

**CITY OF SCRANTON, PENNSYLVANIA
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2007**

CITY OF SCRANTON, PENNSYLVANIA
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE
AND SINGLE AUDIT ATTACHMENTS
YEAR ENDED DECEMBER 31, 2007

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INDEPENDENT AUDITORS' REPORT

December 31, 2008

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, 2007 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 \$45,523,902 at March 31, 2007 and total revenues of \$10,733,352 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$58,916,680 at December 31 2007 and total revenues of \$2,548,488 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$5,044,838 at December 31, 2007 and total revenues of \$1,014,389 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, 2007 instead of December 31, 2007. 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, 2007 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, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated December 31, 2008 on our consideration of the City of Scranton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Robert 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, 2007. 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 \$52,447,457 (*net assets*).
- The government's total net assets decreased by \$16,862,799.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$17,764,780, a decrease of \$1,759,894 in comparison with the prior year. The largest decrease was in the Capital Fund of \$2,095,872.
- The Redevelopment Authority purchased three years of delinquent property tax from the City of Scranton. This arrangement generated \$1,898,657 of revenue within the General Fund. In order to finance this arrangement, the Redevelopment Authority obtained a note payable for the purpose of purchasing the delinquent taxes.
- The City of Scranton has a BBB bond rating from Standard and Poor's.

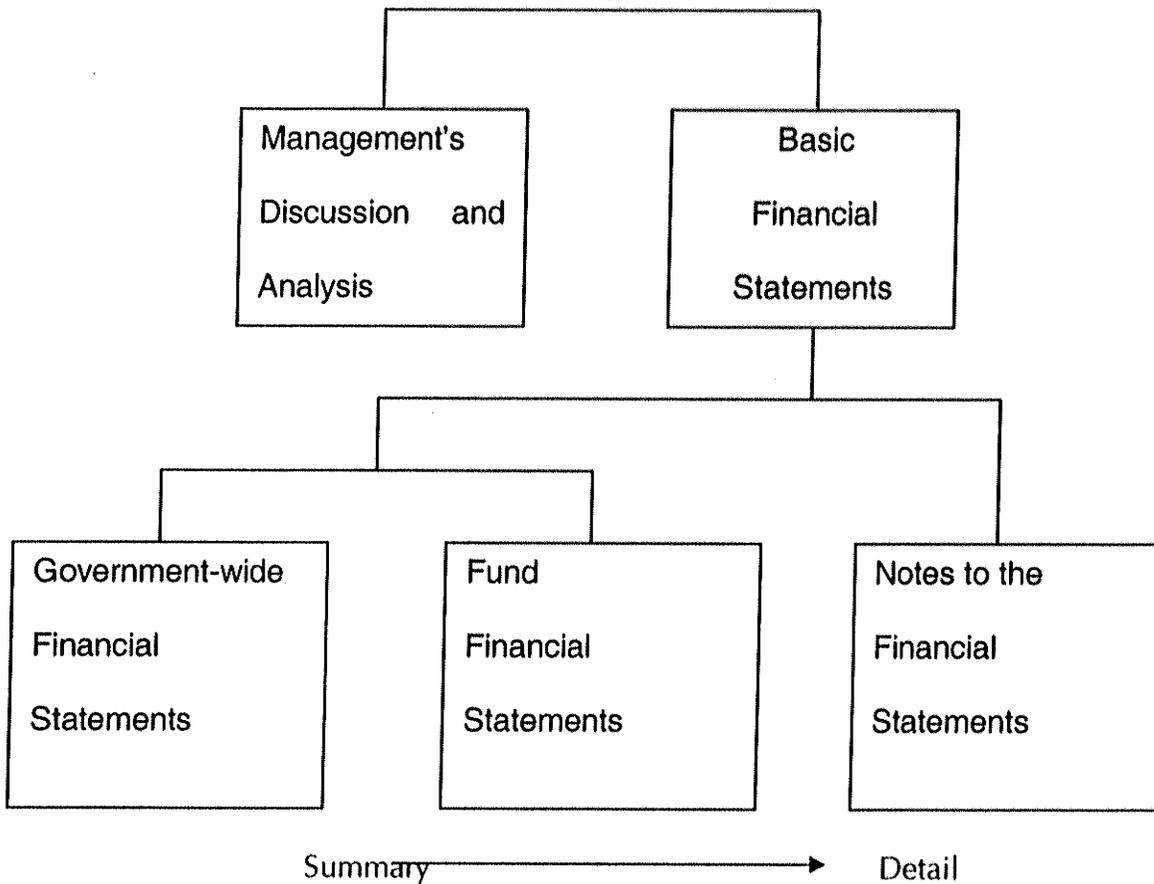
Overview of the Financial Statements

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.

CITY OF SCRANTON

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 16 and 17) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

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

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

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Government-wide Financial Statements

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

The statement of net assets presents the City's assets and liabilities as of the end of the recent fiscal year. The statement of activities shows the City's current year's revenue and expenses as soon as the changes occur, regardless of the timing of the related cash flows (on the accrual basis). Thus, revenue and expenses are reported in this statement for some items that will provide cash flow or use cash flow in a future period. An example of a cash inflow in a future would be when a taxpayer pays a prior year tax or fee in the future (see Taxes and Fees Receivable \$18,900,709). An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$2,582,669). All major corporations use the accrual basis of accounting.

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

The government-wide financial statements are on pages 16 and 17.

Fund Financial Statements

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

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

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

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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, and the Capital Projects Fund, all of which are considered to be major funds. The data for non-major funds consisting of Liquid Fuels Fund, Redevelopment Authority, Special Cities, and Debt Service Fund are combined in a single accounting.

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

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

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

Other Information – This report includes certain other required supplementary information concerning the City, (see pages 72 through 83). A description of the schedules and reports can be found on pages 2 and 3 of the Table of Contents.

Government-Wide Financial Analysis

Net assets are useful indicators of a government's financial position. At the close of the current fiscal year, the City of Scranton's assets exceeded its liabilities by \$52,447,457.

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, \$94,785,627. 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, \$9,186,700, 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 \$51,524,870. The governmental activities reported negative unrestricted net assets of \$50,224,080. The business type activities reported negative unrestricted net assets of \$1,300,790.

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City of Scranton, Pennsylvania's Net Assets

Figure 2

	Governmental Activities		%	Business Type Activities		%	Total Primary Government		%
	2007	2006		2007	2006		2007	2006	
Current Assets	\$ 104,745,834	\$ 129,637,629	-19%	\$ 8,472,313	\$ 10,569,746	-20%	\$ 113,218,147	\$ 140,207,375	-19%
Restricted Assets	234,099	172,000	36%	21,135,670	5,313,615	298%	21,369,769	5,485,615	290%
Capital Assets	96,655,784	52,394,954	84%	74,401,942	70,535,653	5%	171,057,726	122,930,607	39%
Deferred Charges	1,827,329	2,060,063	-11%	2,148,920	998,793	115%	3,976,349	3,058,856	30%
Total Assets	\$ 203,463,096	\$ 184,264,646	10%	\$ 106,158,895	\$ 87,417,807	21%	\$ 309,621,991	\$ 271,682,453	14%
Current Liabilities	\$ 14,367,778	\$ 15,811,718	-9%	\$ 17,383,886	\$ 17,996,173	-3%	\$ 31,751,664	\$ 33,807,891	-6%
Non-Current Liabilities	163,016,509	182,603,353	-11%	62,406,361	30,392,228	105%	225,422,870	212,995,631	6%
Total Liabilities	\$ 177,384,287	\$ 198,415,071	-11%	\$ 79,790,247	\$ 48,388,451	65%	\$ 257,174,534	\$ 246,803,522	4%
Net Assets:									
Invested In Capital Assets									
Net of Related Debt	\$ 70,699,770	\$ 24,627,354	187%	\$ 24,085,857	\$ 25,149,184	-4%	\$ 94,785,627	\$ 49,776,538	90%
Restricted	5,603,119	8,065,724	-31%	3,583,581	4,156,802	-14%	9,186,700	12,222,526	-25%
Unrestricted	(50,224,080)	(46,843,503)	7%	(1,300,790)	9,723,320	-113%	(51,524,870)	(37,120,133)	39%
Total Net Assets	\$ 26,078,809	\$ (14,150,425)	-284%	\$ 26,368,648	\$ 39,029,356	-32%	\$ 52,447,457	\$ 24,878,931	111%

City of Scranton, Pennsylvania Changes in Net Assets

Figure 3

	Governmental Activities		%	Business-Type Activities		%	Total Primary Government		%
	2007	2006		2007	2006		2007	2006	
Revenues									
Program Revenues									
Fees, Fines & Charges for Services	\$ 7,809,326	\$ 8,897,915	-12%	\$ 13,281,840	\$ 13,020,151	2%	\$ 21,091,166	\$ 21,918,066	-4%
Operating Grants & Contributions	18,526,927	17,710,510	5%	0	0	0%	18,526,927	17,710,510	5%
Capital Grants & Contributions	2,684,689	2,174,711	23%	0	0	0%	2,684,689	2,174,711	23%
General Revenues									
Property Taxes	14,372,972	11,148,639	29%	0	0	0%	14,372,972	11,148,639	29%
Act 511 Taxes	28,238,690	26,981,612	5%	0	0	0%	28,238,690	26,981,612	5%
Cable TV Franchise Revenue	744,410	755,087	-1%	0	0	0%	744,410	755,087	-1%
Payments in Lieu of Taxes	117,490	15,790	644%	0	0	0%	117,490	15,790	644%
Investment Earnings	2,989,135	2,313,967	29%	459,207	306,223	50%	3,448,342	2,620,190	32%
Donations	491,723	529,550	100%	0	0	0%	491,723	529,550	100%
Sale of Property	(458,712)	1,131,345	100%	0	0	0%	(458,712)	1,131,345	100%
Miscellaneous	60,920	73,790	-17%	625,574	2,333,309	-73%	686,494	2,407,099	-71%
Rents & Concessions	4,585	5,785	-21%	0	0	0%	4,585	5,785	-21%
Grants, Subsidies, and Contributions	900,000	0	0%	0	0	0%	900,000	0	0%
Interfund Transfer	1,500,000	0	0%	(1,500,000)	0	0%	0	0	0%
Settlement Expense	0	0	0%	(10,051,261)	0	0%	(10,051,261)	0	0%
Settlement Storm Water Maintenance	0	7,897,952	0%	0	0	0%	0	7,897,952	0%
Intergovernmental Revenues	0	446,965	0%	959,911	3,036,482	0%	959,911	3,483,447	100%
Total Revenue & Transfers	\$ 77,982,155	\$ 80,083,618	-3%	\$ 3,275,271	\$ 18,696,165	-80%	\$ 81,257,426	\$ 98,779,783	-17%
Expenses									
General Government & Administration	\$ 11,272,884	\$ 9,441,675	19%	\$ 0	\$ 0	0%	\$ 11,272,884	\$ 9,441,675	19%
Public Safety	32,520,564	31,435,830	3%	0	0	0%	32,520,564	31,435,830	3%
Public Works	15,016,459	10,490,156	43%	0	0	0%	15,016,459	10,490,156	43%
Health & Welfare	978,238	1,299,937	-25%	0	0	0%	978,238	1,299,937	-25%
Community Development	14,126,692	10,319,401	37%	0	0	0%	14,126,692	10,319,401	37%
Cultural & Recreation	1,781,810	1,732,053	3%	0	0	0%	1,781,810	1,732,053	3%
Other Expenditures	17,905	12,525	43%	0	0	0%	17,905	12,525	43%
Capital Expenditures	104,409	146,722	-29%	0	0	0%	104,409	146,722	-29%
Court Award Settlement	0	5,572,094	0%	0	0	0%	0	5,572,094	0%
Unallocated Depreciation	34,759	34,759	0%	0	0	0%	34,759	34,759	0%
Interest on Long Term Debt	6,330,526	5,541,272	14%	0	0	0%	6,330,526	5,541,272	14%
Sewer Authority	0	0	0%	12,523,497	10,337,346	21%	12,523,497	10,337,346	21%
Municipal Recreation Authority	0	0	0%	0	0	0%	0	0	0%
Municipal Parking Authority	0	0	0%	3,912,482	2,755,404	42%	3,912,482	2,755,404	42%
Total Expenses	\$ 82,184,246	\$ 76,026,424	8%	\$ 16,435,929	\$ 13,092,750	26%	\$ 98,620,225	\$ 89,119,174	11%
Change in Net Assets	\$ (4,202,091)	\$ 4,057,194		\$ (12,660,708)	\$ 5,603,415		\$ (16,862,799)	\$ 9,660,609	
Net Assets, Beginning of Year	10,280,900	(18,202,619)		39,029,356	33,425,941		69,310,256	15,218,322	
Net Assets, End of Year	\$ 26,078,809	\$ (14,150,425)		\$ 26,368,648	\$ 39,029,356		\$ 52,447,457	\$ 24,878,931	

