

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2004**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES,  
AND SINGLE AUDIT ATTACHMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>PAGE</u>
Table of Contents	1-3
Independent Auditor's Report	4-6
Required Supplementary Information:	
Management Discussion and Analysis	7-16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	17-18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet - Governmental Funds	20-21
Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Assets	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	23-24
Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	25-26
Statement of Net Assets - Proprietary Funds	27-28
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	29
Statement of Cash Flows - Proprietary Funds	30-31
Statement of Net Assets - Fiduciary Fund - Pension Trust Fund	32
Notes to Basic Financial Statements	33-69

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES,  
AND SINGLE AUDIT ATTACHMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>PAGE</u>
Required Supplementary Information:	
Statement of Revenues, Expenditures and Change in Fund Balances - Budget and Actual	70-71
Other Supplementary Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	72-73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	74
Statement of Changes in Net Assets - Fiduciary Funds, Pension Trust Fund	75
Additional Schedules:	
Statement of Revenues and Other Financing Sources - Budget and Actual	76-77
Statement of Expenditure and Other Financing Uses - Budget and Actual	78-79
Single Audit Attachments:	
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2004	80-81
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	82-83
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	84-85
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2004	86-88

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES,  
AND SINGLE AUDIT ATTACHMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>PAGE</u>
Plan for Corrective Action Taken in Regard Audit Findings	89-90
Status of Corrective Action on Prior Year's Audit Findings	91

ROBERT ROSSI & CO.  
CERTIFIED PUBLIC ACCOUNTANTS

ROBERT L. ROSSI, C.P.A.  
ROBERT T. ARVONIO, C.P.A.  
PETER D. ARVONIO, JR., C.P.A.  
ROBERT A. HANIS, C.P.A.

299 MAIN ST. - STURGES  
OLYPHANT, PA 18447-2319  
TEL. (570) 876-2300 - FAX (570) 876-5153  
e-mail - rossi@rrco.net

SALVATORE A. NOLE, JR., C.P.A.  
JOSEPH E. ROSSI, C.P.A.  
SEAN J. GRASSI, C.P.A.  
RALPH R. MORRIS, III, C.P.A.

INDEPENDENT AUDITORS' REPORT

June 17, 2005

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, 2004 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 \$37,792,896 at March 31, 2004 and total revenues of \$9,720,647 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$22,991,003 at December 31 2004 and total revenues of \$1,570,267 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$16,738,870 at December 31, 2004 and total revenues of \$1,825,318 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, 2004 instead of December 31, 2004. 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, 2004 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, 2004, 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 7 through 16 and 70 through 71 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In Accordance with *Government Auditing Standards*, we have issued a report dated June 17, 2005 on our consideration of the City of Scranton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Robert Rossi TCO

## 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, 2004. 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 \$18,566,556 (*net assets*).
- The government's total net assets increased by \$4,060,044.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$27,474,035, a decrease of \$2,780,116 in comparison with the prior year. Approximately 15.00% of this total amount or \$4,118,050 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,757,729, or 7.66% of total General Fund expenditures for the fiscal year.
- The City entered into a sale / leaseback arrangement with the Scranton Sewer Authority for the City's newly constructed Department of Public Works (DPW) complex. This transaction pumped \$3,907,000 into the City's General Fund at the end of 2004. The financing will be paid back over a twelve year period, concluding on December 15, 2016.
- The City of Scranton has a BBB bond rating from Standard and Poor's.

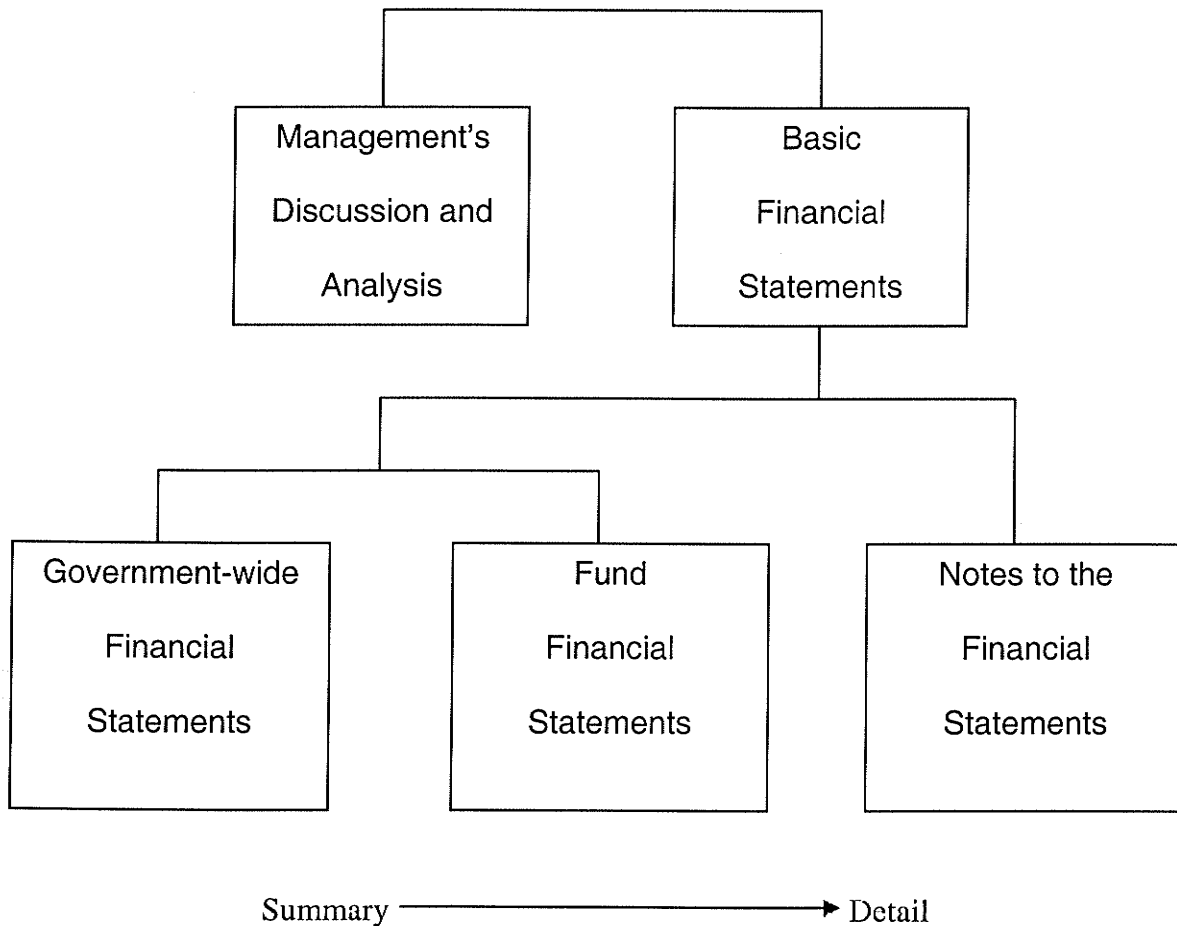
### Overview of the Financial Statements

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



## *Required Components of Annual Financial Report*

Figure 1



### **Basic Financial Statements**

The first two statements (pages 17 and 19) 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 20 through 32) 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.

## **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 \$17,879,518). An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$2,118,321). 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). Financial information for these entities is reported in separate columns.

The government-wide financial statements are on pages 17 through 19.

## **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.

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, Special Cities Fund, OECD, and the Capital Projects Funds, all of which are considered to be major funds. The data for non-major funds consisting of Liquid Fuels Fund, Redevelopment Authority 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 33 through 69 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 70 through 71). 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 \$18,566,556.

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, \$48,397,828. 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, \$16,639,850, 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 \$46,471,122. The governmental activities reported negative unrestricted net assets of \$57,748,331. The business type activities reported positive unrestricted net assets of \$11,277,209.

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

Figure 2

	City of Scranton Net Assets								
	Governmental			Business-Type			Total		
	Activities		%	Activities		%	Primary Government		%
	2004	2003		2004	2003		2004	2003	
Current Assets	117,782,761	111,700,899	3.44%	9,433,135	7,261,516	29.71%	127,205,496	118,962,415	6.93%
Restricted Assets	279,551	279,551	0.00%	11,788,429	3,014,618	291.04%	12,067,980	3,294,169	266.34%
Capital Assets	36,451,594	17,434,834	109.07%	41,309,891	36,121,924	14.36%	77,761,485	53,556,758	45.19%
Deferred Charges	1,972,310	2,096,153	-5.91%	1,090,108	891,702	22.25%	3,062,418	2,987,855	2.50%
<b>Total Assets</b>	<b>156,486,216</b>	<b>131,511,437</b>	<b>18.99%</b>	<b>63,611,163</b>	<b>47,292,760</b>	<b>34.51%</b>	<b>220,097,379</b>	<b>178,804,197</b>	<b>23.09%</b>
Current Liabilities	5,591,499	11,171,993	-49.95%	7,248,761	8,563,766	-15.36%	12,840,260	19,735,759	-34.94%
Non-Current Liabilities	163,852,603	137,518,740	19.15%	24,837,960	7,043,186	252.65%	188,690,563	144,561,926	30.53%
<b>Total Liabilities</b>	<b>169,444,102</b>	<b>148,690,733</b>	<b>13.96%</b>	<b>32,086,721</b>	<b>15,606,952</b>	<b>105.59%</b>	<b>201,530,823</b>	<b>164,297,685</b>	<b>22.66%</b>
<b>Net Assets:</b>									
Invested in Capital									
assets net of related debt	30,424,920	10,434,834	191.57%	17,972,908	22,485,952	-20.07%	48,397,828	32,920,786	47.01%
Restricted	14,365,525	10,385,014	38.33%	2,274,325	1,802,392	26.18%	16,639,850	12,187,406	36.53%
Unrestricted	(57,748,331)	(37,999,144)	51.97%	11,277,209	7,397,464	52.45%	(46,471,122)	(30,601,680)	51.86%
<b>Total Net Assets</b>	<b>(12,957,886)</b>	<b>(17,179,296)</b>	<b>-24.57%</b>	<b>31,524,442</b>	<b>31,685,808</b>	<b>-0.51%</b>	<b>18,566,556</b>	<b>14,506,512</b>	<b>27.99%</b>

