4) No reportable conditions 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) Audit findings that are required to be reported in accordance with Section 510(A) OMB Circular A-133 are reported in this schedule.
- (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
97.036	Public Assistance Grants

- (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, 2006

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

2006-1

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

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

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

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

None

CITY OF SCRANTON, PENNSYLVANIA  
STATUS OF CORRECTIVE ACTION AND PRIOR AUDIT FINDINGS

Findings and questioned cost for Federal Awards which shall include audit findings as defined in Section 510(a) of OMS Circular A-133.

Findings 2005-2

All grants expired in 2005 and final reports had been filed. No further actions are required at this time.