CITY OF SCRANTON

Governmental activities. Governmental activities decreased the City's net assets by \$4,202,091. 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 decreased the City's net assets by \$12,660,708. The largest item contributing to this decrease was the \$10,051,260 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 \$3,406,229 from the prior year. Total General Fund Revenue was \$56,260,387 for the year 2007 versus \$52,854,158 for the year 2006. There was a \$3,224,333 increase in Property Tax collections. The General Fund expenditures for the year 2007 went up by \$1,247,559. Total General Fund Expenditures were \$54,587,174 for 2007 versus \$53,339,615 in 2006. The single largest increase in expenses was in General Government for 1,513,756. Total General Government Expenditures were \$14,173,808 for 2007 versus \$12,660,052 for 2006.

At December 31, 2007, the Governmental Funds of the City of Scranton reported a combined fund balance of \$17,764,780, a decrease over last year. The fluctuation can be attributed to the decrease in Capital Projects at year-end.

General Fund Highlights

Revenues and other financing sources were lower than prior year amounts. The City realized an increase in tax collections for the period. However donations decreased from \$529,550 to \$76,131 for 2006 and 2007, respectively.

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Overall expenditures increased by \$1,247,559 compared to the prior year. General Government recognized an increase of \$1,513,756. The increase can be attributed to increased costs incurred under the court awards and settlement account. Court awards accounted for \$1,644,923 of the total cost for General Government in 2007. The City settled and paid \$1,505,724 to the Police and Fire Unions.

Other Financing Sources decreased significantly compared to the prior year; from \$7,195,468 in 2006 to \$(1,008,868) in 2007. 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 prior period, while utilizing \$6 million in 2006. 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 same period.

Capital Assets

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

Figure 4

	Governmental			Business-Type			Total		
	Activities		%	Activities		%	Primary Government		%
	2007	2006	Change	2007	2006	Change	2007	2006	Change
Land & Land Improvements	\$ 4,235,506	\$ 4,317,506	-2%	\$ 1,033,322	\$ 1,033,322	0%	\$ 5,268,828	\$ 5,350,828	-2%
Buildings & Building Improv	17,779,676	17,106,523	4%	132,453,142	117,282,191	13%	150,232,818	134,388,714	12%
Infrastructure	99,218,423	21,230,180	367%	0	0	0%	99,218,423	21,230,180	367%
Furniture, Equipment & Vehic	14,792,408	13,303,012	11%	8,688,206	8,118,294	7%	23,480,614	21,421,306	10%
Construction in Progress	8,787,209	8,703,265	1%	5,932,083	14,104,085	-58%	14,719,292	22,807,350	-35%
Accumulated Depreciation	(48,157,438)	(12,265,532)	293%	(73,704,811)	(70,002,239)	5%	(121,862,249)	(82,267,771)	48%
Total	\$ 96,655,784	\$ 52,394,954	84%	\$ 74,401,942	\$ 70,535,653	5%	\$ 171,057,726	\$ 122,930,607	39%

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

Figure 5

	Governmental		Business-Type		Total	
	2007	2006	2007	2006	2007	2006
Balance January 1, 2007	\$ 107,146,705	\$ 98,542,769	\$ 31,632,027	\$ 27,825,407	\$ 138,778,732	\$ 126,368,176
Debt issued in 2007	2,731,305	11,715,646	33,191,253	6,300,479	35,922,558	18,016,125
Accretion & Amortization	26,374	27,086	0	0	26,374	27,086
Less Retirements	(14,808,138)	(3,138,796)	(1,159,420)	(2,493,859)	(15,967,558)	(5,632,655)
Balance December 31, 2007	\$ 95,096,246	\$ 107,146,705	\$ 63,663,860	\$ 31,632,027	\$ 158,760,106	\$ 138,778,732

CITY OF SCRANTON

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

Pension Trust Fund

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

Internal Service Workmen's Compensation

The independent auditors qualified their opinion on the City's financial statements. This is due to the fact that the City determined its workers' compensation actuarial liability as of August 31, 2007 instead of December 31, 2007. This was also the case in 2004 through 2006, 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, 4th Floor, 340 N. Washington Avenue, Scranton, PA 18503.

CITY OF SCRANTON, PENNSYLVANIA
 GOVERNMENT WIDE STATEMENT OF NET ASSETS
 DECEMBER 31, 2007

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 33,478,160	\$ 1,238,308	\$ 34,716,468
Certificate of Deposit	0	4,465,651	4,465,651
Investments	8,476,266	0	8,476,266
Receivables:			
Taxes and Fees Receivable, Net	18,900,709	0	18,900,709
Accounts Receivable, Net	698,631	2,180,956	2,879,587
Accrued Interest	146,911	27,126	174,037
Loans Receivable	41,837,148	0	41,837,148
Other Receivables, Net	917,531	63,779	981,310
Due From Other Funds	(77,475)	77,475	0
Prepaid Assets	0	11,943	11,943
Other Assets	260,402	407,075	667,477
Property Held For Resale	107,551	0	107,551
Restricted Assets:			
Restricted Cash and Cash Equivalents	234,099	17,552,368	17,786,467
Restricted Investments	0	3,184,430	3,184,430
Restricted Accounts Receivable	0	11,911	11,911
Accounts Receivable - Assessments	0	386,961	386,961
Capital Assets:			
Land	4,235,506	1,033,322	5,268,828
Buildings	12,240,729	132,144,097	144,384,826
Improvements	5,538,947	309,045	5,847,992
Infrastructure	99,218,423	0	99,218,423
Vehicles, Furniture & Equipment	14,792,408	8,688,206	23,480,614
Construction In Progress	8,787,209	5,932,083	14,719,292
Accumulated Depreciation	(48,157,438)	(73,704,811)	(121,862,249)
Deferred Charges, Net	1,827,379	2,148,970	3,976,349
TOTAL ASSETS	\$ 203,463,096	\$ 106,158,895	\$ 309,621,991

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 GOVERNMENT WIDE STATEMENT OF NET ASSETS
 DECEMBER 31, 2007

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
LIABILITIES			
Short Term Debt	\$ 0	\$ 4,295,026	\$ 4,295,026
Accounts Payable	2,446,613	606,049	3,052,662
Accrued Liabilities	1,782,643	9,928,887	11,711,530
Accrued Interest	1,150,377	0	1,150,377
Current Liabilities Payable From Restricted Assets:			
Accrued Construction Cost	0	605,123	605,123
Current Portion Of Long Term Debt			
Revenue Bonds Payable	0	999,396	999,396
Lease Payable	6,178,431	0	6,178,431
General Obligation Bonds Payable	2,235,000	0	2,235,000
Notes Payable	574,714	253,639	828,353
Accrued Revenue Bond Interest Payable	0	695,766	695,766
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	18,558,363	0	18,558,363
Deferred Revenues	47,446,319	0	47,446,319
Long-Term Debt Obligations	68,657,721	62,410,825	131,068,546
Deferred Loss On Early Retirement Of Debt	(1,574,610)	(554,142)	(2,128,752)
Governmental Notes Payable	2,249,362	0	2,249,362
Long-Term Liabilities Payable	0	36,240	36,240
Capitalized Lease Debt	15,201,018	0	15,201,018
Termination Benefits Payable	10,409,105	0	10,409,105
Compensated Absences	2,069,231	513,438	2,582,669
TOTAL LIABILITIES	\$ 177,384,287	\$ 79,790,247	\$ 257,174,534
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	\$ 70,699,770	\$ 24,085,857	\$ 94,785,627
Restricted for:			
Debt Service	1,994,161	0	1,994,161
Reserved for Capital Projects	3,608,958	0	3,608,958
Reserved for Retirement of Long-Term Obligations	0	3,583,581	3,583,581
Unreserved - Undesignated	(50,224,080)	(1,300,790)	(51,524,870)
TOTAL NET ASSETS	\$ 26,078,809	\$ 26,368,648	\$ 52,447,457

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 GOVERNMENT WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2007

PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS		
		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	\$ 11,272,884	\$ 833,377	\$ 456	\$ 0	\$ (10,439,051)	\$ 0	\$ (10,439,051)
Public Safety	32,520,564	863,182	3,504,625	0	(28,152,757)	0	(28,152,757)
Public Works	15,016,459	4,644,338	4,561,584	2,684,689	(3,125,848)	0	(3,125,848)
Health & Welfare	978,238	0	1,064,485	0	86,247	0	86,247
Community Development	14,126,692	1,420,294	9,342,391	0	(3,364,007)	0	(3,364,007)
Culture and Recreation	1,781,810	48,135	53,386	0	(1,680,289)	0	(1,680,289)
Other Expenditure	17,905	0	0	0	(17,905)	0	(17,905)
Capital Expenditures	104,409	0	0	0	(104,409)	0	(104,409)
Unallocated Depreciation	34,759	0	0	0	(34,759)	0	(34,759)
Interest on Long Term Debt	6,330,526	0	0	0	(6,330,526)	0	(6,330,526)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 82,184,246	\$ 7,809,326	\$ 18,526,927	\$ 2,684,689	\$ (53,163,304)	\$ 0	\$ (53,163,304)
Business-Type Activities							
Sewer Authority	\$ 12,523,497	\$ 10,733,352	\$ 0	\$ 0	\$ 0	\$ (1,790,145)	\$ (1,790,145)
Municipal Parking Authority	3,912,482	2,548,488	0	0	0	(1,363,994)	(1,363,994)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 16,435,979	\$ 13,281,840	\$ 0	\$ 0	\$ 0	\$ (3,154,139)	\$ (3,154,139)
TOTAL GOVERNMENT	\$ 98,620,225	\$ 21,091,166	\$ 18,526,927	\$ 2,684,689	\$ (53,163,304)	\$ (3,154,139)	\$ (56,317,443)
General Revenues:							
Property taxes, levied for general purposes					\$ 14,372,972	\$ 0	\$ 14,372,972
Act 511 Taxes					28,238,690	0	28,238,690
Grants, Subsidies, and contributions not restricted					900,000	0	900,000
Cable Television Franchise Revenue					744,410	0	744,410
Payments in Lieu of Taxes					117,490	0	117,490
Investment Earnings					2,989,135	459,207	3,448,342
Miscellaneous					60,920	625,574	686,494
Loss On Disposal Of Fixed Assets					(458,712)	0	(458,712)
Rents and Concessions					4,585	0	4,585
Donations					491,723	0	491,723
Settlement Expense					0	(10,051,261)	(10,051,261)
Interfund Transfers					1,500,000	(1,500,000)	0
Intergovernmental Revenues					0	959,911	959,911
Total General Revenues and Transfers					\$ 48,961,213	\$ (9,506,569)	\$ 39,454,644
Change in Net Assets					\$ (4,202,091)	\$ (12,660,708)	\$ (16,862,799)
Net Assets, Beginning of Year (As Restated)					30,280,900	39,029,356	69,310,256
NET ASSETS, END OF YEAR					\$ 26,078,809	\$ 26,368,648	\$ 52,447,457

See accompanying notes and independent auditors' report.