# City of Scranton, Pennsylvania Changes in Net Assets

Figure 3

## City of Scranton Changes in Net Assets

	Governmental			Business-Type			Total		
	Activities		%	Activities		%	Primary Government		%
	2004	2003		2004	2003		2004	2003	
<b>Revenues</b>									
<b>Program Revenues</b>									
Fees, Fines & Charges for Services	9,820,128	8,485,539	15.73%	11,290,914	9,226,978	22.37%	21,111,042	17,712,517	19.19%
Operating Grants & Contributions	19,853,291	17,211,148	15.35%	-	-	0.00%	19,853,291	17,211,148	15.35%
Capital Grants & Contributions	6,941,658	1,095,649	533.57%	-	-	0.00%	6,941,658	1,095,649	533.57%
<b>General Revenues</b>									
Property Taxes	12,127,330	12,799,564	-5.25%	-	-	0.00%	12,127,330	12,799,564	-5.25%
Act 511 Taxes	23,401,485	22,687,171	3.15%	-	-	0.00%	23,401,485	22,687,171	3.15%
Grants, Subsidies & Contributions	165,146	1,267,672	-86.97%	-	-	0.00%	165,146	1,267,672	-86.97%
Cable TV Franchise Revenue	739,305	723,966	2.12%	-	-	0.00%	739,305	723,966	2.12%
Payments in Lieu of Taxes	129,666	238,957	-45.74%	-	-	0.00%	129,666	238,957	-45.74%
Investment Earnings	832,896	892,353	-6.66%	225,965	176,798	27.81%	1,058,861	1,069,151	-0.96%
Sewer Authority Concessions Fee	-	500,000	-100.00%	-	-	0.00%	-	500,000	100.00%
Gain (Loss) Sale of Capital Assets	-	-	0.00%	-	2,126,177	100.00%	-	2,126,177	100.00%
Miscellaneous	380,052	890,033	-57.30%	230,126	37,385	515.56%	610,178	927,418	-34.21%
Rents & Concessions	3,417	7,217	-52.65%	-	-	0.00%	3,417	7,217	-52.65%
Grant Funds Loaned to Qualified Parties	515,000	900,000	-42.78%	-	-	0.00%	515,000	900,000	-42.78%
Transfers	-	8,703	-100.00%	-	20,251	100.00%	-	28,954	100.00%
<b>Total Revenue &amp; Transfers</b>	<b>74,909,374</b>	<b>67,707,972</b>	<b>10.64%</b>	<b>11,747,005</b>	<b>11,587,589</b>	<b>1.38%</b>	<b>86,656,379</b>	<b>79,295,561</b>	<b>9.28%</b>
<b>Expenses</b>									
General Government & Administration	8,752,791	9,244,072	-5.31%	-	-	0.00%	8,752,791	9,244,072	-5.31%
Public Safety	31,312,815	31,975,044	-2.07%	-	-	0.00%	31,312,815	31,975,044	-2.07%
Public Works	11,018,525	9,968,640	10.53%	-	-	0.00%	11,018,525	9,968,640	10.53%
Health & Welfare	973,515	1,150,321	-15.37%	-	-	0.00%	973,515	1,150,321	-15.37%
Community Development	13,504,243	12,800,331	5.50%	-	-	0.00%	13,504,243	12,800,331	5.50%
Cultural & Recreation	1,023,315	1,290,668	-20.71%	-	-	0.00%	1,023,315	1,290,668	-20.71%
Other Expenditures	18,553	429,715	-95.68%	-	-	0.00%	18,553	429,715	-95.68%
Pension Trust Funding	-	9,922,374	-100.00%	-	-	0.00%	-	9,922,374	100.00%
Pension Trust Management Fee Buyout	-	7,327,626	-100.00%	-	-	0.00%	-	7,327,626	100.00%
Unallocated Depreciation	34,759	20,822	66.93%	-	-	0.00%	34,759	20,822	66.93%
Interest on Long Term Debt	4,049,448	2,320,262	74.53%	-	-	0.00%	4,049,448	2,320,262	74.53%
Sewer Authority	-	-	0.00%	10,285,602	9,663,880	6.43%	10,285,602	9,663,880	6.43%
Municipal Recreation Authority	-	-	0.00%	-	129,983	100.00%	-	129,983	100.00%
Municipal Parking Authority	-	-	0.00%	1,622,769	1,723,778	-5.86%	1,622,769	1,723,778	-5.86%
<b>Total Expenses</b>	<b>70,687,964</b>	<b>86,449,875</b>	<b>-18.23%</b>	<b>11,908,371</b>	<b>11,517,641</b>	<b>3.39%</b>	<b>82,596,335</b>	<b>97,967,516</b>	<b>-15.69%</b>
<b>Change in Net Assets</b>	<b>4,221,410</b>	<b>(18,741,903)</b>	<b>-122.52%</b>	<b>(161,366)</b>	<b>69,948</b>	<b>330.69%</b>	<b>4,060,044</b>	<b>(18,671,955)</b>	<b>121.74%</b>
<b>Net Assets, Beginning of Year</b>	<b>(17,179,296)</b>	<b>1,562,607</b>	<b>-1199.40%</b>	<b>31,685,808</b>	<b>31,615,860</b>	<b>0.22%</b>	<b>14,506,512</b>	<b>33,178,467</b>	<b>-56.28%</b>
<b>Net Assets, End of Year</b>	<b>(12,957,886)</b>	<b>(17,179,296)</b>	<b>-24.57%</b>	<b>31,524,442</b>	<b>31,685,808</b>	<b>-0.51%</b>	<b>18,566,556</b>	<b>14,506,512</b>	<b>27.99%</b>

**Governmental activities.** Governmental activities increased the City's net assets by \$4,221,410. 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 assets by \$161,366. The largest item contributing to this decrease was the \$223,884 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 down \$285,537 from the prior year. Total General Fund Revenue was \$48,614,357 for the year 2004 versus \$48,899,894 for the year 2003. The General Fund expenditures for the year 2004 went up by \$3,129,877. Total General Fund Expenditures were \$49,067,962 for 2004 versus \$45,938,085 in 2003. The single largest increase in expenses was in Public Safety \$1,972,005. Total Public Safety Expenditures were \$26,913,672 for 2004 versus \$24,941,667 for 2003.

At December 31, 2004, the Governmental Funds of the City of Scranton reported a combined fund balance of \$27,474,035, a 9.19% decrease over last year. Included in this change in fund balance are decreases in fund balance in both the Capital Projects and OECD Funds.

### **General Fund Budgetary Highlights**

Revenues and other financing sources were higher than the budgeted amounts. Tax collections were greater than expected. Intergovernmental revenue was lower by \$36,885. The primary reason was that the expected pension reimbursement from the State was \$2.715 million. The actual amount received was \$2.553 million. Departmental earnings were \$75,840 more than budgeted. The primary increase was in money the City received from the utility companies for pave cuts. The City budgeted \$225,000; it received \$365,846.

There was \$4,000,000 of revenue that was not budgeted. This amount is shown as Lease Proceeds under Other Financing Sources. This came from the sale / leaseback of the City's new DPW complex to the Scranton Sewer Authority and was used to pay for General Fund expenditures.

Expenditures and other financing uses were \$1,197,110 higher than budgeted. The main factor driving this large overage was employee benefits. They were \$157,944 higher than budgeted in General Government expenditures (\$1,915,074 budget vs. \$2,073,018 actual); \$2,016,312 higher than budgeted in Public Safety (\$10,836,246 budget vs. \$12,852,558 actual); and \$200,097 higher than budgeted in Public Works (\$1,323,674 budget vs. \$1,523,771 actual).

### Capital Assets

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

**Figure 4**

**City of Scranton Capital Assets (net of depreciation)**

	Governmental			Business-Type			Total		
	Activities		Incr (Decr)	Activities		Incr (Decr)	Primary Government		Incr (Decr)
	2004	2003		2004	2003		2004	2003	
Land & Land Improvements	5,776,298	4,846,200	930,098	1,307,338	1,307,338	-	7,083,636	6,153,538	930,098
Buildings & Building Improvements	10,882,774	4,696,193	6,186,581	87,344,389	83,047,851	4,296,538	98,227,163	87,744,044	10,483,119
Infrastructure	4,054,815	1,368,400	2,686,415	-	-	-	4,054,815	1,368,400	2,686,415
Furniture & Equipment	2,708,255	2,084,597	623,658	7,530,188	7,098,721	431,467	10,238,443	9,183,318	1,055,125
Vehicles	8,529,838	8,446,501	83,337	-	-	-	8,529,838	8,446,501	83,337
Construction in Progress	14,147,699	4,277,859	9,869,840	9,222,558	5,954,685	3,267,873	23,370,257	10,232,544	13,137,713
Accumulated Depreciation	(9,648,085)	(8,284,916)	(1,363,169)	(64,094,582)	(61,286,671)	(2,807,911)	(73,742,667)	(69,571,587)	(4,171,080)
<b>Total</b>	<b>36,451,594</b>	<b>17,434,834</b>	<b>19,016,760</b>	<b>41,309,891</b>	<b>36,121,924</b>	<b>5,187,967</b>	<b>77,761,485</b>	<b>53,556,758</b>	<b>24,204,727</b>

## City of Scranton, Pennsylvania's Outstanding Debt

### General Obligation and Revenue Bonds

**Figure 4**

	City of Scranton Long Term Debt					
	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2004	2003	2004	2003	2004	2003
Balance January 1, 2004	80,985,968	35,792,205	12,698,107	8,695,000	93,684,075	44,487,205
Debt issued in 2004	16,295,000	71,785,057	19,394,874	4,983,107	35,689,874	76,768,164
Accretion & Amortization	23,467	8,790	-	-	23,467	8,790
Less Retirements	(2,383,636)	(26,600,003)	(5,951,477)	(980,000)	(8,335,113)	(27,580,003)
Balance December 31, 2004	94,920,799	80,986,049	26,141,504	12,698,107	121,062,303	93,684,156

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, 2004 instead of December 31, 2004. This was also the case in 2003, 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 three 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 Leonard Kresefski, Business Administrator, City Hall, 4<sup>th</sup> Floor, 340 N. Washington Avenue, Scranton, PA 18503.

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 21,821,689	\$ 3,656,386	\$ 25,478,075
Certificate of Deposit	0	3,216,542	3,216,542
Investments	27,689,773	0	27,689,773
Receivables:			
Taxes and Fees Receivable, Net	17,879,518	0	17,879,518
Accounts Receivable, Net	629,513	2,260,029	2,889,542
Accrued Interest	145,546	84,561	230,107
Loans Receivable	46,285,540	0	46,285,540
Other Receivables, Net	2,878,853	0	2,878,853
Due From Other Governments	263,902	0	263,902
Prepaid Assets	0	42,866	42,866
Other Assets	188,427	162,351	350,778
Property Held For Resale	107,551	0	107,551
Restricted Assets:			
Restricted Cash and Cash Equivalents	172,000	8,008,416	8,180,416
Restricted Certificate of Deposit	0	2,174,325	2,174,325
Restricted Investments	0	1,173,528	1,173,528
Restricted Accounts Receivable	0	432,160	432,160
Capital Assets:			
Land & Land Improvements	5,776,298	1,307,338	7,083,636
Buildings & Building Improvements	10,882,774	87,344,389	98,227,163
Infrastructure	4,054,815	0	4,054,815
Furniture & Equipment	2,708,255	7,530,188	10,238,443
Vehicles	8,529,838	0	8,529,838
Construction In Progress	14,147,699	9,222,558	23,370,257
Accumulated Depreciation	(9,648,085)	(64,094,582)	(73,742,667)
Deferred Charges, Net	1,972,310	1,090,108	3,062,418
<b>TOTAL ASSETS</b>	<b>\$ 156,486,216</b>	<b>\$ 63,611,163</b>	<b>\$ 220,097,379</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

LIABILITIES	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Short Term Debt	\$ 0	\$ 1,876,792	\$ 1,876,792
Accounts Payable	4,826,982	382,894	5,209,876
Accrued Liabilities	450,533	913,169	1,363,702
Accrued Interest	1,041,909	0	1,041,909
Due to Other Funds	(3,064,691)	3,064,691	0
Current Liabilities Payable From Restricted Assets:			
Revenue Bonds Payable	0	767,277	767,277
General Obligation Bonds Payable	2,110,000	0	2,110,000
Governmental Notes Payable	226,766	0	226,766
Accrued Revenue Bond Interest Payable	0	243,938	243,938
Noncurrent Liabilities:			
Workers' Compensation Claims Payable	20,582,695	0	20,582,695
Deferred Revenues	52,037,790	0	52,037,790
Long-Term Debt Obligations	87,209,831	25,374,227	112,584,058
Deferred Loss On Early Retirement Of Debt	(3,429,543)	(697,668)	(4,127,211)
Governmental Notes Payable	1,314,422	0	1,314,422
Long-Term Liabilities Payable	0	120,708	120,708
Capitalized Lease Debt	4,059,780	0	4,059,780
Compensated Absences	2,077,628	40,693	2,118,321
<b>TOTAL LIABILITIES</b>	<b>\$ 169,444,102</b>	<b>\$ 32,086,721</b>	<b>\$ 201,530,823</b>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	\$ 30,424,920	\$ 17,972,908	\$ 48,397,828
Restricted for:			
Debt Service	2,005,124	0	2,005,124
Reserved for Capital Projects	12,127,596	0	12,127,596
Reserved for Retirement of Long-Term Obligations	232,805	2,274,325	2,507,130
Unreserved - Undesignated	(57,748,331)	11,277,209	(46,471,122)
<b>TOTAL NET ASSETS</b>	<b>\$ (12,957,886)</b>	<b>\$ 31,524,442</b>	<b>\$ 18,566,556</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

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	\$ 8,752,791	\$ 662,233	\$ 643,603	\$ 0	\$ (7,446,955)	\$ 0	\$ (7,446,955)
Public Safety	31,312,815	936,392	2,553,259	0	(27,823,164)	0	(27,823,164)
Public Works	11,018,525	6,596,689	1,519,472	3,785,163	882,799	0	882,799
Health & Welfare	973,515	0	1,513,950	0	540,435	0	540,435
Community Development	13,504,243	1,598,400	13,600,542	3,156,495	4,851,194	0	4,851,194
Culture and Recreation	1,023,315	26,414	0	0	(996,901)	0	(996,901)
Other Expenditure	18,553	0	22,465	0	3,912	0	3,912
Unallocated Depreciation	34,759	0	0	0	(34,759)	0	(34,759)
Interest on Long Term Debt	4,049,448	0	0	0	(4,049,448)	0	(4,049,448)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 70,687,964</b>	<b>\$ 9,820,128</b>	<b>\$ 19,853,291</b>	<b>\$ 6,941,658</b>	<b>\$ (34,072,887)</b>	<b>\$ 0</b>	<b>\$ (34,072,887)</b>
Business-Type Activities							
Sewer Authority	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Municipal Parking Authority	10,285,602	9,720,647	0	0	0	(564,955)	(564,955)
	1,622,769	1,570,267	0	0	0	(52,502)	(52,502)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 11,908,371</b>	<b>\$ 11,290,914</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (617,457)</b>	<b>\$ (617,457)</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 82,596,335</b>	<b>\$ 21,111,042</b>	<b>\$ 19,853,291</b>	<b>\$ 6,941,658</b>	<b>\$ (34,072,887)</b>	<b>\$ (617,457)</b>	<b>\$ (34,690,344)</b>
General Revenues:							
Property taxes, levied for general purposes					\$ 12,127,330	\$ 0	\$ 12,127,330
Act 511 Taxes					23,401,485	0	23,401,485
Grants, Subsidies, and contributions not restricted					165,146	0	165,146
Cable Television Franchise Revenue					739,305	0	739,305
Payments in Lieu of Taxes					129,666	0	129,666
Investment Earnings					832,896	225,965	1,058,861
Miscellaneous					380,052	230,126	610,178
Rents and Concessions					3,417	0	3,417
Grant Funds Loaned To Qualified Parties					515,000	0	515,000
<b>Total General Revenues and Transfers</b>					<b>\$ 38,294,297</b>	<b>\$ 456,091</b>	<b>\$ 38,750,388</b>
<b>Change in Net Assets</b>					<b>\$ 4,221,410</b>	<b>\$ (161,366)</b>	<b>\$ 4,060,044</b>
<b>Net Assets, Beginning of Year</b>					<b>(17,179,296)</b>	<b>31,685,808</b>	<b>14,506,512</b>
<b>NET ASSETS, END OF YEAR</b>					<b>\$ (12,957,886)</b>	<b>\$ 31,524,442</b>	<b>\$ 18,566,556</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	GENERAL	OECD	CAPITAL PROJECTS	SPECIAL CITIES	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and Cash Equivalents	\$ 479,815	\$ 3,652,137	\$ 6,111,419	\$ 1,895,897	\$ 2,350,003	\$ 14,489,271
Investments	0	0	7,076,473	0	9,223,265	16,299,738
Taxes and Fees Receivable, Net	17,879,518	0	0	0	0	17,879,518
Accounts Receivable, Net	0	0	509,811	0	119,702	629,513
Accrued Interest	0	0	24,987	0	0	24,987
Loans Receivable	0	44,894,553	0	0	1,390,987	46,285,540
Other Receivables, Net	996,701	1,045,398	0	836,754	0	2,878,853
Due From Other Funds	135,894	290,304	449,437	0	0	875,635
Due From Other Governments	0	263,902	0	0	0	263,902
Other Assets	0	188,427	0	0	0	188,427
Property Held for Resale	0	0	0	0	1,257,551	1,257,551
TOTAL ASSETS	\$ 19,491,928	\$ 50,334,721	\$ 14,172,127	\$ 2,732,651	\$ 14,341,508	\$ 101,072,935

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	GENERAL	OECD	CAPITAL PROJECTS	SPECIAL CITIES	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 984,317	\$ 505,571	\$ 1,826,638	\$ 938,166	\$ 394,124	\$ 4,648,876
Accrued Liabilities	440,235	10,299	0	0	0	450,534
Due to Other Funds	387,644	162,838	217,833	92,761	290,304	1,151,380
Deferred Revenues	13,922,003	49,633,396	0	1,701,724	2,090,987	67,348,110
<b>TOTAL LIABILITIES</b>	<b>\$ 15,734,199</b>	<b>\$ 50,312,104</b>	<b>\$ 2,044,531</b>	<b>\$ 2,732,651</b>	<b>\$ 2,775,415</b>	<b>\$ 73,598,900</b>
<b>FUND BALANCES</b>						
Reserve for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,374,823	\$ 2,374,823
Reserved for Capital Projects	0	0	12,127,596	0	8,853,566	20,981,162
Unreserved - Undesignated	3,757,729	22,617	0	0	337,704	4,118,050
<b>TOTAL FUND BALANCES</b>	<b>\$ 3,757,729</b>	<b>\$ 22,617</b>	<b>\$ 12,127,596</b>	<b>\$ 0</b>	<b>\$ 11,566,093</b>	<b>\$ 27,474,035</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 19,491,928</b>	<b>\$ 50,334,721</b>	<b>\$ 14,172,127</b>	<b>\$ 2,732,651</b>	<b>\$ 14,341,508</b>	<b>\$ 101,072,935</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

Total Fund Balance - Total Governmental Funds	\$	27,474,035
---	----	------------

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 \$ 46,099,679. and the accumulated depreciation is \$ 9,648,085.		36,451,594
---	--	------------

Governmental funds report the effects of bond issuance cost when the debt is first issued, whereas these amounts are deferred and amortized .		1,972,310
---	--	-----------

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.		9,827,603
--	--	-----------

Refuse fee receivable will be collected but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the fund.		4,091,730
--	--	-----------

Internal service fund is used by management to charge the cost of the workmen's compensation insurance fund to various departments. The net revenue of the internal service fund is reported with governmental activities.

Change in net assets is as follows:

Cash and cash equivalents	\$	7,332,418	
Investments		11,390,035	
Accrued Interest		120,559	
Due From Other Funds		217,833	
Restricted Cash & Cash Equivalents		172,000	
Accounts Payable		(178,106)	
Workers' Compensation Claims Payable		<u>(20,582,695)</u>	
Decrease In Net Assets			(1,527,956)

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.		1,390,987
--	--	-----------

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

Elimination of Lease Receivable/ Lease Payable Between Scranton Parking Authority and Scranton Redevelopment Authority and reporting of true outstanding debt		3,122,603
---	--	-----------

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	\$	(89,546,597)	
Governmental notes payable		(1,314,422)	
Accrued interest payable		(1,041,909)	
Capitalized Lease payable		(4,059,779)	
Compensated absences		(2,077,628)	
Deferred loss on early retirement of debt		<u>3,429,543</u>	
Increase in Long Term Liabilities			<u>(94,610,792)</u>

Net Assets of Governmental Activities	\$	<u>(12,957,886)</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, 2004

	GENERAL	OECD	CAPITAL PROJECTS	SPECIAL CITIES	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
Taxes	\$ 35,955,919	\$ 0	\$ 0	\$ 0	\$ 0	\$ 35,955,919
Intergovernmental	3,074,115	11,933,963	759,811	7,551,481	2,998,676	26,318,046
Departmental Earnings	1,966,799	0	0	78,727	0	2,045,526
Refuse Disposal Fee	4,702,024	0	0	0	0	4,702,024
Licenses and Permits	1,577,974	0	0	0	0	1,577,974
Cable Television Franchise Revenue	739,305	0	0	0	0	739,305
Payments in Lieu of Taxes	129,666	0	0	0	0	129,666
Investment Income	61,389	0	331,084	6,031	77,169	475,673
User Fee	26,414	0	0	0	0	26,414
Other Revenues	380,052	0	190,179	973,180	0	1,543,411
Rents and Concessions	700	0	0	0	2,717	3,417
Program Income	0	91,141	0	0	0	91,141
Total Revenues	\$ 48,614,357	\$ 12,025,104	\$ 1,281,074	\$ 8,609,419	\$ 3,078,562	\$ 73,608,516
Expenditures:						
Current:						
General Government	\$ 11,321,930	\$ 0	\$ 6,808	\$ 558,353	\$ 0	\$ 11,887,091
Public Safety	26,913,672	0	0	0	0	26,913,672
Public Works	9,507,462	0	0	2,835,174	0	12,342,636
Health and Welfare	0	0	0	1,412,129	0	1,412,129
Community Development	444,603	12,446,493	0	2,436,915	1,859,156	17,187,167
Culture and Recreation	880,295	0	0	0	0	880,295
Other Expenditures	0	0	0	13,553	5,000	18,553
Debt Service	0	0	0	0	0	0
Debt Service-Principal	0	0	0	0	2,304,256	2,304,256
Debt Service-Interest	0	0	0	0	3,522,220	3,522,220
Capital Outlay	0	0	13,157,818	0	2,325,182	15,483,000
Total Expenditures	\$ 49,067,962	\$ 12,446,493	\$ 13,164,626	\$ 7,256,124	\$ 10,015,814	\$ 91,951,019
Excess (Deficiency) of Revenues Over Expenditures	\$ (453,605)	\$ (421,389)	\$ (11,883,552)	\$ 1,353,295	\$ (6,937,252)	\$ (18,342,503)

"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, 2004

	GENERAL	OECD	CAPITAL PROJECTS	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):						
Lease Proceeds	\$ 4,000,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,000,000
Proceeds From Long Term Debt	0	0	0	0	12,295,000	12,295,000
Proceeds From Tax Anticipation Note	8,000,000	0	0	0	0	8,000,000
Operating Transfers In	1,636,598	153,340	929,566	0	4,877,816	7,597,320
Operating Transfers Out	(4,877,816)	0	0	(1,506,504)	(1,213,000)	(7,597,320)
Bond Issuance Cost Relative to Capitalizing Lease	(93,000)	0	0	0	(531,689)	(624,689)
Repayment of Tax Anticipation Note	(8,107,924)	0	0	0	0	(8,107,924)
Net Other Financing Sources (Uses)	\$ 557,858	\$ 153,340	\$ 929,566	\$ (1,506,504)	\$ 15,428,127	\$ 15,562,387
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ 104,253	\$ (268,049)	\$ (10,953,986)	\$ (153,209)	\$ 8,490,875	\$ (2,780,116)
Fund Balances, Beginning of Year	3,653,476	290,666	23,081,582	153,209	3,075,218	30,254,151
FUND BALANCES, END OF YEAR	\$ 3,757,729	\$ 22,617	\$ 12,127,596	\$ 0	\$ 11,566,093	\$ 27,474,035

"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, 2004

Net Changes in Fund Balances - Total Governmental Funds \$ (2,780,116)

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	\$ 20,379,929	
Depreciation	<u>(1,363,169)</u>	19,016,760

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. (427,104)

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. 1,528,819

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

Interest Expense	\$ 265,732	
Construction of Facility	2,325,182	
Bond Financing Cost	<u>531,689</u>	3,122,603

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	\$ 357,223	
Elimination of expenditure on general fund and revenue on internal service fund	3,684,381	
Recording on expenditures on internal service fund in governmental activities	<u>(6,173,207)</u>	(2,131,603)

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. 490,987

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. (26,077)

"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, 2004

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	\$	(4,000,000)	
Issuance of General Obligation Bonds		(12,295,000)	
Bond Discount, Net of Amortization		(23,467)	
Deferred Loss on Early Retirement of Debt, Net of Amortization		(514,431)	
Repayment of General Bond Principal		2,065,000	
Repayment of Governmental Note Payable		239,256	
Repayment of Capitalized Lease Principal		79,381	
Bond Issuance Cost, Net of Amortization		<u>(123,843)</u>	(14,573,104)

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.