CITY OF SCRANTON, PENNSYLVANIA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2007

	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and Cash Equivalents	\$ 9,603,198	\$ 2,511,601	\$ 1,277,888	\$ 6,514,924	\$ 19,907,611
Investments	0	0	1,262,109	0	1,262,109
Taxes and Fees Receivable, Net	17,143,130	0	0	1,757,579	18,900,709
Accounts Receivable, Net	0	9,836	0	688,795	698,631
Accrued Interest	0	0	3,381	0	3,381
Loans Receivable	0	40,817,740	0	1,019,408	41,837,148
Other Receivables, Net	917,531	0	0	0	917,531
Due From Other Funds	218,498	450,228	1,204,704	44,234	1,917,664
Other Assets	0	260,402	0	0	260,402
Property Held for Resale	0	0	0	107,551	107,551
TOTAL ASSETS	\$ 27,882,357	\$ 44,049,807	\$ 3,748,082	\$ 10,132,491	\$ 85,812,737

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2007

	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 1,283,537	\$ 189,881	\$ 25,719	\$ 777,983	\$ 2,277,120
Other Current Liabilities	1,782,643	0	0	0	1,782,643
Due to Other Funds	1,319,711	105,093	113,405	506,930	2,045,139
Deferred Revenues	11,719,749	43,424,904	0	6,798,402	61,943,055
TOTAL LIABILITIES	\$ 16,105,640	\$ 43,719,878	\$ 139,124	\$ 8,083,315	\$ 68,047,957
FUND BALANCES					
Reserve for Debt Service	\$ 0	\$ 0	\$ 0	\$ 1,994,161	\$ 1,994,161
Reserved for Capital Projects	0	0	3,608,958	0	3,608,958
Unreserved - Undesignated	11,776,717	329,929	0	55,015	12,161,661
TOTAL FUND BALANCES	\$ 11,776,717	\$ 329,929	\$ 3,608,958	\$ 2,049,176	\$ 17,764,780
TOTAL LIABILITIES AND FUND BALANCES	\$ 27,882,357	\$ 44,049,807	\$ 3,748,082	\$ 10,132,491	\$ 85,812,737

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Total Fund Balance - Total Governmental Funds		\$ 17,764,780
Amounts Reported for Governmental Activities in the statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 144,813,222. and the accumulated depreciation is \$ 48,157,438.		96,655,784
Governmental funds report the effects of bond issuance cost when the debt is first issued, whereas these amounts are deferred and amortized .		1,827,379
Property taxes receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.		8,467,707
Refuse fee receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.		5,009,621
Internal service fund is used by management to charge the cost of the workmen's compensation insurance fund to various departments. The net revenue of the internal service fund is reported with governmental activities.		
Change in net assets is as follows:		
Cash and cash equivalents	\$ 13,570,549	
Investments	7,214,158	
Accrued Interest	143,529	
Due From Other Funds	50,000	
Restricted Cash & Cash Equivalents	234,099	
Accounts Payable	(169,493)	
Workers' Compensation Claims Payable	<u>(18,558,363)</u>	
Decrease In Net Assets		2,484,479
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.		1,019,408
Long-Term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-Term liabilities at year end consist of the following:		
General obligation bonds payable	\$ (70,892,721)	
Governmental notes payable	(2,824,076)	
Accrued interest payable	(1,150,377)	
Capitalized Lease payable	(21,379,449)	
Compensated absences	(2,069,231)	
Termination Benefits	(10,409,105)	
Deferred loss on early retirement of debt	<u>1,574,610</u>	
Increase in Long Term Liabilities		<u>(107,150,349)</u>
Net Assets of Governmental Activities		<u>\$ 26,078,809</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes	\$ 43,731,390	\$ 0	\$ 0	\$ 0	\$ 43,731,390
Intergovernmental	2,910,044	4,973,019	0	8,028,797	15,911,860
Departmental Earnings	1,881,280	0	0	28,171	1,909,451
Refuse Disposal Fee	4,514,797	0	0	0	4,514,797
Licenses and Permits	1,387,662	0	0	0	1,387,662
Cable Television Franchise Revenue	744,410	0	0	0	744,410
Payments in Lieu of Taxes	117,490	0	0	0	117,490
Investment Income	788,128	10,062	211,262	776,722	1,786,174
User Fee	48,135	0	0	0	48,135
Other Revenues	60,920	0	0	1,462,284	1,523,204
Rents and Concessions	0	0	0	12,074,585	12,074,585
Donations	76,131	0	415,592	0	491,723
Program Income	0	4,146,331	0	0	4,146,331
Total Revenues	\$ 56,260,387	\$ 9,129,412	\$ 626,854	\$ 22,370,559	\$ 88,387,212
Expenditures:					
Current:					
General Government	\$ 14,173,808	\$ 0	\$ 0	\$ 833,658	\$ 15,007,466
Public Safety	28,419,706	0	0	0	28,419,706
Public Works	10,487,131	0	0	429,539	10,916,670
Health and Welfare	0	0	0	978,238	978,238
Community Development	467,878	9,435,990	0	3,759,029	13,662,897
Culture and Recreation	1,038,651	0	0	0	1,038,651
Other Expenditures	0	0	0	6,260	6,260
Debt Service	0	0	0	14,639,593	14,639,593
Debt Service-Principal	0	0	0	5,064,522	5,064,522
Debt Service-Interest	0	0	0	0	0
Capital Outlay	0	0	4,804,213	0	4,804,213
Total Expenditures	\$ 54,587,174	\$ 9,435,990	\$ 4,804,213	\$ 25,710,839	\$ 94,538,216
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,673,213	\$ (306,578)	\$ (4,177,359)	\$ (3,340,280)	\$ (6,151,004)

"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, 2007

	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):					
Sale Of Delinquent Real Estate Taxes	\$ 1,898,657	\$ 0	\$ 0	\$ 0	\$ 1,898,657
Advance Scranton Housing Authority	900,000	0	0	0	900,000
Sale Of Property	0	0	0	34,000	34,000
Proceeds From Capitalized Lease Obligations	434,735	0	0	2,296,570	434,735
Proceeds From Debt Issued To Purchase Delinquent Taxes	0	0	0	0	2,296,570
Proceeds From Tax Anticipation Note	14,500,000	0	0	0	14,500,000
Operating Transfers In	3,174,605	0	2,081,487	6,967,493	12,223,585
Operating Transfers Out	(6,967,493)	0	0	(3,756,092)	(10,723,585)
Bond Closing Fees	0	0	0	(41,739)	(41,739)
Purchase Of Delinquent Real Estate Taxes	0	0	0	(1,898,657)	(1,898,657)
Delinquent Tax Filing Fees	0	0	0	(283,084)	(283,084)
Contingency	(11,645)	0	0	0	(11,645)
Repayment of Tax Anticipation Note	(14,937,727)	0	0	0	(14,937,727)
Net Other Financing Sources (Uses)	\$ (1,008,868)	\$ 0	\$ 2,081,487	\$ 3,318,491	\$ 4,391,110
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 664,345	\$ (306,578)	\$ (2,095,872)	\$ (21,789)	\$ (1,759,894)
Fund Balances, Beginning of Year	11,112,372	636,507	5,704,830	2,070,965	19,524,674
FUND BALANCES, END OF YEAR	\$ 11,776,717	\$ 329,929	\$ 3,608,958	\$ 2,049,176	\$ 17,764,780

"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, 2007

Net Changes in Fund Balances - Total Governmental Funds \$ (1,759,894)

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	\$	5,241,711	
Loss On Disposal Of Fixed Assets		(492,712)	
Depreciation		<u>(4,919,493)</u>	(170,494)

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. (836,644)

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. (50,719)

Elimination of Expenditures Related to Lease Receivable/ Lease Payable Between Scranton Parking Authority and Scranton Redevelopment Authority. (12,070,000)

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	\$	1,202,961	
Elimination of expenditure on general fund and revenue on internal service fund		4,231,358	
Recording on expenditures on internal service fund in governmental activities		<u>(2,486,210)</u>	2,948,109

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. (308,859)

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. 110,436

"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, 2007

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. (3,354,320)

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	\$	(434,735)	
Proceeds Relative To Long Term Debt		(2,296,570)	
Bond Discount, Net of Amortization		(26,374)	
Deferred Loss on Early Retirement of Debt, Net of Amortization		(453,125)	
Repayment of General Bond Principal		14,255,000	
Repayment of Governmental Note Payable		113,686	
Repayment of Capitalized Lease Principal		439,452	
Bond Issuance Cost, Net of Amortization		<u>(232,684)</u>	11,364,650

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.

(74,356)

Change in Net Assets of Governmental Activities \$ (4,202,091)

CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007

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	\$ 670,999	\$ 564,746	\$ 2,563	\$ 1,238,308	\$ 13,570,549	
Certificate of Deposit Investments	2,777,027	0	1,688,624	4,465,651	0	
Accounts Receivable, Net	0	0	0	0	7,214,157	
Accrued Interest	2,007,094	173,862	0	2,180,956	0	
Other Receivables, Net	0	0	27,126	27,126	143,529	
Due From Other Funds	63,779	0	0	63,779	0	
Prepaid Assets	0	77,475	0	77,475	50,000	
Other Current Assets	0	11,943	0	11,943	0	
Restricted Assets:	407,075	0	0	407,075	0	
Restricted Cash and Cash Equivalents	0	17,552,368	0	17,552,368	234,100	
Restricted Investments	0	3,184,430	0	3,184,430	0	
Restricted Accrued Interest Receivable	0	11,911	0	11,911	0	
Accounts Receivable - Assessments	386,961	0	0	386,961	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	91,769,101	40,374,996	0	132,144,097	0	
Equipment	8,298,426	389,780	0	8,688,206	0	
Construction In Progress	5,524,780	407,303	0	5,932,083	0	
Accumulated Depreciation	(66,665,518)	(7,039,293)	0	(73,704,811)	0	
Deferred Charges, Net	154,149	1,994,821	0	2,148,970	0	
TOTAL ASSETS	\$ 45,523,902	\$ 58,916,680	\$ 1,718,313	\$ 106,156,895	\$ 21,212,335	

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007

LIABILITIES	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR		TOTAL		
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY				
Short-Term Debt	\$ 3,611,855	\$ 683,171	\$ 0	\$ 0	\$ 4,295,026	\$ 0	
Current Portion Of Long Term Debt	253,639	0	0	0	253,639	0	
Accounts Payable	501,080	104,969	0	0	606,049	169,493	
Accrued Liabilities	9,830,355	98,532	0	0	9,928,887	0	
Accrued Compensated Absences	513,438	0	0	0	513,438	0	
Current Liabilities Payable From Restricted Assets							
Revenue Bonds Payable	449,396	550,000	0	0	999,396	0	
Accrued Construction Cost	0	605,123	0	0	605,123	0	
Accrued Revenue Bond Interest Payable	0	695,766	0	0	695,766	0	
Noncurrent Liabilities							
Workers' Compensation Claims Payable	0	0	0	0	0	0	
Long-Term Debt Obligations	10,100,825	52,310,000	0	0	62,410,825	18,558,363	
Deferred Loss On Early Retirement Of Debt	0	(554,142)	0	0	(554,142)	0	
Long-Term Liabilities Payable	36,240	0	0	0	36,240	0	
TOTAL LIABILITIES	\$ 25,296,828	\$ 54,493,419	\$ 0	\$ 0	\$ 79,790,247	\$ 18,727,856	
NET ASSETS							
Investment in Capital Assets, Net of Related Debt							
Restricted for:							
Long-Term Obligations	0	3,583,581	0	0	3,583,581	2,484,479	
Unreserved - Undesignated	(4,414,029)	1,394,926	1,718,313	0	(1,300,790)	0	
TOTAL NET ASSETS	\$ 20,227,074	\$ 4,423,261	\$ 1,718,313	\$ 0	\$ 26,368,648	\$ 2,484,479	