245

Change in Net Assets of Governmental Activities

\$ 4,221,410

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2004

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR		
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY	TOTAL	
ASSETS					
Cash and Cash Equivalents	\$ 3,147,644	\$ 506,240	\$ 2,502	\$ 3,656,386	\$ 7,332,418
Certificate of Deposit	418,307	0	2,798,235	3,216,542	0
Investments	0	0	0	0	11,390,035
Accounts Receivable, Net	2,243,148	16,881	0	2,260,029	0
Accrued Interest	0	122	84,439	84,561	120,560
Due From Other Funds	0	57,912	0	57,912	217,833
Prepaid Assets	0	42,866	0	42,866	0
Other Assets	162,351	0	0	162,351	0
Restricted Assets:					
Restricted Cash and Cash Equivalents	100,000	7,908,416	0	8,008,416	172,000
Restricted Certificate of Deposit	2,174,325	0	0	2,174,325	0
Restricted Investments	0	1,173,528	0	1,173,528	0
Restricted Accounts Receivable	404,904	27,256	0	432,160	0
Capital Assets:					
Land	95,000	903,293	0	998,293	0
Land Improvements	0	309,045	0	309,045	0
Buildings and Improvements	75,233,335	12,111,054	0	87,344,389	0
Equipment	7,272,316	257,872	0	7,530,188	0
Construction In Progress	5,012,538	4,210,020	0	9,222,558	0
Accumulated Depreciation	(58,987,886)	(5,106,696)	0	(64,094,582)	0
Deferred Charges, Net	516,914	573,194	0	1,090,108	0
TOTAL ASSETS	\$ 37,792,896	\$ 22,991,003	\$ 2,885,176	\$ 63,669,075	\$ 19,232,846

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PRCPRRIARY FUNDS  
DECEMBER 31, 2004

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR MUNICIPAL RECREATION AUTHORITY		
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY			
				TOTAL	
LIABILITIES					
Short-Term Debt	\$ 1,876,792	\$ 0	\$ 0	\$ 1,876,792	\$ 0
Accounts Payable	361,834	21,060	0	382,894	178,107
Accrued Liabilities	746,570	166,599	0	913,169	0
Current Liabilities Payable From Restricted Assets			0		
Revenue Bonds Payable	437,277	330,000	0	767,277	0
Accrued Revenue Bond Interest Payable	0	243,938	0	243,938	0
Noncurrent Liabilities					
Workers' Compensation Claims Payable	0	0	0	0	20,582,695
Long-Term Debt Obligations	7,899,227	17,475,000	0	25,374,227	0
Deferred Loss On Early Retirement Of Debt	0	(697,668)	0	(697,668)	0
Long-Term Liabilities Payable	88,429	32,279	0	120,708	0
Capital Lease Obligations Payable	0	3,122,603	0	3,122,603	0
Compensated Absences	40,693	0	0	40,693	0
TOTAL LIABILITIES	\$ 11,450,822	\$ 20,693,811	\$ 0	\$ 32,144,633	\$ 20,760,802
NET ASSETS					
Investment in Capital Assets, Net of Related Debt	\$ 18,412,007	\$ (439,099)	\$ 0	\$ 17,972,908	\$ 0
Restricted for:					
Reserved for Retirement of Long-Term Obligations	2,274,325	0	0	2,274,325	(1,527,956)
Unreserved - Undesignated	5,655,742	2,736,291	2,885,176	11,277,209	0
TOTAL NET ASSETS	\$ 26,342,074	\$ 2,297,192	\$ 2,885,176	\$ 31,524,442	\$ (1,527,956)

"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, 2004

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 9,720,647	\$ 1,570,267	\$ 0	\$ 11,290,914	\$ 3,684,381
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,153,303
Salaries, Wages, and Fringe Benefits	0	435,493	0	435,493	0
Insurance	15,438	197,360	0	212,798	0
Depreciation	2,467,605	340,306	0	2,807,911	0
Other	7,617,220	254,619	0	7,871,839	19,904
Total Operating Expenses	\$ 10,100,263	\$ 1,227,778	\$ 0	\$ 11,328,041	\$ 6,173,207
Income (Loss) from Operations	\$ (379,616)	\$ 342,489	\$ 0	\$ (37,127)	\$ (2,488,826)
Non operating Revenues (Expenses):					
Investment Income	\$ 95,762	\$ 64,308	\$ 65,895	\$ 225,965	\$ 357,223
Interest Expense	(82,460)	(385,552)	0	(568,012)	0
Other	245,309	(15,166)	(17)	230,126	0
Amortization of Deferred Charges	(2,879)	(9,439)	0	(12,318)	0
Total Non operating Revenues (Expenses)	\$ 155,732	\$ (345,849)	\$ 65,878	\$ (124,239)	\$ 357,223
Change in Net Assets	\$ (223,884)	\$ (3,360)	\$ 65,878	\$ (161,366)	\$ (2,131,603)
Net Assets at Beginning of Year	26,565,958	2,300,552	2,819,298	31,685,808	603,647
NET ASSETS AT END OF YEAR	\$ 26,342,074	\$ 2,297,192	\$ 2,885,176	\$ 31,524,442	\$ (1,527,956)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES-INTERNAL SERVICE FUNDS	
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY	TOTAL	
Cash Flows From Operating Activities:					
Cash Received from Customers	\$ 8,963,640	\$ 1,976,550	\$ 0	\$ 10,940,190	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	3,684,381
Cash Payments to Vendors	(8,016,929)	(1,282,509)	0	(9,299,438)	(3,920,500)
Net Cash Provided by (Used In) Operating Activities	\$ 946,711	\$ 694,041	\$ 0	\$ 1,640,752	\$ (236,119)
Cash Flows From Non Capital Financing Activities:					
Other Revenue Received	\$ 52,997	\$ 0	\$ 0	\$ 52,997	\$ 0
Net Cash Provided by Non Capital Financing Activities	\$ 52,997	\$ 0	\$ 0	\$ 52,997	\$ 0
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (3,538,257)	\$ (710,585)	\$ 0	\$ (4,248,842)	\$ 0
Proceeds from Capital Debt	4,502,264	16,145,000	0	20,647,264	0
Interest Paid on Bonds	(149,195)	(664,786)	0	(813,981)	0
Retirement of Bonds	(209,940)	(6,055,000)	0	(6,264,940)	0
Payments on Deferred Charges	0	(1,063,490)	0	(1,063,490)	0
Net Cash Provided by Capital and Related Financing Activities	\$ 604,872	\$ 7,651,139	\$ 0	\$ 8,256,011	\$ 0
Cash Flow From Investing Activities:					
Purchase of Investments	\$ 0	\$ (1,173,528)	\$ 0	\$ (1,173,528)	\$ (13,099,910)
Sale of Investments	796,009	0	0	796,009	18,975,271
Purchase of Certificates of Deposit	0	0	(46,890)	(46,890)	0
Interest on Cash and Investments	96,942	119,503	8,386	224,831	460,845
Net Cash Provided by (Used In) Investing Activities	\$ 892,951	\$ (1,054,025)	\$ (38,504)	\$ (199,578)	\$ 6,336,206
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 2,497,531	\$ 7,291,155	\$ (38,504)	\$ 9,750,182	\$ 6,100,087
Cash and Cash Equivalents, Beginning of Year	750,113	1,123,501	41,006	1,914,620	1,404,331
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,247,644	\$ 8,414,656	\$ 2,502	\$ 11,664,802	\$ 7,504,418

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES-INTERNAL SERVICE FUNDS	
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY	TOTAL	
	\$ (379,616)	\$ 342,489	\$ 0	\$ (37,127)	\$ (2,488,826)
Depreciation	2,467,605	340,306	0	2,807,911	0
Change in Assets and Liabilities:					
(Increase) Decrease in:					
Accounts Receivable	(755,928)	20,667	0	(735,261)	0
Due From Other Funds	0	0	0	0	116,732
Other Assets	1,385	1,828	0	3,213	0
Increase (Decrease):	(443,602)	(44,463)	0	(488,065)	(111,631)
Accounts Payable	56,867	33,214	0	90,081	0
Accrued Liabilities	0	0	0	0	2,247,606
Accrued Workers' Compensation Claims Payable					
Net Cash Provided By (Used) In Operating Activities	\$ 946,711	\$ 694,041	\$ 0	\$ 1,640,752	\$ (236,119)
Reconciliation of Total Cash and Cash Equivalents					
Current Assets - Cash and Cash Equivalents	\$ 3,147,644	\$ 506,240	\$ 2,502	\$ 3,656,386	\$ 7,332,418
Restricted Assets - Cash and Cash Equivalents	100,000	7,908,416	0	8,008,416	172,000
TOTAL CASH AND CASH EQUIVALENTS	\$ 3,247,644	\$ 8,414,656	\$ 2,502	\$ 11,664,802	\$ 7,504,418

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

Net Cash Provided By (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



CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
DECEMBER 31, 2004

ASSETS

Receivables:

Members' Contributions	\$	16,354
Pension Reimbursements		<u>10,992</u>

Total Receivables	\$	27,346
-------------------	----	--------

Investments at Contract Value	<u>72,937,085</u>
-------------------------------	-------------------

TOTAL ASSETS	<u><u>\$72,964,431</u></u>
--------------	----------------------------

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$72,964,431</u></u>
---	----------------------------

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

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

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

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

As a result of applying these criteria, the following organizations have been categorized and determined to be and are presented as blended component units for the year ended December 31, 2004.

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, 2003 to March 31, 2004.

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 guarantees 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 include 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)

Special Cities and OECD are classified as major funds. Liquid Fuels and The Redevelopment Authority of the City of Scranton 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 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, 2004, upon which the 2004 levy was based, was approximately \$386 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, 2004 was 82.122 mills on the assessed value of land and 17.86 mills on the assessed value of improvements.

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

Allowance for Doubtful Accounts: Accounts Receivable included in the Enterprise Fund represent amounts outstanding from Sewer Authority customer's reported net of an allowance for doubtful accounts of \$1,300,000 at December 31, 2004. 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

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

Fund Financial Statements

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Long-term Debt

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

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

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

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

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

Government-wide Statements

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

Compensated Absences: The City's vacation policy generally provides that unused vacation benefits lapse at year-end. Unused vacation may be carried over only with the approval of the department head. Unused sick pay accumulates to varying maximum amounts for the various classes of City employees. At December 31, 2004 aggregate liability for unused vacation and sick pay is \$2,077,628.

Note 2      Cash and Cash Equivalents and Investments

Pennsylvania Statutes provide for investment of governmental funds into certain authorized investment types including U. S. Treasury bills, other short-term U.S. and Commonwealth of Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

The deposit and investment policy of the City adheres to state statutes. Deposits of the City are either maintained in demand deposits or invested in certificates of deposit.

Bank balances of governmental units are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes bank balances that are insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes bank balances that are collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name. Category 3 includes bank balances that are uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2      Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2004, the aggregate bank balance of bank deposits included in cash and cash equivalents was \$36,833,796 of which \$1,272,404 was insured by the FDIC (Category 1). The remaining bank balance of \$35,561,392 was collateralized with securities held by the pledging financial institutions, but not necessarily held in the City's name (Category 3). The carrying amount of these deposits at December 31, 2004 was \$38,872,047.

Investments: The investments of the City at December 31, 2004 have been categorized according to the level of risk assumed by the reporting entity. Category 1 includes investments that are insured, registered, or are held by the City's agent in the City's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent but not in the City's name. The City's investments at December 31, 2004 are classified as follows:

	<u>Category 1</u>	<u>Category 3</u>	<u>Carrying Amount</u>
CAPITAL PROJECT FUND:			
U.S. Government Securities Held in Financial Institution Trust Department		\$ 5,759,198	\$ 5,759,198
INTERNAL SERVICE FUND			
U.S. Government Securities Held In Financial Institution Trust Department		4,362,320	4,362,320
Corporate Obligations Held In Financial Institution Trust Department		7,027,715	7,027,715
REDEVELOPMENT AUTHORITY			
U.S. Government Securities Held in Financial Institution Trust Department		9,223,265	9,223,265
		<u>\$26,372,498</u>	<u>\$ 26,372,498</u>
CAPITAL PROJECT FUND:			
Guaranteed Investment Contract			<u>\$ 1,317,275</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2      Cash and Cash Equivalents and Investments (Continued)

	<u>Category 1</u>	<u>Category 3</u>	<u>Carrying Amount</u>
BUSINESS TYPE ACTIVITIES			
Municipal Parking Authority:			
<u>Restricted</u>			
Interest-earning investment			
Contract, at cost, due			
September 16, 2004	\$ 1,173,528	\$ 0	\$ 1,173,528
PENSION TRUST FUNDS:			
Nationwide Insurance Company			
Assets at Contract Value:			
Fixed Income			\$ 4,055,407
International Value			6,359,839
Diversified Bond Fund			19,417,346
Small Cap Value			9,316,820
Large Cap Value			15,397,203
Small Cap Growth			6,666,773
Large Cap Growth			<u>11,723,693</u>
Total Pension Trust Funds			<u>\$ 72,937,085</u>
TOTAL ALL FUNDS			<u>\$101,800,386</u>

Note 3      Taxes and Fees Receivable

Taxes and fees receivable in the General Fund consist of the following at December 31, 2004:

Current real estate taxes	\$ 367,456
Delinquent real estate taxes	12,050,606
Act 511 taxes:	
Earned Income	2,842,300
Occupational privilege	45,874
Business privilege/mercantile	78,676
Delinquent refuse disposal fee	<u>5,203,181</u>
Total	<u>\$20,588,093</u>
Less allowance for uncollectible taxes and fees	<u>(2,708,574)</u>
Net	<u>\$17,879,519</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 3      Taxes and Fees Receivable (Continued)

Of the above, the receivables not expected to be collected within one year are \$8,448,000 delinquent real estate taxes and \$3,443,000 delinquent refuse disposal fee.

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, 2004 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 135,894	\$ 387,644
Special Revenue Funds,		
OECD	290,304	162,838
Special City	0	92,761
Redevelopment Authority	0	290,304
Internal Source Fund	217,833	0
Capital Projects Fund	449,437	217,833
Enterprise Funds,		
Parking Authority	57,912	0
Total	<u>\$ 1,151,380</u>	<u>\$ 1,151,380</u>

Note 5      Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance at January 1, 2004	Additions	Disposals	Balance at December 31, 2004
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 3,502,312	\$ 0	\$ 0	\$ 3,502,312
Construction in Progress	4,277,859	10,668,288	798,448	14,147,699
Total Capital Assets Not Being Depreciated	<u>\$ 7,780,171</u>	<u>\$ 10,668,288</u>	<u>\$ 798,448</u>	<u>\$ 17,650,011</u>
Capital assets being depreciated				
Land Improvements	\$ 1,343,888	\$ 930,098	\$ 0	\$ 2,273,986
Building & Building Improvements	4,696,193	6,186,581	0	10,882,774
Infrastructure	1,368,400	2,686,415	0	4,054,815
Furniture & Equipment	2,084,597	623,658	0	2,708,255
Vehicles	8,446,501	83,337	0	8,529,838
Total Capital Assets being Depreciated	<u>\$ 17,939,579</u>	<u>\$ 10,510,089</u>	<u>\$ 0</u>	<u>\$ 28,449,668</u>
Totals at Historical Cost	<u>\$ 25,719,750</u>	<u>\$ 21,178,377</u>	<u>\$ 798,448</u>	<u>\$ 46,099,679</u>



CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5      Capital Assets (Continued)

	Balance at January 1, 2004	Additions	Disposals	Balance at December 31, 2004
Less: Accumulated Depreciation				
Land Improvements	\$ (26,435)	\$ (148,963)	\$ 0	\$ (175,398)
Building & Building Improvements	(2,563,605)	(241,827)	0	(2,805,432)
Infrastructure	(45,613)	(180,664)	0	(226,277)
Furniture & Equipment	(994,386)	(167,682)	0	(1,162,068)
Vehicles	(4,654,877)	(624,033)	0	(5,278,910)
Total Accumulated Depreciation	<u>\$ (8,284,916)</u>	<u>\$ (1,363,169)</u>	<u>\$ 0</u>	<u>\$ (9,648,085)</u>
Governmental Activities Capital Assets, Net	<u>\$ 17,434,834</u>	<u>\$ 19,815,208</u>	<u>\$ 798,448</u>	<u>\$ 36,451,594</u>
Business - Type Activities:				
Land & Land Improvements	\$ 1,307,338	\$ 0	\$ 0	\$ 1,307,338
Building & Building Improvements	83,047,851	4,296,538	0	87,344,389
Furniture & Equipment	7,098,721	431,467	0	7,530,188
Construction in Progress	5,954,685	7,484,720	4,216,847	9,222,558
Totals at Historical Cost	<u>\$ 97,408,595</u>	<u>\$ 12,212,725</u>	<u>\$ 4,216,847</u>	<u>\$105,404,473</u>
Less: Accumulated Depreciation				
Land & Land Improvements	\$ (288,438)	\$ (23,158)	\$ 0	\$ (311,596)
Building & Building Improvements	(54,503,966)	(2,563,063)	0	(57,067,029)
Furniture & Equipment	(6,494,267)	(221,690)	0	(6,715,957)
Total Accumulated Depreciation	<u>\$ (61,286,671)</u>	<u>\$ (2,807,911)</u>	<u>\$ 0</u>	<u>\$ (64,094,582)</u>
Business - Type Capital Assets, Net	<u>\$ 36,121,924</u>	<u>\$ 9,404,814</u>	<u>\$ 4,216,847</u>	<u>\$ 41,309,891</u>

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 67,028
Public Safety	391,557
Public Works	569,781
Parks & Recreation	300,044
Unallocated	34,759
Total Depreciation Expense	<u>\$ 1,363,169</u>

Construction in progress is composed of the following:

Governmental Activities:

Construction in progress of \$14,147,699 consists of expenditures relating to the construction of a new police headquarters, acquisition of street lights, flood control projects, and improvement to various city roads and bridges. Commitments at December 31, 2004 totaled approximately \$37,000,000.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5      Capital Assets (Continued)

Business Type Activities:

Construction in progress consists of expenditures paid in connection with the construction of two new parking facilities and the related capitalized interest of the 2004 Series revenue bond issue. The total cost of one of the facilities is estimated to be \$8,480,000 and will be funded by the 2004 series revenue bond issue. The second facility is being constructed in connection with a lease agreement with the Scranton Redevelopment Authority. Refer to Note 12 for details.

At March 31, 2004, expenditures amounting to \$4,561,636 are recorded as construction in progress. Total contracts signed at March 31, 2004 amounted to approximately \$4,700,000.

Note 6      Short-Term Debt

The following summarizes the changes in short-term debt of the Enterprise Fund for the year ended December 31, 2004:

	Balance 01/01/04	Increases	Decreases	Balance 12/31/04
Sewer Authority:				
Line of Credit	\$ 911,713	\$952,390	\$ 0	\$ 1,864,103
Demand Note Payable	26,152	0	13,463	12,689
	<u>\$ 937,865</u>	<u>\$952,390</u>	<u>\$ 13,463</u>	<u>\$ 1,876,792</u>

**Line of Credit:** In August 2000, the Sewer Authority obtained 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. 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.

**Demand Note Payable:** The Sewer Authority has a demand note payable secured by a vehicle, with interest at 3.15%. If no demand is made, monthly payments of \$1,174, including principal and interest, are due until February, 2005.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2004:

	Balance 01/01/04	Additions	(Amortization) Accretion	Retirements	Balance 12/31/04
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligations Bonds:					
Emmaus General Authority Series 2002	\$ 7,500,000	\$ 0	\$ 0	\$ 190,000	\$ 7,310,000
Series A of 2003	5,000,064	0	4,180	410,000	4,594,244
Series B of 2003	35,546,774	0	(12,564)	680,000	34,854,210
Series C of 2003	17,857,116	0	22,736	310,000	17,569,852
Series D of 2003	13,389,176	0	9,115	475,000	12,923,291
Total General Obligation Bonds	<u>\$79,293,130</u>	<u>\$ 0</u>	<u>\$ 23,467</u>	<u>\$2,065,000</u>	<u>\$ 77,251,597</u>
Lease Obligations Payable					
Capitalized Lease Vehicles	\$ 139,160	\$ 0	\$ 0	\$ 79,380	\$ 59,780
Capitalized Lease Buildings	0	4,000,000	0	0	4,000,000
Total Lease Obligations Payable	<u>\$ 139,160</u>	<u>\$ 4,000,000</u>	<u>\$ 0</u>	<u>\$ 79,380</u>	<u>\$ 4,059,780</u>
Redevelopment Authority:					
Bond Payable	\$ 0	\$12,295,000	\$ 0	\$ 0	\$ 12,295,000
Note Payable	1,553,678	0	0	239,256	1,314,422
Total Redevelopment Authority	<u>\$ 1,553,678</u>	<u>\$12,295,000</u>	<u>\$ 0</u>	<u>\$ 239,256</u>	<u>\$ 13,609,422</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u><b>\$80,985,968</b></u>	<u><b>\$16,295,000</b></u>	<u><b>\$ 23,467</b></u>	<u><b>\$2,383,636</b></u>	<u><b>\$ 94,920,799</b></u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Revenue Bonds:					
Major Enterprise Fund:					
Parking Authority					
1969 Series	\$ 1,030,000	\$ 0	\$ 0	\$1,030,000	\$ 0
1995 Series	6,685,000	0	0	4,725,000	1,960,000
2004 Series	0	15,845,000	0	0	15,845,000
Sewer Authority					
2002 Series	4,388,844	404,055	0	169,798	4,623,101
2002 Series	594,263	2,763,578	0	0	3,357,841
2003 Series	0	0	0	0	0
Total Revenue Bonds	<u>\$12,698,107</u>	<u>\$19,012,633</u>	<u>\$ 0</u>	<u>\$5,924,798</u>	<u>\$ 25,785,942</u>
Notes Payable:					
Major Enterprise Fund:					
Sewer Authority	\$ 0	\$ 132,241		\$ 22,852	\$ 109,389
Sewer Authority	0	250,000	0	3,827	246,173
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u><b>\$12,698,107</b></u>	<u><b>\$19,394,874</b></u>	<u><b>\$ 0</b></u>	<u><b>\$5,951,477</b></u>	<u><b>\$ 26,141,504</b></u>
<b>TOTAL LONG-TERM DEBT</b>	<u><b>\$93,684,075</b></u>	<u><b>\$35,689,874</b></u>	<u><b>\$ 23,467</b></u>	<u><b>\$8,335,113</b></u>	<u><b>\$121,062,303</b></u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