"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, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 10,733,352	\$ 2,548,488	\$ 0	\$ 13,281,840	\$ 4,231,358
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,443,730
Salaries, Wages, and Fringe Benefits	4,938,401	629,930	0	5,568,331	0
Insurance	154,921	257,186	0	412,107	0
Depreciation	2,780,176	922,396	0	3,702,572	0
Other	3,890,125	503,397	30	4,393,552	42,480
Total Operating Expenses	\$ 11,763,623	\$ 2,312,909	\$ 30	\$ 14,076,562	\$ 2,486,210
Income (Loss) from Operations	\$ (1,030,271)	\$ 235,579	\$ (30)	\$ (794,722)	\$ 1,745,148
Non Operating Revenues (Expenses):					
Investment Income	\$ 135,455	\$ 172,111	\$ 151,671	\$ 459,237	\$ 1,202,961
Interest Expense	(757,657)	(1,571,873)	0	(2,329,530)	0
Bond Discount	0	(9,628)	0	(9,628)	0
State Grant Revenue	151,809	808,102	0	959,911	0
Other Revenues	635,202	0	0	635,202	0
Settlement Expense	(10,051,261)	0	0	(10,051,261)	0
Amortization of Deferred Charges	(2,217)	(27,700)	0	(29,917)	0
Total Non operating Revenues (Expenses)	\$ (9,888,669)	\$ (628,988)	\$ 151,671	\$ (10,365,986)	\$ 1,202,961
Transfers Out	\$ 0	\$ 0	\$ (1,500,000)	\$ (1,500,000)	\$ 0
Net Transfers Out	\$ 0	\$ 0	\$ (1,500,000)	\$ (1,500,000)	\$ 0
Change in Net Assets	\$ (10,918,940)	\$ (393,409)	\$ (1,348,359)	\$ (12,660,708)	\$ 2,948,109
Net Assets at Beginning of Year	31,146,014	4,816,670	3,066,672	39,029,356	(463,630)
NET ASSETS AT END OF YEAR	\$ 20,227,074	\$ 4,423,261	\$ 1,718,313	\$ 26,368,648	\$ 2,484,479

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	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	\$ 10,681,423	\$ 3,048,481	\$ 0	\$ 13,729,904	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	3,778,470
Cash Payments to Vendors	(9,384,052)	(1,643,983)	(30)	(11,028,065)	(4,110,322)
Net Cash Provided by (Used In) Operating Activities	\$ 1,297,371	\$ 1,404,498	\$ (30)	\$ 2,701,839	\$ (331,852)
Cash Flows From Non Capital Financing Activities:					
Other Revenue Received	\$ 138,777	\$ 0	\$ 0	\$ 138,777	\$ 0
Net Cash Provided by Non Capital Financing Activities	\$ 138,777	\$ 0	\$ 0	\$ 138,777	\$ 0
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (5,490,382)	\$ (1,658,883)	\$ 0	\$ (7,149,265)	\$ 0
Proceeds from Issuance of Debt	2,237,877	32,295,000	0	34,532,877	0
Proceeds from Line of Credit	0	683,171	0	683,171	0
Grant Income	241,704	338,714	0	580,418	0
Interest Paid on Bonds	(719,420)	(1,341,368)	0	(2,060,788)	0
Retirement of Bonds	(239,475)	(12,510,000)	0	(12,749,475)	0
Payments on Deferred Charges	0	(1,307,853)	0	(1,307,853)	0
Net Cash Used in Capital and Related Financing Activities	\$ (3,969,696)	\$ 16,498,781	\$ 0	\$ 12,529,085	\$ 0
Cash Flow From Investing Activities:					
Sale of Investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,150,000
Purchase of Investments	0	0	0	0	(4,551,373)
Maturity of Certificates of Deposit	748,569	0	1,500,000	2,248,569	0
Purchase of Certificates of Deposit	0	(1,908,855)	(187,791)	(2,096,646)	0
Operating Transfer To Other Funds	0	0	(1,500,000)	(1,500,000)	167,833
Interest on Cash and Investments	199,698	70,064	187,793	457,555	1,069,540
Net Cash (Used In) Provided By Investing Activities	\$ 948,267	\$ (1,838,791)	\$ 2	\$ (890,522)	\$ 3,836,000
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,585,281)	\$ 16,064,488	\$ (28)	\$ 14,479,179	\$ 3,504,148
Cash and Cash Equivalents, Beginning of Year	2,256,280	2,052,626	2,591	4,311,497	10,300,501
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 670,999	\$ 18,117,114	\$ 2,563	\$ 18,790,676	\$ 13,804,649

See accompanying notes and independent auditors' report.

CITY OF SCRANTON, PENNSYLVANIA
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
\$ (1,030,271)	\$ 235,579	\$ (30)	\$ (794,722)	\$ 1,745,148	
2,780,176	922,396	0	3,702,572	0	
(51,929)	36,186	0	(15,743)	0	
(55,366)	1,751	0	(53,615)	0	
65,595	193,030	0	258,625	22,476	
(410,834)	15,556	0	(395,278)	0	
0	0	0	0	(2,099,476)	
<u>\$ 1,297,371</u>	<u>\$ 1,404,498</u>	<u>\$ (30)</u>	<u>\$ 2,701,839</u>	<u>\$ (331,852)</u>	
\$ 670,999	\$ 564,746	\$ 2,563	\$ 1,238,308	\$ 13,570,549	
0	17,552,368	0	17,552,368	234,100	
<u>\$ 670,999</u>	<u>\$ 18,117,114</u>	<u>\$ 2,563</u>	<u>\$ 18,790,676</u>	<u>\$ 13,804,649</u>	

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, 2007

ASSETS

Receivables:	
Members' Contributions	\$ 18,800
Accrued Interest	<u>4,315</u>
Total Receivables	\$ 23,115
Investments at Contract Value	<u>76,583,891</u>
TOTAL ASSETS	<u>\$76,607,006</u>

LIABILITIES & NET ASSETS

Liabilities	
Accrued Pension Liability	\$ 5,735
Accrued Investment Expenses	<u>88,856</u>
TOTAL LIABILITIES	<u>\$ 94,591</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$76,512,415</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, 2007.

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, 2006 to March 31, 2007.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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

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

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

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

BASIS OF PRESENTATION

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

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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

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

The funds of the financial reporting entity are described below:

1) Governmental Fund Types

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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

- c) Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest, and related costs on general long-term debt. The fund balance of the Debt Service Fund is reserved to signify the amounts are restricted exclusively for Debt Service Expenditure, and is classified as a non-major fund.
- d) Capital Project Fund is used to account for the acquisition or construction of capital facilities being financed from general obligation bond proceeds, or transfers from other funds and is classified as a 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, 2007, upon which the 2007 levy was based, was approximately \$391 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, 2007 was 103.145 mills on the assessed value of land and 22.432 mills on the assessed value of improvements.

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

Allowance for Doubtful Accounts: Accounts Receivable included in the Enterprise Fund represent amounts outstanding from Sewer Authority customer's reported net of an allowance for doubtful accounts of \$1,300,000 at March 31, 2007. The Authority's policy for providing for uncollectible accounts is to charge current year earnings for accounts receivable considered currently uncollectible, based on the historical collection experience of the Sewer Authority and collection percentages applicable to public utilities.

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Government-wide Statements

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

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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

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

Fund Financial Statements

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Long-term Debt

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

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

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

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

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

Government-wide Statements

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

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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

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

Compensated Absences: The City's vacation policy generally provides that unused vacation benefits lapse at year-end. Unused vacation may be carried over only with the approval of the department head. Unused sick pay accumulates to varying maximum amounts for the various classes of City employees. At December 31, 2007 aggregate liability for unused vacation and sick pay is \$2,069,231.

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, 2007, \$55,900,427. of the government's bank balance of \$57,220,877 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 16,929,293
Uninsured and collateral held by pledging banks' trust department not in the city's name	<u>38,971,134</u>
Total	<u>\$ 55,900,427</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2007, the City had the following Investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings (1)	Weighted Average Months To Maturity (2)
GOVERNMENTAL FUNDS				
Primary Government:				
Internal Service Fund				
Corporate Obligations:				
Domestic	\$ 757,174	\$ 751,546	A 1	16.29
Domestic	846,030	851,798	A 3	9.00
Domestic	248,810	246,393	Aa 2	35.00
Domestic	50,857	53,564	Aa 3	14.20
Domestic	502,480	501,495	Aa a	11.20
Domestic	800,776	797,006	BAA 1	25.62
Domestic	236,990	244,880	BAA 2	12.70
Domestic	256,927	257,465	BAA 3	16.70
Governmental Securities:				
Federal Agency Bonds	2,995,165	2,991,313	Aaa	18.78
Federal Agency Notes	<u>518,948</u>	<u>513,969</u>	Aaa	66.75
Total Internal Service Fund	<u>\$ 7,214,157</u>	<u>\$ 7,209,429</u>		
Capital Projects				
Governmental Securities:				
U.S. Treasury Notes	<u>\$ 1,262,109</u>	<u>\$ 1,251,097</u>	N/A	12.00
Total Capital Projects	<u>\$ 1,262,109</u>	<u>\$ 1,251,097</u>		
TOTAL PRIMARY GOVERNMENT	<u>\$ 8,476,266</u>	<u>\$ 8,460,526</u>		
BUSINESS TYPE ACTIVITIES				
Parking Authority				
Governmental Securities:				
U.S. Government Obligations	<u>\$ 3,184,430</u>	<u>\$ 3,184,430</u>	N/A	N/A
TOTAL BUSINESS TYPE ACTIVITIES	<u>\$ 3,184,430</u>	<u>\$ 3,184,430</u>		
TOTAL INVESTMENTS	<u>\$11,660,696</u>	<u>\$11,644,956</u>		
Fiduciary Funds				
Pension Trust Fund				
Mutual Funds				
Equity Funds	\$53,378,083	\$53,378,083	N/A	N/A
Cash and Cash Equivalents	4,391	4,391	N/A	N/A
Fixed Income	<u>23,201,417</u>	<u>23,201,417</u>	N/A	N/A
Total Pension Trust Fund	<u>\$76,583,891</u>	<u>\$76,583,891</u>		

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

The composition of Pension Trust Fund is shown in the following table:

	<u>Total</u>
Mutual Funds	
EB FPA Core Large Cap Stock Fund	\$30,392,536
EB FPA Mid Cap Stock Fund	7,562,708
EB Small Cap Stock Fund	7,569,013
EC NCML EAFE Plus Fund	7,853,826
EB Mellon Bank Total Return Fund	22,813,975
ED Temporary Investment Fund	387,442
Cash and Cash Equivalents	<u>4,391</u>
Total	<u>\$76,583,891</u>

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

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

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

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

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

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

Note 3 Taxes and Fees Receivable

Taxes and fees receivable in the General Fund consist of the following at December 31, 2007:

Current Real Estate Taxes	\$ 430,950
Delinquent Real Estate Taxes	12,007,500
Act 511 taxes:	
Earned Income	3,937,755
Local Service Tax	143,000
Business privilege/mercantile	71,521
Delinquent refuse disposal fee	<u>7,082,479</u>
Total	<u>\$23,673,205</u>
Less allowance for uncollectible taxes and fees	<u>(4,772,496)</u>
Net	<u>\$18,900,709</u>

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, 2007 is as follows:

Of the above, the receivables not expected to be collected within one year are \$8,000,000 delinquent real estate taxes and \$3,700,000 delinquent refuse disposal fee after provision for uncollectible taxes and fees.

General Fund	<u>Due From</u>	<u>Due To Other</u>
OECD	\$ 105,093	\$ 0
Special Cities	0	44,234
Capital Projects	113,405	1,148,002
Parking Authority	0	77,475
Internal Service Fund	0	50,000
Special Cities		
General Fund	44,234	0
Capital Projects	0	56,702
OECD		
Redevelopment Authority	450,228	0
General Fund	0	105,093
Redevelopment Authority		
OECD	0	450,228
Capital Projects Fund		
Special Cities	56,702	0
General Fund	1,148,002	113,405
Internal Service Fund	0	0
Parking Authority		
General Fund	77,475	0
Internal Service Fund		
General Fund	50,000	0
	<u>\$ 2,045,139</u>	<u>\$ 2,045,139</u>

**CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS**

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance at January 1, 2007	Additions	Disposals	Balance at December 31, 2007
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 4,317,506	\$ 0	\$ (82,000)	\$ 4,235,506
Construction in Progress	8,703,265	2,066,979	(1,983,035)	8,787,209
Total Capital Assets Not Being Depreciated	\$ 13,020,771	\$ 2,066,979	\$ (2,065,035)	\$ 13,022,715
Capital assets being depreciated				
Building	\$ 11,966,958	\$ 348,311	\$ (74,540)	\$ 12,240,729
Land & Building Improvements	5,139,565	408,873	(9,491)	5,538,947
Infrastructure	97,182,753	2,368,001	(332,331)	99,218,423
Vehicles, Furniture & Equipment	13,303,012	2,032,582	(543,186)	14,792,408
Total Capital Assets being Depreciated	\$ 127,592,288	\$ 5,157,767	\$ (959,548)	\$ 131,790,507
Totals at Historical Cost	\$ 140,613,059	\$ 7,224,746	\$ (3,024,583)	\$ 144,813,222
Less: Accumulated Depreciation				
Building	\$ (3,061,040)	\$ (254,558)	\$ 41,742	\$ (3,273,856)
Land & Building Improvements	(1,132,976)	(435,355)	2,847	(1,565,484)
Infrastructure	(32,943,456)	(3,162,689)	35,933	(36,070,212)
Vehicles, Furniture & Equipment	(6,649,308)	(1,066,891)	468,313	(7,247,886)
Total Accumulated Depreciation	\$ (43,786,780)	\$ (4,919,493)	\$ 548,835	\$ (48,157,438)
Governmental Activities Capital Assets, Net	\$ 96,826,279	\$ 2,305,253	\$ (2,475,748)	\$ 96,655,784
Business - Type Activities:				
Capital assets not being depreciated				
Land	\$ 1,033,322	\$ 0	\$ 0	\$ 1,033,322
Construction in Progress	14,104,085	1,270,916	(9,442,918)	5,932,083
Total Capital Assets Not Being Depreciated	\$ 15,137,407	\$ 1,270,916	\$ (9,442,918)	\$ 6,965,405
Capital assets being depreciated				
Land Improvements	\$ 309,045	\$ 0	\$ 0	\$ 309,045
Building & Building Improvements	116,973,146	15,170,951	0	132,144,097
Equipment	8,118,294	569,912	0	8,688,206
Total Capital Assets being Depreciated	\$ 125,400,485	\$ 15,740,863	\$ 0	\$ 141,141,348
Totals at Historical Cost	\$ 140,537,892	\$ 17,011,779	\$ (9,442,918)	\$ 148,106,753
Less: Accumulated Depreciation				
Land Improvements	\$ (299,797)	\$ (1,112)	\$ 0	\$ (300,909)
Building & Building Improvements	(62,513,490)	(3,429,845)	0	(65,943,335)
Equipment	(7,188,952)	(271,615)	0	(7,460,567)
Total Accumulated Depreciation	\$ (70,002,239)	\$ (3,702,572)	\$ 0	\$ (73,704,811)
Business - Type Capital Assets, Net	\$ 70,535,653	\$ 13,309,207	\$ (9,442,918)	\$ 74,401,942

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 90,189
Public Safety	481,794
Public Works	3,801,734
Parks & Recreation	511,017
Unallocated	34,759
Total Depreciation Expense	\$ 4,919,493

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 5 Capital Assets (Continued)

Governmental Activities:

Construction in progress of \$8,787,209 consists of expenditures relating to the construction of flood control projects and improvement to various city roads and bridges. Commitments at December 31, 2007 totaled approximately \$15,000,000.

Business Type Activities:

At March 31, 2007, expenditures amounting to \$412,871 are recorded as construction in progress. The Pennvest Application for this project was approved in April 2007 in the amount of \$4,703,000.

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, 2007, the County invoiced the Sewer Authority for \$98,181, resulting in the recording of \$120,000 as grant revenue and \$218,181 as construction-in-progress. Total construction in progress for this project at March 31, 2007 amounted to \$4,202,864.

Note 6 Short-Term Debt

The following summarizes the changes in short-term debt of the Enterprise Fund for the year ended December 31, 2007:

	Balance 01/01/07	Increases	Decreases	Balance 12/31/07
Sewer Authority:				
Line of Credit	\$ 379,311	\$ 0	\$ (124,713)	\$ 254,598
Loan	1,890,920	1,466,337	0	3,357,257
Parking Authority:				
Line of Credit	0	683,171	0	683,171
	<u>\$2,270,231</u>	<u>\$2,149,508</u>	<u>\$ (124,713)</u>	<u>\$ 4,295,026</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 6 Short-Term Debt (Continued)

Sewer Authority

Line of Credit: In August 2005, the Sewer Authority renewed a \$4,000,000 line of credit to provide interim financing for a capital improvement program. Interest is payable monthly at a variable rate equal to 70% of the prime rate (5.775% at March 31, 2007). 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, 2007 amounted to \$254,598.

In December, 2004, the Sewer Authority closed on a fourth loan in the amount of \$3,690,127. The balance outstanding at March 31, 2007 was \$3,357,257. The loan is secured by the same collateral as the PENNVEST loans in Note 7. At March 31, 2007, interest only was payable on advances.

Parking Authority

During the year, the Parking Authority drew on an available line of credit at Pennstar Bank for working capital purposes. The maximum borrowing capacity is \$1,000,000 and the line bears interest at a rate of prime plus 1% (8.25% at December 31, 2007). The proceeds were used during 2007 and the line was paid off in 2008.

Note 7 Long-Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2007:

	Balance 01/01/07	Additions	(Amortization) Accretion	Retirements	Balance 12/31/07	Due With In One Year
GOVERNMENTAL ACTIVITIES						
General Obligations Bonds:						
Emmaus General Authority Series 2002	\$ 6,905,000	\$ 0	\$ 0	\$ 215,000	\$ 6,690,000	\$ 220,000
Series A of 2003	3,770,000	0	0	430,000	3,340,000	440,000
Series B of 2003	33,580,000	0	0	710,000	32,870,000	725,000
Series C of 2003	17,190,000	0	0	330,000	16,860,000	340,000
Series D of 2003	12,035,000	0	0	500,000	11,535,000	510,000
(Amortization) / Accretion	(428,653)	0	26,374	0	(402,279)	0
Total General Obligation Bonds	\$ 73,051,347	\$ 0	\$ 26,374	\$ 2,185,000	\$ 70,892,721	\$ 2,235,000
Lease Obligations Payable						
2005 Capitalized Lease Vehicles	\$ 199,091	\$ 0	\$ 0	\$ 63,477	\$ 135,614	\$ 66,308
2005 Capitalized Lease Vehicles	197,977	0	0	36,245	161,732	39,628
2006 Capitalized Lease Vehicles	187,098	0	0	68,823	118,275	73,308
2007 Capitalized Lease Vehicles	0	377,359	0	0	377,359	77,958
2007 Capitalized Lease Vehicles	0	57,376	0	0	57,376	18,039
2006 Capitalized Lease Equipment Energy System	1,500,000	0	0	50,907	1,449,093	73,190
2004 Capitalized Lease Buildings	3,805,000	0	0	215,000	3,590,000	245,000
2005 Capitalized Lease Buildings	5,495,000	0	0	5,000	5,490,000	5,490,000
2006 Capitalized Lease Buildings	10,000,000	0	0	0	10,000,000	95,000
Total Lease Obligations Payable	\$ 21,384,166	\$ 434,735	\$ 0	\$ 439,452	\$ 21,379,449	\$ 6,178,431
Redevelopment Authority:						
Bond Payable	\$ 12,070,000	\$ 0	\$ 0	\$ 12,070,000	\$ 0	\$ 0
Note Payable	641,192	0	0	113,686	527,506	115,400
Note Payable	0	2,296,570	0	0	2,296,570	459,314
Total Redevelopment Authority	\$ 12,711,192	\$ 2,296,570	\$ 0	\$ 12,183,686	\$ 2,824,076	\$ 574,714
TOTAL GOVERNMENTAL ACTIVITIES	\$ 107,146,705	\$ 2,731,305	\$ 26,374	\$ 14,808,138	\$ 95,096,246	\$ 8,988,145

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

	Balance 01/01/07	Additions	(Amortization) Accretion	Retirements	Balance 12/31/07	Due With In One Year
BUSINESS-TYPE ACTIVITIES						
Revenue Bonds:						
Major Enterprise Fund:						
Parking Authority						
2004 Series	\$ 15,480,000	\$ 0	\$ 0	\$ 190,000	\$ 15,290,000	\$ 195,000
2006 Series	5,525,000	0	0	250,000	5,275,000	260,000
2007 Series	0	32,295,000	0	0	32,295,000	95,000
Sewer Authority						
2002 Series	4,267,845	0	0	224,163	4,043,682	449,396
2002 Series	4,299,382	0	0	225,179	4,074,203	0
2003 Series	1,855,116	366,083	0	133,709	2,087,490	0
Total Revenue Bonds	<u>\$ 31,427,343</u>	<u>\$ 32,661,083</u>	<u>\$ 0</u>	<u>\$ 1,023,051</u>	<u>\$ 63,065,375</u>	<u>\$ 999,396</u>
Notes Payable:						
Major Enterprise Fund:						
Sewer Authority	\$ 57,276	\$ 0	\$ 0	\$ 27,132	\$ 30,144	\$ 30,144
Sewer Authority	147,408	0	0	46,004	101,404	52,084
Sewer Authority	0	174,600	0	36,624	137,976	57,148
Sewer Authority	0	222,000	0	23,137	198,863	71,508
Sewer Authority	0	133,570	0	3,472	130,098	42,755
	<u>\$ 204,684</u>	<u>\$ 530,170</u>	<u>\$ 0</u>	<u>\$ 136,369</u>	<u>\$ 598,485</u>	<u>\$ 253,639</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 31,632,027</u>	<u>\$ 33,191,253</u>	<u>\$ 0</u>	<u>\$ 1,159,420</u>	<u>\$ 63,663,860</u>	<u>\$ 1,253,035</u>
TOTAL LONG-TERM DEBT	<u>\$ 138,778,732</u>	<u>\$ 35,922,558</u>	<u>\$ 26,374</u>	<u>\$ 15,967,558</u>	<u>\$ 158,760,106</u>	<u>\$ 10,241,180</u>

A summary of long-term debt outstanding at December 31, 2007 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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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

General Obligation Bonds, Series B of 2003:

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

General Obligation Bonds, Series C of 2003:

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

General Obligation Bonds, Series D of 2003:

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Redevelopment Authority:

Note Payable: the Authority has a note payable with a Fidelity Deposit and Discount Bank with maximum borrowings of \$2,500,000, dated November 1998, maturing in August of 2012. The note carries an interest rate that will adjust every five years to a rate equal to 51.65 percent of the New York Prime Rate on each adjustment date and not to exceed 8% and matures in January 2012. The rate was adjusted in November, 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, 2007 was \$527,506. Interest payments in 2007 totaled \$12,341.

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. These Bonds were paid in full during 2007 when the Authority transferred the ownership of the Parking facility to the Parking Authority of the City of Scranton.

Note Payable: During 2007, the Authority obtained a note payable with Pennstar Bank in the amount of \$2,296,570 for the purpose of purchasing delinquent taxes from the City of Scranton. The note has an interest rate equal to the New York prime rate, not to exceed 8%, and matures in January 2012. The interest rate on December 31, 2007 was 7.25%. Interest payments on the note are due on a monthly basis commencing in February 2008. Principal payments are due quarterly beginning in April 2008 in an amount based on the available funds from the collection of delinquent taxes. The note is secured by the delinquent taxes along with all proceeds received from redemptions. The City of Scranton has an

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

obligation to reacquire the unpaid delinquent taxes at the maturity date of the note payable in an amount necessary to satisfy the balance of the note. The Authority has no obligation beyond the repayments of the delinquent taxes and the proceeds from the City of Scranton for the reacquisition of the unpaid delinquent taxes. The balance of the loan at December 31, 2007 was \$2,296,570.

Parking Authority:

2004 Parking Revenue Bonds:

On January 1, 2004, the Authority issued \$16,145,000 of Guaranteed Parking Revenue Bonds through the Third Supplemental Trust Indenture. The Bonds carry interest rates of 1.1% to 5.0%. The proceeds from the issue were used to acquire, construct and equip a new parking facility, renovate existing parking facilities, redeem the remaining 1969 Series Bonds outstanding and establish an escrow account to advance refund \$4,580,000 of the 1995 Series Bonds. The loss resulting from these transactions amounted to \$772,656 and has been recorded as a deferred charge. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$55,545 for the year ended December 31, 2007.

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

2006 Parking Revenue Bonds:

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

2007 Parking Revenue Bonds:

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

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Sewer Authority:

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2007 amounted to \$4,043,682. The loan is secured by the gross revenues of the Authority and the guarantee of the City of Scranton. Interest only was payable on advances until July 1, 2003, when monthly principal and interest payments are due up to and including January 2023. Interest is at 1.522% for the first 75 months and 3.045% thereafter. Legal fees relating to obtaining the financing amounted to \$44,338 and have been recorded as deferred charges.

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2007 amounted to \$4,074,203. This loan closed in October 2002 in the amount of \$4,947,000. The security is the same as above. Interest only is payable on advances until August 1, 2004, when monthly principal and interest payments are due up to and including July 1, 2024. Interest is at 1.387% for the first 81 months and 2.774% thereafter.

Sewer Authority 2003 Series (PENNVEST Loan):

The loan closed in December 2003, in the amount of \$2,806,264. The balance outstanding at March 31, 2007 amounted to \$2,087,490. 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.

Sewer Authority Notes Payable:

The Sewer Authority has five (5) equipment notes payable outstanding at March 31, 2007 amounting to \$598,485. Interest rates range between 2.86% and 4.74% with monthly payments totaling \$22,756. Maturities range between March 2008 and March 2010.

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.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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

On December 1, 2006, the Redevelopment Authority issued \$10,000,000 6.10% Federally Taxable Guaranteed Lease Revenue Bonds, Series of 2006, for the purpose of acquiring a leasehold interest in property owned by the City of Scranton. The Bonds and the lease agreement expire on November 1, 2024. The Authority entered into a sublease agreement with the City of Scranton, whereby, the City is obligated to pay rent to the Authority's Trustee as to permit the Trustee to pay the principal and interest on the Bonds. The Authority has no obligation beyond the resources provided by the sublease agreement. The sublease agreement constitutes a general obligation of the City of Scranton and the full faith and credit and taxing power of the City of Scranton is pledged to the payment of all amounts due under the sublease. The amount outstanding on the Bonds at December 31, 2007 was \$10,000,000. Interest is payable on May 1st and November 1st each year, starting on May 1, 2007. Principal is payable annually starting on November 1, 2008.

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

Capitalized Vehicles:

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

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

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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%.

Capitalized Equipment:

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

Future Debt Service Requirements as of December 31, 2007 are as follows:

Year Ending December 31,	Governmental Activities City General Obligation Bonds			Year Ending December 31,	Governmental Activities Redevelopment Authority Notes Payable		
	Principal	Interest	Total		Principal	Interest	Total
2008	\$ 2,235,000	\$ 3,211,071	\$ 5,446,071	2008	\$ 574,714	\$ 149,352	\$ 724,066
2009	2,295,000	3,148,842	5,443,842	2009	724,504	123,067	847,571
2010	2,360,000	3,077,828	5,437,828	2010	728,774	74,396	803,170
2011	2,460,000	2,985,295	5,445,295	2011	733,206	25,565	758,771
2012	2,545,000	2,896,714	5,441,714	2012	62,878	1,279	64,157
2013-2017	12,990,000	12,926,917	25,916,917		<u>\$ 2,824,076</u>	<u>\$ 373,659</u>	<u>\$ 3,197,735</u>
2018-2022	16,410,000	9,664,288	26,074,288				
2023-2027	16,070,000	5,660,270	21,730,270				
2028-2032	12,765,000	1,937,579	14,702,579				
2033	1,165,000	65,240	1,230,240				
	<u>\$71,295,000</u>	<u>\$45,574,044</u>	<u>\$ 116,869,044</u>				

Year Ending December 31,	Business-Type Activities Revenue Bonds Parking Authority			Year Ending December 31,	Business-Type Activities Revenue Bonds Sewer Authority		
	Principal	Interest	Total		Principal	Interest	Total
2008	550,000	2,879,351	\$ 3,429,351	2008	703,035	136,149	\$ 839,184
2009	540,000	2,583,085	3,123,085	2009	765,886	81,489	847,375
2010	570,000	2,563,566	3,133,566	2010	640,958	219,376	860,334
2011	855,000	2,537,080	3,392,080	2011	522,182	241,747	763,929
2012	895,000	2,503,279	3,398,279	2012	537,465	226,712	764,177
2013-2017	5,035,000	11,921,330	16,956,330	2013-2017	2,932,703	892,693	3,825,396
2018-2022	6,175,000	10,672,988	16,847,988	2018-2022	3,387,864	443,346	3,831,210
2023-2027	7,750,000	9,023,791	16,773,791	2023-2027	1,313,767	42,372	1,356,139
2028-2032	9,850,000	6,839,970	16,689,970		<u>\$ 10,803,860</u>	<u>\$ 2,283,884</u>	<u>\$ 13,087,744</u>
2033-2037	12,785,000	3,844,882	16,629,882				
2038-2039	7,855,000	461,344	8,316,344				
	<u>\$52,860,000</u>	<u>\$55,830,666</u>	<u>\$ 108,690,666</u>				

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long Term Debt (Continued)

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

Year Ending December 31,	Principal	Interest	Total
2008	6,178,481	1,318,902	\$ 7,497,383
2009	688,104	900,575	1,588,679
2010	642,769	861,181	1,503,950
2011	566,686	824,326	1,391,011
2013-2017	3,846,237	3,586,713	7,432,950
2018-2022	5,606,638	2,154,609	7,761,247
2023-2027	3,850,535	469,283	4,319,818
TOTAL	<u>\$ 21,379,449</u>	<u>\$10,115,590</u>	<u>\$ 31,495,039</u>

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

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%, and 4.98 for the capitalized vehicles, 6.10% for the lease with the Redevelopment Authority of Scranton, 5.05% for the energy management and 5.89% for the Equipment Lease.

The cost of the assets is	\$ 6,857,849
The accumulated depreciation expense through December 31, 2007 is	<u>(576,487)</u>
The net book value of the capitalized leased building and vehicles is	<u>\$ 6,281,362</u>

At December 31, 2007, \$1,381,154. 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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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, 2007.

On August 7, 2003 the City issued \$ 20,870,000 in General Obligation Bonds Series B dated August 1, 2003 with an average interest rate (coupon) of 4.407% to advance refund \$17,440,000 of outstanding 2001 C series bonds with an average interest rate of 6.407%. Total proceeds included bond discount and accrued interest was \$20,792,205. Underwriting fees and other issuance cost were \$ 645,712. Net proceeds of \$ 19,516,640 were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 1,700,162 from the debt service fund (sinking fund) and \$355,629 from the sinking fund applicable to the 2001 C bonds were deposited in the irrevocable trust. Additional proceeds of \$233,318 were deposited in the irrevocable trust to advance refund the 2001 A bonds noted above. Additional proceeds of \$207,611 were deposited in the irrevocable trust to advance refund the 1997 A bonds noted below. Additional proceeds of \$174,232 were deposited into the 2004 sinking fund to fund the September 1, 2003 interest payments. Subsequent debt service payments on the refunded bond issue will be paid from the irrevocable trust, as a result, refunded series 2001 C is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and new debt show cash flow benefit of \$3,992,959. In 2005, the United States Treasury Securities - State and Local Government were refinanced and the City received an additional \$387,123. from the escrow account. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$394,377 for the year ended December 31, 2007.

The amount of defeased debt outstanding at December 31, 2007 is as follows:

2001 Series A General Obligation Bonds	\$ 3,405,000.
2001 Series C General Obligation Bonds	\$ 17,190,000.

The breakdown of interest expense as of December 31, 2007 is as follows:

	Interest Expense Charged to Expense	Interest Expense Capitalized
City of Scranton	\$ 5,783,174	\$ 0
Sewer Authority of the City of Scranton	757,657	98,350
Parking Authority of the City of Scranton	1,571,873	201,246
Redevelopment Authority of the City of Scranton	547,352	0
	\$ 8,660,056	\$ 299,596

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, 2007, the City's self-insured retention limits are as follows:

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

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim Loss Reserve of \$18,558,363 at December 31, 2007 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, 2007. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2007 is calculated as follows:

Claims and Costs Paid	\$4,543,206
Decrease in Actuarial Discounted Loss Reserve	<u>(2,099,476)</u>
Worker's Compensation Claims	<u>\$2,443,730</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-07	\$ 20,657,839	\$ 2,443,730	\$ 4,543,206	\$ 18,558,363
31-Dec-06	\$ 20,607,305	\$ 4,426,403	\$ 4,375,869	\$ 20,657,839

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2007 were as follows:

Operating Transfers

	<u>In</u>	<u>Out</u>
General Fund		
Debt Service Fund	\$ 0	\$ 6,967,493
Liquid Fuels Fund	1,500,942	0
Recreation Fund	1,500,000	0
Special Cities	173,663	0
Special Cities		
Capital Projects Fund	0	2,081,487
General Fund	0	173,663
Capital Projects		
Special Cities	2,081,487	0
Debt Service		
General Fund	6,967,493	0
Recreation Fund		
General Fund	0	1,500,000
Liquid Fuels		
General Fund	0	1,500,942
	<u>\$12,223,585</u>	<u>\$12,223,585</u>

Note 10 Pension Plans/Other Postemployment Benefits

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

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

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

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

Contributions, based on the MMO, in 2007 consisted of the following:

	<u>POLICE</u>	<u>FIREMEN</u>	<u>NON- UNIFORMED</u>	<u>TOTAL</u>
City/Commonwealth	\$1,444,724	\$2,748,583	\$ 670,284	\$ 4,863,591
Employees	216,970	221,863	34,214	473,047
Total	<u>\$1,661,694</u>	<u>\$2,970,446</u>	<u>\$ 704,498</u>	<u>\$ 5,336,638</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

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

	<u>January 1, 2005</u>			<u>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>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2003

	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 824,602	\$ 788,789	\$ 140,983	\$ 1,754,374
Interest on pension benefit obligation	1,113,188	3,250,691	125,461	4,489,340
Adjustment to annual required contribution	853,473	1,039,706	14,778	1,907,957
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	10,777,467	8,192,385	2,190,365	21,160,217
Net increase in pension benefit obligation	\$12,188,536	\$ 8,956,369	\$ 2,229,502	\$23,374,407
Pension benefit obligation, beginning	13,914,845	40,633,641	1,568,268	56,116,754
Pension benefit obligation, ending	<u>\$26,103,381</u>	<u>\$49,590,010</u>	<u>\$ 3,797,770</u>	<u>\$79,491,161</u>

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2007. The actuarial cost method used is the Entry Age Normal Cost Valuation Method. Significant assumptions used include a rate of return on investment of present and future assets of 8% per year, projected salary increases of 5% per year and no post-retirement benefit increases. Plan assets are valued using a four year smoothing method described in Internal Revenue Service Procedure 2000-40, Approval 15. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis over a period of approximately 15 years. Effective in 2004, the unfunded actual liability calculation for the years 2002 and 2003 was revised to be amortized as a level percentage of projected payroll on an open basis over a period of 30 years.

January 1, 2007

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

	<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>
	<u>January 1, 2003</u>			
	<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

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Firemen Pension Fund

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

Non-Uniformed Pension Fund

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

Defined Contribution Plan: The City contributes to a union sponsored, multi-employer plan for certain employees. The Plan is not administered by the City and contributions are determined in accordance with labor contracts. Pension expense was \$220,115 in 2007.

The Parking Authority sponsors a defined contribution pension plan covering all eligible employees. Pension expense was \$40,487 for the year ended December 31, 2007.

The Sewer Authority contributes to the Central Pennsylvania Teamsters Pension Fund, a defined contribution pension plan covering substantially all of its full time employees. Employees become eligible after they have been on the payroll for thirteen weeks. Contributions made by the Authority were \$366 per month for the year ended March 31, 2007 for each covered employee; contributions vest according to the Plan's schedule. Pension expense for the year ended March 31, 2007, amounted to \$269,499.

Effective January 1, 2007, the Sewer Authority adopted a money purchase pension plan for employees who meet age and service requirements and are not members of the Union. Employer contributions are 4% of eligible compensation and employees must contribute 2%. Employees are also permitted to make additional contributions up to the maximum allowed by law. For the year ended March 21, 2007, employer contributions totaled \$9,384 and employee contributions totaled \$8,278.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

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

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

The City uses the cash basis to account for these expenditures. The City has not determined the amount of such expenditures for 2007 nor the number of participants eligible for these benefits.

Termination Benefit Payable: The City is providing group insurance healthcare termination benefits to various employees, spouses and dependents. The termination benefits end between January 31, 2008 and April 30, 2037.

Annual termination benefits of \$447,276 have been projected to increase at an annual rate of 8% and have been discounted to 4.25% estimated yield on investments expected to be used to figure the benefits.

Beginning of year net present value	\$ 7,054,785
Payment benefits made during the year	(420,775)
Change in net present value of benefits	<u>3,775,095</u>
End of year present value	<u>\$10,409,105</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 11 Credit Risk and Market Risk

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 90% of the total taxes collected by the City in 2007. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

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

Note 12 Related Party Transactions

The City paid approximately \$674,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$37,477,000 of tax revenues on behalf of the City in 2007.

Note 13 Commitments and Contingencies

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 13 Commitments and Contingencies (Continued)

The City was 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 Supreme Court denied a Petition for Appeal. The City paid \$954,261 in March 2008. Such amount was accrued at December 31, 2007.

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 City settled the suit and paid the Police Department \$292,010 in February 2008. Such amount was accrued at December 31, 2007.

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.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 13 Commitments and Contingencies (Continued)

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

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

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

The Single Tax Office is currently going through a Forensic Audit from the discovery of approximately twelve (12) million dollars that it had in its possession and did not disburse. The City will not receive any receipts until completion of the audit. As of the date of the Audit Report, no revenue has been received and none has been provided for in the financial statements.

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 taxed collected at December 31, 2007:

	Land	Building	Total
Total Assessed Value	94,180,301	297,282,718	391,463,019
Millage Rates	10.3145%	2.2432%	
Total Original Taxes Levied	9,714,227	6,668,646	\$16,382,873
Add: Additions			80,022
Less: Abatements			(117,477)
Real Estate Taxes To be Collected At Face			\$16,345,418
Add: Penalties Collected			82,553
Total Before Deductions			\$16,427,971
Less: Discounts Taken			(244,239)
Less: Home Vouchers			(14,259)
Less: KOZ Credits			(363,671)
Less: Delinquent Taxes Returned			(1,995,125)
Less: Other Miscellaneous			(1,464)
TOTAL REAL ESTATE TAXES COLLECTED			<u>\$13,809,213</u>

Note 16 Restatement of Prior Year Net Assets

For the year ended December 31, 2007, the City implemented Statement 34 of the Governmental Accounting Standards Board which resulted in recording of infrastructure assets retro active reporting under the extended implementation period as discussed in Note 1.

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, 2007 has been restated as follows:

Net Assets Governmental Activities	
As Previously Reported	\$(14,150,425)
Adjustment for GASB 34 Infrastructure Reporting Fixed Assets	75,952,573
Adjustment for GASB 34 Infrastructure Reporting Accumulating Depreciation	<u>(31,521,248)</u>
Net Assets, as Restated	<u>\$ 30,280,900</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 17 Subsequent Event.

In November 2008, the Redevelopment Authority of the City of Scranton borrowed \$5,900,000 Guaranteed Variable Rate Demand Lease Revenue Bonds, Series of 2008. The Bonds are to be repaid through a Sublease and Guarantee Agreement between the Redevelopment Authority and the City of Scranton. Proceeds of the Bonds will be used to refund the Sewer Authority of the City of Scranton Guaranteed Lease Revenue Notes, Series of 2005. The Bonds bear interest at a weekly or term rate as determined in accordance with the Trust Indenture. Maturity November 1, 2026.

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP BASIS	FINAL BUDGET POSITIVE (NEGATIVE)
Revenues				
Taxes	\$ 40,917,280	\$ 40,917,280	\$ 43,731,390	\$ 2,814,110
Intergovernmental	2,965,000	2,965,000	2,910,044	(54,956)
Departmental Earnings	2,017,267	2,017,267	1,881,280	(135,987)
Refuse Disposal Fees	4,900,000	4,900,000	4,514,797	(385,203)
Licenses and Permits	1,599,400	1,599,400	1,387,662	(211,738)
Cable Television Franchise Revenue	780,000	780,000	744,410	(35,590)
Payments in Lieu of Taxes	118,250	118,250	117,490	(760)
Interest Income	436,601	436,601	788,128	351,527
User Fees	45,000	45,000	48,135	3,135
Other Revenues	1,550,000	1,550,000	60,920	(1,489,080)
Donations	0	0	76,131	76,131
Total Revenues	\$ 55,328,798	\$ 55,328,798	\$ 56,260,387	\$ 931,589
Expenditures				
General Government	\$ 13,666,763	\$ 13,670,925	\$ 14,173,808	\$ (502,883)
Public Safety	28,339,696	28,359,200	28,419,706	(60,506)
Public Works	10,969,106	10,958,441	10,487,131	471,310
Community Development	495,674	495,674	467,878	27,796
Culture and Recreation	1,024,785	1,024,785	1,038,651	(13,866)
Total Expenditures	\$ 54,496,024	\$ 54,509,025	\$ 54,587,174	\$ (78,149)
Excess of Revenues Over Expenditures	\$ 832,774	\$ 819,773	\$ 1,673,213	\$ 853,440

"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, 2007

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Financing Sources (Uses)				
Advances On Delinquent Real Estate Tax	\$ 3,657,174	\$ 3,657,174	\$ 1,898,657	\$ (1,758,517)
Proceeds from Tax Anticipation				
Notes	14,500,000	14,500,000	14,500,000	0
Operating Transfers In	1,467,687	1,467,687	3,174,605	1,706,918
Operating Transfers Out	(7,193,000)	(7,204,000)	(6,967,493)	236,507
Advance Scranton Housing Authority	1,200,000	1,200,000	900,000	(300,000)
2006 Bond Issuance	1,250,000	1,250,000	434,735	(815,265)
Contingency	(504,635)	(480,634)	(11,645)	468,989
Payments of Tax Anticipation				
Notes	<u>(15,190,000)</u>	<u>(15,190,000)</u>	<u>(14,937,727)</u>	<u>252,273</u>
Net Other Financing Sources (Uses)	<u>\$ (812,774)</u>	<u>\$ (799,773)</u>	<u>\$ (1,008,868)</u>	<u>\$ (209,095)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 20,000	\$ 20,000	\$ 664,345	\$ 644,345
Fund Balance, Beginning of Year	<u>11,112,372</u>	<u>11,112,372</u>	<u>11,112,372</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 11,132,372</u>	<u>\$ 11,132,372</u>	<u>\$ 11,776,717</u>	<u>\$ 644,345</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2007

	LIQUID FUELS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS					
Cash and Cash Equivalents	\$ 42,892	\$ 967,337	\$ 3,510,534	\$ 1,994,161	\$ 6,514,924
Taxes and Fees Receivable, Net	0	1,757,579	0	0	1,757,579
Accounts Receivable, Net	1,761	16,509	670,525	0	688,795
Loans Receivable	0	1,019,408		0	1,019,408
Due From Other Funds	0	0	44,234	0	44,234
Property Held for Resale	0	107,551	0	0	107,551
TOTAL ASSETS	<u>\$ 44,653</u>	<u>\$ 3,868,384</u>	<u>\$ 4,225,293</u>	<u>\$ 1,994,161</u>	<u>\$ 10,132,491</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 0	\$ 125,252	\$ 652,731	\$ 0	\$ 777,983
Due to Other Funds	0	450,228	56,702	0	506,930
Deferred Revenues	0	3,282,542	3,515,860	0	6,798,402
TOTAL LIABILITIES	<u>\$ 0</u>	<u>\$ 3,858,022</u>	<u>\$ 4,225,293</u>	<u>\$ 0</u>	<u>\$ 8,083,315</u>
FUND BALANCES					
Debt Service	\$ 0	\$ 0	\$ 0	\$ 1,994,161	\$ 1,994,161
Unreserved - Undesignated	44,653	10,362	0	0	55,015
TOTAL FUND BALANCES	<u>\$ 44,653</u>	<u>\$ 10,362</u>	<u>\$ 0</u>	<u>\$ 1,994,161</u>	<u>\$ 2,049,176</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 44,653</u>	<u>\$ 3,868,384</u>	<u>\$ 4,225,293</u>	<u>\$ 1,994,161</u>	<u>\$ 10,132,491</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	LIQUID FUELS	REDEVELOPMENT AUTHORITY	SPECIAL CITIES	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
Revenues:					
Intergovernmental	\$ 1,485,844	\$ 431,329	\$ 6,111,624	\$ 0	\$ 8,028,797
Departmental Earnings	0	0	28,171	0	28,171
Interest Income	49,009	588,334	20,223	119,156	776,722
Other Revenues	0	0	1,462,284	0	1,462,284
Rents and Concessions	0	12,074,585	0	0	12,074,585
Total Revenues	\$ 1,534,853	\$ 13,094,248	\$ 7,622,302	\$ 119,156	\$ 22,370,559
Expenditures:					
Current:					
General Government	\$ 0	\$ 0	\$ 833,658	\$ 0	\$ 833,658
Public Works	0	0	429,539	0	429,539
Health and Welfare	0	0	978,238	0	978,238
Community Development	0	635,947	3,123,082	0	3,759,029
Other Expenditures	0	3,625	2,635	0	6,260
Debt Service					
Debt Service-Principal	0	12,183,686	0	2,455,907	14,639,593
Debt Service-Interest	0	547,352	0	4,517,170	5,064,522
Total Expenditures	\$ 0	\$ 13,370,610	\$ 5,367,152	\$ 6,973,077	\$ 25,710,839
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,534,853	\$ (276,362)	\$ 2,255,150	\$ (6,853,921)	\$ (3,340,280)
Other Financing Sources (Uses):					
Sale Of Property	\$ 0	\$ 34,000	\$ 0	\$ 0	\$ 34,000
Proceeds From Long Term Debt	0	2,296,570	0	0	2,296,570
Purchase Of Delinquent Real Estate Taxes	0	(1,898,657)	0	0	(1,898,657)
Delinquent Tax Filing Fees	0	(283,084)	0	0	(283,084)
Bond Closing Fees	0	(41,739)	0	0	(41,739)
Operating Transfers In	0	0	0	6,967,493	6,967,493
Operating Transfers Out	(1,500,942)	0	(2,255,150)	0	(3,756,092)
Net Other Financing Sources (Uses)	\$ (1,500,942)	\$ 107,090	\$ (2,255,150)	\$ 6,967,493	\$ 3,318,491
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ 33,911	\$ (169,272)	\$ 0	\$ 113,572	\$ (21,789)
Fund Balances, Beginning of Year	10,742	179,634	0	1,880,589	2,070,965
FUND BALANCES, END OF YEAR	\$ 44,653	\$ 10,362	\$ 0	\$ 1,994,161	\$ 2,049,176

"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, 2007

Additions:		
Contributions		
Employee	\$ 473,047	
Employer	2,102,988	
Commonwealth State Aid	<u>2,760,603</u>	
Total Contributions		\$ 5,336,638
Investment Income:		
Investment Return	<u>\$ 3,946,283</u>	
Total Investment Income		3,946,283
Other Income:		
Miscellaneous Receipts	<u>\$ 31,652</u>	
Total Other Income		<u>31,652</u>
TOTAL ADDITIONS		\$ 9,314,573
DEDUCTIONS		
Benefit Payments	\$ 9,399,978	
Administrative Expenses	<u>444,553</u>	
Total Deductions		<u>9,844,531</u>
CHANGE IN NET ASSETS		\$ (529,958)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year		<u>77,042,373</u>
END OF YEAR		<u>\$76,512,415</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, 2007

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes				
Act 511:				
Wage	\$19,500,000	\$19,500,000	\$19,681,841	\$ 181,841
Real Estate Transfer	4,097,000	4,097,000	4,485,863	388,863
Mercantile	1,100,000	1,100,000	1,119,492	19,492
Business Privilege	626,380	626,380	607,942	(18,438)
Emergency & Municipal Services	1,908,615	1,908,615	2,180,300	271,685
Delinquent Mercantile	75,000	75,000	38,121	(36,879)
Delinquent Business Privilege	40,000	40,000	40,060	60
Total Act 511	<u>\$27,346,995</u>	<u>\$27,346,995</u>	<u>\$28,153,619</u>	<u>\$ 806,624</u>
Current Real Estate	\$13,459,432	\$13,459,432	\$13,809,213	\$ 349,781
Delinquent Real Estate	0	0	1,683,487	1,683,487
Public Utility	60,853	60,853	56,846	(4,007)
Penalties & Interest	50,000	50,000	28,225	(21,775)
Total Taxes	<u>\$40,917,280</u>	<u>\$40,917,280</u>	<u>\$43,731,390</u>	<u>\$ 2,814,110</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,705,000	\$ 2,705,000	\$ 2,760,703	\$ 55,703
OECD Reimbursement Demolition Program	150,000	150,000	98,598	(51,402)
Bridge Inspection Revenue	-	-	33,553	33,553
FEMA Emergency Grants	0	0	17,190	17,190
Act 101	110,000	110,000	0	(110,000)
Total Intergovernmental	<u>\$ 2,965,000</u>	<u>\$ 2,965,000</u>	<u>\$ 2,910,044</u>	<u>\$ (54,956)</u>
Departmental Earnings				
Parking Meters	\$ 825,000	\$ 825,000	\$ 805,206	\$ (19,794)
Fines and Forfeits	793,767	793,767	736,222	(57,545)
Pave Cuts	198,000	198,000	180,260	(17,740)
Report Copies Fire & Police	65,000	65,000	67,710	2,710
Alarm Fees	93,000	93,000	59,000	(34,000)
Rescue Fees	9,500	9,500	250	(9,250)
Zoning	33,000	33,000	32,632	(368)
Total Departmental Earnings	<u>\$ 2,017,267</u>	<u>\$ 2,017,267</u>	<u>\$ 1,881,280</u>	<u>\$ (135,987)</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
General Government				
Salaries and Wages	\$ 1,972,693	\$ 1,972,693	\$ 1,899,932	\$ 72,761
Employee Benefits	3,334,113	3,334,113	2,914,767	419,346
Workers' Compensation Claims	4,113,699	4,181,958	4,231,358	(49,400)
General Insurance	973,000	890,892	870,709	20,183
Office Supplies and Expense	321,148	377,957	316,760	61,197
Professional Fees	575,069	543,704	395,510	148,194
Telephone	160,000	146,200	135,461	10,739
Equipment	71,861	61,094	53,636	7,458
Travel	14,230	10,166	4,646	5,520
Other	210,600	206,300	108,450	97,850
Boards and Commissions	175,700	175,700	163,981	11,719
Utilities	745,500	738,397	703,185	35,212
Grants and Contributions	15,150	15,150	15,100	50
Court Awards & Settlements	250,000	250,000	1,644,923	(1,394,923)
Parking Authority Ticket Issuers	725,000	757,672	706,461	51,211
Capital Expenditures	9,000	8,929	8,929	0
Total General Government	<u>\$13,666,763</u>	<u>\$13,670,925</u>	<u>\$14,173,808</u>	<u>\$ (502,883)</u>
Public Safety				
Salaries and Wages	\$14,018,079	\$14,018,079	\$14,043,376	\$ (25,297)
Employee Benefits	13,902,806	13,902,806	13,896,938	5,868
Supplies	124,508	142,592	138,759	3,833
Equipment	216,324	217,053	264,252	(47,199)
Training	64,509	66,328	67,804	(1,476)
Travel	11,470	10,342	8,100	2,242
Professional Fees	2,000	2,000	477	1,523
Total Public Safety	<u>\$28,339,696</u>	<u>\$28,359,200</u>	<u>\$28,419,706</u>	<u>\$ (60,506)</u>
Public Works				
Salaries and Wages	\$ 3,894,268	\$ 3,894,268	\$ 3,588,030	\$ 306,238
Employee Benefits	2,030,904	2,030,904	1,683,593	347,311
Supplies	309,889	228,923	227,942	981
Professional Fees	113,241	180,431	157,252	23,179
Equipment	1,622,089	1,819,447	2,099,839	(280,392)
Electric	333,500	375,220	360,253	14,967
Landfill Fees	1,690,000	1,580,741	1,581,378	(637)
Salt	174,615	233,725	199,322	34,403
Flood Protection	145,600	79,608	54,348	25,260
Street Lighting	655,000	535,174	535,174	0
Total Public Works	<u>\$10,969,106</u>	<u>\$10,958,441</u>	<u>\$10,487,131</u>	<u>\$ 471,310</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 465,724	\$ 465,724	\$ 443,071	\$ 22,653
Employee Benefits	14,000	14,000	11,871	2,129
Supplies	15,950	15,950	12,936	3,014
Total Community Development	<u>\$ 495,674</u>	<u>\$ 495,674</u>	<u>\$ 467,878</u>	<u>\$ 27,796</u>
Culture and Recreation				
Salaries and Wages	\$ 875,294	\$ 875,294	\$ 882,860	\$ (7,566)
Employee Benefits	2,000	2,000	2,160	(160)
Supplies	129,991	133,581	139,721	(6,140)
Programs	17,500	13,910	13,910	0
Total Culture and Recreation	<u>\$ 1,024,785</u>	<u>\$ 1,024,785</u>	<u>\$ 1,038,651</u>	<u>\$ (13,866)</u>
Total Expenditures	<u>\$54,496,024</u>	<u>\$54,509,025</u>	<u>\$54,587,174</u>	<u>\$ (78,149)</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$15,190,000	\$15,190,000	\$14,937,727	\$ 252,273
Contingency	504,635	480,634	11,645	468,989
Operating Transfers Out to: Debt Service Fund	<u>7,193,000</u>	<u>7,204,000</u>	<u>6,967,493</u>	<u>236,507</u>
Total Other Financing Uses	<u>\$22,887,635</u>	<u>\$22,874,634</u>	<u>\$21,916,865</u>	<u>\$ 957,769</u>
Total Expenditures and Other Financing Uses	<u>\$77,383,659</u>	<u>\$77,383,659</u>	<u>\$76,504,039</u>	<u>\$ 879,620</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

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		\$ 6,309,454
Emergency Shelter Grants Program	14.231		135,477
Home Investment Partnerships Program	14.239		<u>816,433</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 7,261,364</u>
U.S. DEPARTMENT OF JUSTICE:			
COPS	16.710		<u>\$ 17,492</u>
Total U.S. Department of Justice			<u>\$ 17,492</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 2007 Paid 2007			\$ 0
Incurred 2007 Paid 2008			0
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 0441761 & 040809B	
Incurred 2007 Paid 2007			22,801
Incurred 2007 Paid 2008			1,420
East Mountain Road Betterment Project	20.205	Reimbursement Agreement Number 048401	
Incurred 2007 Paid 2007			416,743
Incurred 2007 Paid 2008			0
Scranton K Routes	20.205	Reimbursement Agreement Number 048748	
Incurred 2007 Paid 2007			312,896
Incurred 2007 Paid 2008			0
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement Number 041439	
Incurred 2007 Paid 2007			16,143
Incurred 2007 Paid 2008			65,839
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222	
Incurred 2007 Paid 2007			0
Incurred 2007 Paid 2008			3,125
East Market Street Bridge	20.205	Reimbursement Agreement Number 042345	
Incurred 2007 Paid 2007			378
Incurred 2007 Paid 2008			82,118
Nay Aug Pedestrian Bridge	20.205	Reimbursement Agreement Number 048606	
Incurred 2007 Paid 2007			462,140
Incurred 2007 Paid 2008			<u>0</u>
Total U.S. Department of Transportation			<u>\$ 1,383,603</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

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>17,190</u>
Total Direct Assistance Department of Homeland Security			\$ <u>17,190</u>
Total Department of Homeland Security			\$ <u>17,190</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>9,777</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>8,689,426</u>

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

"See accompanying notes and independent auditors' report."

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

December 31, 2008

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scranton as of and for the year ended December 31, 2007 and have issued our report thereon dated December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Scranton's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Scranton's financial statements that is more than inconsequential will not be prevented or detected by the City of Scranton's internal

control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 07-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Scranton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we did not consider any to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Scranton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

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

Robert Rossi & CO

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

December 31, 2008

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

Compliance

We have audited the compliance of the City of Scranton with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City of Scranton's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Scranton's management. Our responsibility is to express an opinion on the City of Scranton's compliance based on our audit.

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

In our opinion, the City of Scranton complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Robert Rossi & CO

CITY OF SCRANTON, PENNSYLVANIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2007

Section I – Auditor’s Result Section

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

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

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

CITY OF SCRANTON, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

2007-1

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