A summary of long-term debt outstanding at December 31, 2004 is as follows:

Emmaus General Authority Series 2002:

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

General Obligation Bonds, Series A of 2003:

On August 1, 2003 the City of Scranton in accordance with the local government Unit Debt Act of the Commonwealth of Pennsylvania, Act 52, of 1978 issued \$5,025,000. Of 1.00% to 3.50% General Obligation Bonds, Series A of 2003 to provide funds to advance refund the City's General Obligation Bonds, Series of 2001 A, capitalize a portion of the interest on the bonds and pay the costs and expenses related to issuing and insuring the bonds. Interest is payable on March 1, and September 1, each year with final maturity September 1, 2014. The bonds maturing after September 1, 2006 are subject to extraordinary mandatory redemption prior to maturity on March 1, 2006 at the direction of the City at 100% to the extent that there are available amounts generated in the preceding fiscal year as determined under IRC section 1.148-6(d)(3)(iii) of the 1986 code. The bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

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%.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

General Obligation Bonds, Series C of 2003:

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

General Obligation Bonds, Series D of 2003:

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

Redevelopment Authority:

Note Payable: the Authority has a note payable with a Fidelity Deposit and Discount Bank with maximum borrowings of \$2,500,000, dated November 1998, maturing in November of 2013. The note carries an interest rate of 4.39% for the first 60 months, after which time the rate will adjust every five years to a rate equal to 51.65 percent of the New York Prime Rate on each adjustment date. The rate was adjusted in November 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 \$14,000, including principal and interest, and an annual principal installment of \$84,000. The balance of the loan at December 31, 2004 was \$1,314,422. Interest payments in 2004 totaled \$30,744.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

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. As such, the interest maturities have been estimated using an interest rate of 4.25% for the remaining term of the Bonds.

Parking Authority:

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

1995 Parking Revenue Bonds, due in annual installments through 2020, bearing interest rate of 5.00% to 7.15%. In January 2004, the Authority used a portion of the proceeds from the 2004 series bonds to advance refund \$4,580,000 of the outstanding 1995 series bonds. The Authority established an escrow account with the Trustee in the amount of \$5,087,024. The investments in the trust and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. The loss resulting from this transaction amounted to \$683,053 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 \$40,984 for the year ended December 31, 2004.

2004 Parking Revenue Bonds:

On January 1, 2004, the Authority issued \$16,145,000 of Guaranteed Parking Revenue Bonds through the Third Supplemental Trust Indenture. The Bonds carry interest rates of 1.1% to 5.0%. The proceeds from the issue will be used to acquire, construct and equip a new parking facility, renovate existing

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

parking facilities, redeem the remaining 1969 Series Bonds outstanding and establish an escrow account to advance refund \$4,590,000 of the 1995 Series Bonds.

Optional Redemption:

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

Mandatory Redemption of Term Bonds:

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

Sewer Authority:

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2004 amounted to \$4,623,101. 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, 2004, when monthly principal and interest payments are due up to and including January 2004. Interest is at 1.522% for the first 75 months and 3.045% thereafter. Legal fees relating to obtaining the financing amounted to \$44,338 and have been recorded as deferred charges. Construction was completed for this phase in July 2003, and the final disbursement on this loan was received June 2004 in the amount of \$86,866.

Sewer Authority 2002 Series (PENNVEST Loan):

The balance outstanding at March 31, 2004 amounted to \$3,357,841. 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 1.38% for the first 81 months and 2.74% thereafter.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

Sewer Authority 2003 Series (PENNVEST Loan):

The loan closed in December 2003, in the amount of \$2,806,264. There was no balance outstanding at March 31, 2004. 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 1.28% for the first 73 months and 2.774% thereafter.

The Authority has received a commitment letter for a fourth loan in the amount of \$3,944,160.

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

Capitalized Lease Obligation:

On December 27, 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 15<sup>th</sup> and December 15<sup>th</sup> each year with final maturity on December 16, 2016. Principal is payable annually starting on December 15, 2006. The City has guaranteed the Sewer Authority Debt. Since the Sewer Authority reports on a fiscal year March 31, 2004 year end, the sale/lease back transaction of December 27, 2004 is not included in their financial statements. Therefore, the debt is listed as a capitalized lease obligation on the primary government at December 31, 2004. Such debt will be included in the Sewer Authority March 31, 2005 financial statements and the capitalized lease receivable/payable will be eliminated in future government wide financial statements.

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



CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Future Debt Service Requirements as of December 31, 2004 are as follows:

Governmental Activities General Obligation Bonds				Governmental Activities Note Payable			
Year Ending December 31,	Principal	Interest	Total	Year Ending December 31,	Principal	Interest	Total
2005	\$ 2,110,000	\$ 3,752,546	\$ 5,862,546	2005	\$ 226,766	\$ 25,234	\$ 252,000
2006	2,370,000	3,714,969	6,084,969	2006	231,494	20,506	252,000
2007	2,425,000	3,664,019	6,089,019	2007	236,323	15,677	252,000
2008	2,485,000	3,603,076	6,088,076	2008	240,294	11,706	252,000
2009	2,555,000	3,533,603	6,088,603	2009	237,894	4,420	242,314
2010-14	14,235,000	16,262,923	30,497,923	Thereafter	141,651	3,144	144,795
2015-19	15,575,000	13,305,374	28,880,374		<u>\$1,314,422</u>	<u>\$ 80,687</u>	<u>\$ 1,395,109</u>
2020-24	19,240,000	9,301,626	28,541,626				
2025-29	18,890,000	5,021,387	23,911,387				
2030-33	10,145,000	1,031,576	11,176,576				
	<u>\$90,030,000</u>	<u>\$63,191,099</u>	<u>\$153,221,099</u>				

Business-Type Activities Revenue Bonds Parking Authority				Business-Type Activities Revenue Bonds Sewer Authority			
Year Ending December 31,	Principal	Interest	Total	Year Ending December 31,	Principal	Interest	Total
2005	\$ 330,000	\$ 844,028	\$ 1,174,028	2004	\$ 437,277	\$ 126,370	\$ 563,647
2006	340,000	831,828	1,171,828	2005	513,614	140,733	654,347
2007	355,000	818,528	1,173,528	2006	522,651	131,696	654,347
2008	370,000	803,318	1,173,318	2007	534,236	122,479	656,715
2009	385,000	786,465	1,171,465	2008	489,254	155,608	644,862
2010-14	2,240,000	3,622,248	5,862,248	2010-2014	2,235,410	916,700	3,152,110
2015-19	2,820,000	3,033,642	5,853,642	2015-2019	2,575,992	585,951	3,161,943
2020-24	3,230,000	2,377,538	5,607,538	2020-2024	1,028,070	70,159	1,098,229
2025-29	3,880,000	1,563,090	5,443,090		<u>\$8,336,504</u>	<u>\$ 2,249,696</u>	<u>\$ 10,586,200</u>
2030-33	3,855,000	493,500	4,348,500				
	<u>\$17,805,000</u>	<u>\$15,174,185</u>	<u>\$ 11,726,415</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
2005	\$ 59,780	\$ 239,728	\$ 299,508
2006	195,000	242,928	437,928
2007	215,000	231,085	446,085
2008	245,000	218,625	463,625
2009	270,000	203,148	473,148
2010-14	1,940,000	725,240	2,665,240
2015-19	1,135,000	105,470	1,240,470
TOTAL	<u>\$ 4,059,780</u>	<u>\$ 1,966,224</u>	<u>\$ 6,026,004</u>

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

The interest rate on the capital lease is 5.99% for the lease with The Scranton Sewer Authority and 5.0% for the capitalized vehicles.

The cost of the assets is \$ 4,327,327

The accumulated depreciation expense through December 31, 2004 is 116,107

The net book value of the capitalized leased building and vehicles is \$ 1,211,220

Advance Refunding:

On August 7, 2003 the City issued \$ 5,025,000 in General Obligation Bonds Series A dated August 1, 2003 with an average interest rate (coupon) of 2.934% to advance refund \$4,885,000 of outstanding 2001 A series bonds with an average interest rate of 5.620%. Total proceeds including bond discount and accrued interest was \$ 5,000,406. Underwriting fees and other issuance cost were \$ 123,247. Net proceeds of \$ \$ 4,875,047 were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 504,997 from the debt service fund (sinking fund) and an additional \$ 233,318 from the 2004 B issue were deposited in the irrevocable trust with subsequent debt service payments on the refunded bond issue to be paid from the irrevocable trust. As a result, refunded series 2001 A is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. Comparative debt service cash flows on the old and

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

new debt show a cash flow benefit of \$ 540,303. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$72,163 for the year ended December 31, 2004.

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. Amortization is recorded on the straight-line method as a component of interest expense and amounted to \$442,269 for the year ended December 31, 2004.

The amount of defeased debt outstanding at December 31, 2004 is as follows:

2001 Series A General Obligation Bonds	\$ 4,335,000.
2001 Series C General Obligation Bonds	\$ 17,345,000.

Bond Closing Cost were incurred for the 2004 Capitalized Lease in the amount of \$93,000 as follows:

Bond Counsel	\$ 45,000.
Underwriters Counsel	5,500.
Trustee & Counsel Fees	9,500.
Rating Agency Fees	25,000.
Commitment Fee	8,000.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

The breakdown of interest expense as of December 31, 2004 is as follows:

	Interest Expense Charged to Expense	Interest Expense Capitalized
City of Scranton	\$ 3,225,499	\$ 75,811
Sewer Authority of the City of Scranton	60,479	88,716
Parking Authority of the City of Scranton	239,196	425,590
Redevelopment Authority of the City of Scranton	30,744	0
	<u>\$ 3,555,918</u>	<u>\$ 590,117</u>

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, 2004, the City's self-insured retention limits are as follows:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 8      Risk Management (Continued)

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim loss reserve of \$20,582,695 at December 31, 2004 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, 2004 and in prior years the actuarial valuation was determined as of December, 31. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2004 is calculated as follows:

Claims and Costs Paid	\$3,788,965
Increase in Actuarial	
Discounted Loss Reserve	2,247,606
Buyout Settlement Payments	<u>116,732</u>
Worker's Compensation Claims	<u>\$6,153,303</u>

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

<u>Calendar Year Ended</u>	<u>Balance Beginning of Calendar Year</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Balance End of Calendar Year</u>
31-Dec-04	\$18,335,089	\$6,036,571	\$3,788,965	\$ 20,582,695
31-Dec-03	\$12,618,678	\$9,325,727	\$3,609,316	\$ 18,335,089

Note 9      Interfund Transfers

Interfund transfers during the year ended December 31, 2004 were as follows:

	<u>Operating Transfers in</u>	<u>Operating Transfers Out</u>
General Fund	\$ 1,636,598	\$ 4,877,816
Special Revenue Fund:		
OECD	153,340	0
Liquid Fuels	0	1,213,000
Special City	0	1,506,504

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 9      Interfund Transfers

	<u>Operating Transfers in</u>	<u>Operating Transfers Out</u>
Debt Service Fund	4,877,816	0
Internal Service Fund	0	0
Recreation Fund	0	0
Pension Fund	0	0
Capital Projects	<u>929,566</u>	<u>0</u>
TOTAL	<u>\$ 7,597,320</u>	<u>\$ 7,597,320</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 authorize by City Council. The Plans have been designated as severely distressed under Pennsylvania Act 205

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10      Pension Plans/Other Postemployment Benefits (Continued)

month if hired after July 1, 1987. Nonuniformed union 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, 2004. 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 2004 consisted of the following:

	<u>POLICE</u>	<u>FIREMEN</u>	<u>NON- UNIFORMED</u>	<u>TOTAL</u>
City/Commonwealth	\$1,356,535	\$3,435,767	\$ 297,532	\$ 5,089,834
Employees	<u>229,542</u>	<u>221,464</u>	<u>33,622</u>	<u>484,628</u>
Total	<u>\$1,586,077</u>	<u>\$3,657,231</u>	<u>\$ 331,154</u>	<u>\$ 5,574,462</u>

A summary of the change in the net pension obligation as of January 1, 2003, 2002, and 2001 is presented below:

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	<u>853,473</u>	<u>1,039,706</u>	<u>14,778</u>	<u>1,907,957</u>
Annual pension costs	\$ 2,791,263	\$ 5,079,186	\$ 281,222	\$ 8,151,671
Contributions made	(1,380,194)	(4,315,202)	(242,085)	(5,937,481)
Net actuarial loss on plan assets	<u>10,777,467</u>	<u>8,192,385</u>	<u>2,190,365</u>	<u>21,160,217</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

	Police	Firemen	Non-Uniformed	Total
Net increase in pension benefit obligation	\$12,188,536	\$ 8,956,369	\$ 2,229,502	\$23,374,407
Pension benefit obligation, beginning	<u>13,914,845</u>	<u>40,633,641</u>	<u>1,568,268</u>	<u>56,116,754</u>
Pension benefit obligation, ending	<u>\$26,103,381</u>	<u>\$49,590,010</u>	<u>\$ 3,797,770</u>	<u>\$79,491,161</u>

January 1, 2002

	Police	Firemen	Non-Uniformed	Total
Annual required contribution	\$ 785,948	\$ 839,678	\$ 127,116	\$ 1,752,742
Interest on pension benefit obligation	1,066,190	3,205,551	74,969	4,346,710
Adjustment to annual required contribution	(6,973)	146,239	(11,065)	128,201
Annual pension costs	\$ 1,845,165	\$ 4,191,468	\$ 191,020	\$ 6,227,653
Contributions made	(454,768)	(3,476,808)	(81,273)	(4,012,849)
Net actuarial (gain)/loss on plan assets	<u>(802,924)</u>	<u>(150,408)</u>	<u>521,409</u>	<u>(431,923)</u>
Net increase in pension benefit obligation	\$ 587,473	\$ 564,252	\$ 631,156	\$ 1,782,881
Pension benefit obligation, beginning	<u>13,327,372</u>	<u>40,069,389</u>	<u>937,112</u>	<u>54,333,873</u>
Pension benefit obligation, ending	<u>\$13,914,845</u>	<u>\$ 40,633,641</u>	<u>\$ 1,568,268</u>	<u>\$56,116,754</u>

January 1, 2001

	Police	Firemen	Non-Uniformed	Total
Annual required contribution	\$ 801,760	\$ 850,370	\$ 107,514	\$ 1,759,644
Interest on pension benefit obligation	969,243	3,404,408	46,965	4,420,616
Adjustment to annual required contribution	1,989,876	597,016	262,939	2,849,831
Annual pension costs	\$ 3,760,879	\$ 4,851,794	\$ 417,418	\$ 9,030,091
Contributions made	(2,411,148)	(4,181,327)	(302,031)	(6,894,506)
Increase for plan amendment	0	0	127,258	127,258
Net actuarial gain on plan assets	<u>(137,894)</u>	<u>(3,156,173)</u>	<u>107,401</u>	<u>(3,186,666)</u>



CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10      Pension Plans/Other Postemployment Benefits (Continued)

	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Net increase (decrease) in pension benefit obligation	\$ 1,211,837	\$ (2,485,706)	\$ 350,046	\$ (923,823)
Pension benefit obligation, beginning	<u>12,115,535</u>	<u>42,555,095</u>	<u>587,066</u>	<u>55,257,696</u>
Pension benefit obligation, ending	<u>\$13,327,372</u>	<u>\$ 40,069,389</u>	<u>\$ 937,112</u>	<u>\$54,333,873</u>

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2004. 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 year. Effective in 2004, the unfunded actual liability calculation for the years 2001 and 2002 was revised to be amortized as a level percentage of projected payroll on an open basis over a period of 30 of years.

January 1, 2003

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2002

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$54,850,759	\$69,802,104	\$ 7,077,504	\$ 131,730,367
Actuarial value of assets	<u>40,935,914</u>	<u>29,168,463</u>	<u>5,509,236</u>	<u>75,613,613</u>
Pension benefit obligation	<u>\$13,914,845</u>	<u>\$40,633,641</u>	<u>\$ 1,568,268</u>	<u>\$ 56,116,754</u>
Funded ratio	<u>75%</u>	<u>42%</u>	<u>78%</u>	<u>57%</u>
Covered payroll	<u>\$ 6,814,392</u>	<u>\$5,904,732</u>	<u>\$ 5,781,576</u>	<u>\$ 18,500,700</u>
Pension benefit obligation to covered payroll	<u>204%</u>	<u>688%</u>	<u>27%</u>	<u>303%</u>

January 1, 2001

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$54,120,301	\$68,167,798	\$ 6,504,126	\$128,792,225
Actuarial value of assets	<u>40,792,929</u>	<u>28,098,409</u>	<u>5,567,014</u>	<u>74,458,352</u>
Pension benefit obligation	<u>\$13,327,372</u>	<u>\$40,069,389</u>	<u>\$ 937,112</u>	<u>\$ 54,333,873</u>
Funded ratio	<u>75%</u>	<u>41%</u>	<u>86%</u>	<u>58%</u>
Covered payroll	<u>\$ 6,012,396</u>	<u>\$5,955,684</u>	<u>\$ 5,834,856</u>	<u>17,802,936</u>
Pension benefit obligation to covered payroll	<u>222%</u>	<u>673%</u>	<u>16%</u>	<u>305%</u>

Historical trend information for the Plans is presented below:

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

Police Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/01	\$3,760,879	64.1%	\$13,327,372
01/01/02	\$1,845,165	24.6%	\$13,914,845
01/01/03	\$2,791,263	49.4%	\$26,103,381

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>
01/01/01	\$4,851,794	86.2%	\$40,069,389
01/01/02	\$4,191,468	82.9%	\$40,633,641
01/01/03	\$5,079,186	85.0%	\$49,590,010

Non-Uniformed Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/01	\$ 417,418	72.4%	\$ 937,112
01/01/02	\$ 191,020	42.5%	\$ 1,568,268
01/01/03	\$ 281,222	86.1%	\$ 3,797,770

Defined Contribution Plan: The City contributes to a union sponsored, multi-employer plan for certain of its employees. The Plan is not administered by the City and contributions are determined in accordance with labor contracts. Pension expense was \$185,967. in 2004.

The Parking Authority sponsors a defined contribution pension plan covering all eligible employees. Pension expense was \$21,679 for the year ended December 31, 2004.

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 that costs. The retiree pays the other 25%.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10      Pension Plans/Other Postemployment Benefits (Continued)

The City uses the cash basis to account for these expenditures. The City has not determined the amount of such expenditures for 2004 nor the number of participants eligible for these benefits.

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 93% of the total taxes collected by the City in 2004. 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 \$607,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$31,662,000 of tax revenues on behalf of the City in 2004.

Note 13      Commitments and Contingencies

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

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

The City is a defendant in various labor and employment matters. Counsel for the City cannot determine the likelihood of success at the present time. The City believes the suits are without merit and is vigorously defending its position. The liability, if any, will not have a material impact on the financial statements as presented. The City is involved in arbitration proceeding with its fire fighter's union seeking reimbursement of allegedly inaccurately assessed health care co-payments assessed under its collective bargaining agreement. If co-payments are found to be inaccurate potential exposure could be material to the financial statements. Counsel for the City cannot determine the likelihood of success at the present time. The City believes the suit is without merit and is vigorously defending its position.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

The City is involved in arbitration proceedings with its civilian police clerks for the reassignment of personnel of the Police Department. In 2004, a judgment was recorded against the City which the City is appealing. 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.

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

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

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

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

The Bureau and the City are in the process of negotiating a modification of the December 2001 Settlement Agreement and Release. The Bureau has proposed a 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. As of the date of these financial statements, the proposed modifications have not been agreed to by the City.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 14      Distressed Municipality Status (Continued)

has improved its financial situation since this designation, the City still remains a distressed municipality pursuant to the Act.

Note 15      Current Real Estate Taxes

Current real estate taxes collected at December 31, 2004

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	94,322,398	291,314,531	385,636,929
Millage Rates	<u>0.082122</u>	<u>0.017860</u>	
Total Original Taxes Levied	7,745,944	5,202,877	\$12,948,821
Add: Additions			28,046
Less: Abatements			<u>(68,919)</u>
Real Estate Taxes To be Collected At Face			\$12,907,948
Add: Penalties Collected			<u>68,171</u>
Total Before Deductions			\$12,976,119
Less: Discounts Taken			(196,382)
Less: Home Vouchers			(245,650)
Less: Delinquent Taxes Returned			<u>(1,654,631)</u>
TOTAL REAL ESTATE TAXES COLLECTED			<u>\$10,879,456</u>

## **SUPPLEMENTARY INFORMATION**

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>GAAP</u>	<u>FINAL BUDGET</u>
			<u>BASIS</u>	<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
Revenues				
Taxes	\$ 35,831,115	\$ 35,831,115	\$ 35,955,919	\$ 124,804
Intergovernmental	3,111,000	3,111,000	3,074,115	(36,885)
Departmental Earnings	1,890,959	1,890,959	1,966,799	75,840
Refuse Disposal Fees	4,748,183	4,748,183	4,702,024	(46,159)
Licenses and Permits	1,963,665	1,963,665	1,577,974	(385,691)
Cable Television Franchise				
Revenue	640,000	640,000	739,305	99,305
Payments in Lieu of Taxes	110,000	110,000	129,666	19,666
Interest Income	90,000	90,000	61,389	(28,611)
User Fees	35,000	35,000	26,414	(8,586)
Other Revenues	2,100,000	2,100,000	380,052	(1,719,948)
Donations	100,000	100,000	0	(100,000)
Rents and Concessions	3,000	3,000	700	(2,300)
Total Revenues	<u>\$ 50,622,922</u>	<u>\$ 50,622,922</u>	<u>\$ 48,614,357</u>	<u>\$ (2,008,565)</u>
Expenditures				
General Government	\$ 11,626,714	\$ 11,677,076	\$ 11,321,930	\$ 355,146
Public Safety	25,347,095	25,526,693	26,913,672	(1,386,979)
Public Works	8,969,205	9,267,278	9,507,462	(240,184)
Community Development	487,613	481,473	444,603	36,870
Culture and Recreation	760,582	774,582	880,295	(105,713)
Total Expenditures	<u>\$ 47,191,209</u>	<u>\$ 47,727,102</u>	<u>\$ 49,067,962</u>	<u>\$ (1,340,860)</u>
Excess of Revenues Over Expenditures	<u>\$ 3,431,713</u>	<u>\$ 2,895,820</u>	<u>\$ (453,605)</u>	<u>\$ (3,349,425)</u>

"See accompanying notes and independent auditors' report."



CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP	FINAL BUDGET
			BASIS	POSITIVE
				(NEGATIVE)
Other Financing Sources (Uses)				
Lease Proceeds	\$ 0	\$ 0	\$ 4,000,000	\$ 4,000,000
Proceeds from Tax Anticipation				
Notes	8,000,000	8,000,000	8,000,000	0
Operating Transfers In	2,326,670	2,326,670	1,636,598	(690,072)
Operating Transfers Out	(5,069,889)	(5,104,889)	(4,877,816)	227,073
Bond Cost	0	0	(93,000)	(93,000)
Contingency	(468,494)	(2,943)	0	2,943
Payments of Tax Anticipation				
Notes	(8,220,000)	(8,114,658)	(8,107,924)	6,734
Net Other Financing Sources (Uses)	\$ (3,431,713)	\$ (2,895,820)	\$ 557,858	\$ 3,453,678
Excess of Revenues and Other				
Financing Sources Over				
Expenditures and Other				
Financing Uses	\$ 0	\$ 0	\$ 104,253	\$ 104,253
Fund Balance, Beginning of Year	3,653,476	3,653,476	3,653,476	0
FUND BALANCE, END OF YEAR	<u>\$ 3,653,476</u>	<u>\$ 3,653,476</u>	<u>\$ 3,757,729</u>	<u>\$ 104,253</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	LIQUID FUELS	REDEVELOPMENT AUTHORITY	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 847	\$ 344,032	\$ 2,005,124	\$ 2,350,003
Investments	0	9,223,265	0	9,223,265
Accounts Receivable, Net	0	119,702	0	119,702
Loans Receivable	0	1,390,987	0	1,390,987
Property Held for Resale	0	1,257,551	0	1,257,551
TOTAL ASSETS	<u>\$ 847</u>	<u>\$ 12,335,537</u>	<u>\$ 2,005,124</u>	<u>\$ 14,341,508</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	LIQUID FUELS	REDEVELOPMENT AUTHORITY	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 0	\$ 394,124	\$ 0	\$ 394,124
Due to Other Funds	0	290,304	0	290,304
Deferred Revenues	<u>0</u>	<u>2,090,987</u>	<u>0</u>	<u>2,090,987</u>
TOTAL LIABILITIES	<u>\$ 0</u>	<u>\$ 2,775,415</u>	<u>\$ 0</u>	<u>\$ 2,775,415</u>
FUND BALANCES				
Debt Service	\$ 0	\$ 369,699	\$ 2,005,124	\$ 2,374,823
Capital Projects	0	8,853,566	0	8,853,566
Unreserved - Undesignated	<u>847</u>	<u>336,857</u>	<u>0</u>	<u>337,704</u>
TOTAL FUND BALANCES	<u>\$ 847</u>	<u>\$ 9,560,122</u>	<u>\$ 2,005,124</u>	<u>\$ 11,566,093</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 847</u>	<u>\$ 12,335,537</u>	<u>\$ 2,005,124</u>	<u>\$ 14,341,508</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, 2004

	LIQUID FUELS	REDEVELOPMENT AUTHORITY	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
Revenues:				
Intergovernmental	\$ 1,205,039	\$ 1,793,637	\$ 0	\$ 2,998,676
Interest Income	4,572	52,977	19,620	77,169
Rents and Concessions	0	2,717	0	2,717
Total Revenues	\$ 1,209,611	\$ 1,849,331	\$ 19,620	\$ 3,078,562
Expenditures:				
Current:				
Community Development	\$ 0	\$ 1,859,156	\$ 0	\$ 1,859,156
Other Expenditures	0	0	5,000	5,000
Debt Service				
Debt Service-Principal	0	239,256	2,065,000	2,304,256
Debt Service-Interest	0	296,476	3,225,744	3,522,220
Capital Outlay	0	2,325,182	0	2,325,182
Total Expenditures	\$ 0	\$ 4,720,070	\$ 5,295,744	\$ 10,015,814
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,209,611	\$ (2,870,739)	\$ (5,276,124)	\$ (6,937,252)
Other Financing Sources (Uses):				
Proceeds From Long Term Debt	\$ 0	\$ 12,295,000	\$ 0	\$ 12,295,000
Operating Transfers In	0	0	4,877,816	4,877,816
Operating Transfers Out	(1,213,000)	0	0	(1,213,000)
Bond Issuance Costs	0	(531,689)	0	(531,689)
Net Other Financing Sources (Uses)	\$ (1,213,000)	\$ 11,763,311	\$ 4,877,816	\$ 15,428,127
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ (3,389)	\$ 8,892,572	\$ (398,308)	\$ 8,490,875
Fund Balances, Beginning of Year	4,236	667,550	2,403,432	3,075,218
FUND BALANCES, END OF YEAR	\$ 847	\$ 9,560,122	\$ 2,005,124	\$ 11,566,093

"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, 2004

Additions:

Contributions

Employee	\$ 484,628	
Employer	2,536,575	
Commonwealth State Aid	<u>2,553,259</u>	
Total Contributions		\$ 5,574,462

Investment Income:

Investment Return	\$ 6,406,371	
Dividend Income	<u>53</u>	
Total Investment Income		6,406,424

Other Income:

Miscellaneous Receipts	\$ 603	
Buy-Backs	<u>8,321</u>	
Total Other Income		<u>8,924</u>

TOTAL ADDITIONS	-	\$11,989,810
-----------------	---	--------------

DEDUCTIONS

Benefit Payments	\$ 9,320,913	
Administrative Expenses	83,845	
Refund Of Members' Contributions	<u>13,953</u>	
Total Deductions		<u>9,418,711</u>

CHANGE IN NET ASSETS		\$ 2,571,099
----------------------	--	--------------

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

Beginning of Year	<u>70,393,332</u>
END OF YEAR	<u><u>\$72,964,431</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP	FINAL BUDGET
			BASIS	POSITIVE
				(NEGATIVE)
Revenues				
Taxes				
Act 511:				
Wage	\$19,600,000	\$19,600,000	\$18,763,136	\$ (836,864)
Real Estate Transfer	1,900,000	1,900,000	2,570,957	670,957
Mercantile	904,044	904,044	1,011,533	107,489
Business Privilege	600,000	600,000	546,170	(53,830)
Occupational Privilege	340,000	340,000	312,667	(27,333)
Delinquent Mercantile	109,325	109,325	43,850	(65,475)
Delinquent Business Privilege	100,000	100,000	56,100	(43,900)
Total Act 511	<u>\$23,553,369</u>	<u>\$23,553,369</u>	<u>\$23,304,413</u>	<u>\$ (248,956)</u>
Current Real Estate	\$10,627,830	\$10,627,830	\$10,879,456	\$ 251,626
Delinquent Real Estate	1,550,000	1,550,000	1,674,978	124,978
Public Utility	25,000	25,000	48,170	23,170
Penalties & Interest	74,916	74,916	48,902	(26,014)
Total Taxes	<u>\$35,831,115</u>	<u>\$35,831,115</u>	<u>\$35,955,919</u>	<u>\$ 124,804</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,715,000	\$ 2,715,000	\$ 2,553,259	\$ (161,741)
Attorney General, Drug Task Force	51,000	51,000	0	(51,000)
FEMA Assistance	0	0	194,948	194,948
Cops Ahead Program	220,000	220,000	134,067	(85,933)
Other State Grants	0	0	72,356	72,356
Act 101	125,000	125,000	119,485	(5,515)
Total Intergovernmental	<u>\$ 3,111,000</u>	<u>\$ 3,111,000</u>	<u>\$ 3,074,115</u>	<u>\$ (36,885)</u>
Departmental Earnings				
Parking Meters	\$ 650,000	\$ 650,000	\$ 644,135	\$ (5,865)
Fines and Forfeits	823,300	823,300	787,901	(35,399)
Pave Cuts	225,000	225,000	365,846	140,846
Report Copies Fire & Police	55,000	55,000	64,675	9,675
Alarm Fees	70,000	70,000	67,535	(2,465)
Rescue Fees	10,000	10,000	16,281	6,281
Other Aggregated Service Revenues	47,659	47,659	0	(47,659)
Zoning	10,000	10,000	20,426	10,426
Total Departmental Earnings	<u>\$ 1,890,959</u>	<u>\$ 1,890,959</u>	<u>\$ 1,966,799</u>	<u>\$ 75,840</u>

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 4,748,183	\$ 4,748,183	\$ 4,702,024	\$ (46,159)
Licenses and Permits	1,963,665	1,963,665	1,577,974	(385,691)
Cable Television Franchise Revenue	640,000	640,000	739,305	99,305
Payments in Lieu of Taxes	110,000	110,000	129,666	19,666
Interest Income	90,000	90,000	61,389	(28,611)
User Fees	35,000	35,000	26,414	(8,586)
Other Revenues	2,100,000	2,100,000	380,052	(1,719,948)
Donations	100,000	100,000	0	(100,000)
Rents and Concessions	3,000	3,000	700	(2,300)
Total Other Revenues	<u>\$ 9,789,848</u>	<u>\$ 9,789,848</u>	<u>\$ 7,617,524</u>	<u>\$ (2,172,324)</u>
Total Revenues	<u>\$50,622,922</u>	<u>\$50,622,922</u>	<u>\$48,614,357</u>	<u>\$ (2,008,565)</u>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$ 8,000,000	\$ 8,000,000	\$ 8,000,000	\$ 0
Lease Proceeds	0	0	4,000,000	4,000,000
Operating Transfers in from:				
Liquid Fuels Fund	1,201,670	1,201,670	1,213,000	11,330
Internal Service Fund	400,000	400,000	0	(400,000)
Other Funds	725,000	725,000	423,598	(301,402)
Total Other Financing Sources	<u>\$10,326,670</u>	<u>\$10,326,670</u>	<u>\$13,636,598</u>	<u>\$ 3,309,928</u>
Total Revenues and Other Financing Sources	<u>\$60,949,592</u>	<u>\$60,949,592</u>	<u>\$62,250,955</u>	<u>\$ 1,301,363</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, 2004

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>GAAP</u>	<u>FINAL BUDGET</u>
			<u>BASIS</u>	<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
Expenditures				
General Government				
Salaries and Wages	\$ 2,041,302	\$ 2,038,802	\$ 1,918,584	\$ 120,218
Employee Benefits	1,922,673	1,915,074	2,073,018	(157,944)
Workers' Compensation Claims	3,800,000	4,028,543	3,684,381	344,162
General Insurance	1,100,000	1,002,529	983,443	19,086
Office Supplies and Expense	240,021	235,270	211,634	23,636
Professional Fees	656,967	750,205	810,036	(59,831)
Telephone	188,000	143,436	143,436	0
Equipment	57,927	38,229	35,708	2,521
Travel	10,516	10,815	8,895	1,920
Other	165,000	96,530	65,436	31,094
Boards and Commissions	151,400	149,742	140,429	9,313
Utilities	724,585	691,963	689,351	2,612
Grants and Contributions	15,150	15,150	15,150	0
Court Awards & Settlements	100,000	100,000	82,592	17,408
Parking Authority Ticket Issuers	450,000	460,788	459,837	951
Surety Bonds	3,173	0	0	0
Total General Government	<u>\$11,626,714</u>	<u>\$11,677,076</u>	<u>\$11,321,930</u>	<u>\$ 355,146</u>
Public Safety				
Salaries and Wages	\$14,218,423	\$14,183,423	\$13,631,811	\$ 551,612
Employee Benefits	10,594,535	10,836,246	12,852,558	(2,016,312)
Supplies	178,500	140,634	119,804	20,830
Equipment	290,500	310,728	269,046	41,682
Training	45,000	33,012	30,459	2,553
Travel	10,000	7,513	6,498	1,015
Professional Fees	10,137	15,137	3,496	11,641
Total Public Safety	<u>\$25,347,095</u>	<u>\$25,526,693</u>	<u>\$26,913,672</u>	<u>\$ (1,386,979)</u>
Public Works				
Salaries and Wages	\$ 3,624,594	\$ 3,584,969	\$ 3,508,953	\$ 76,016
Employee Benefits	1,247,911	1,323,674	1,523,771	(200,097)
Supplies	269,700	317,046	300,940	16,106
Professional Fees	23,000	33,548	33,546	2
Equipment	709,000	883,200	882,013	1,187
Electric	245,000	274,740	279,505	(4,765)
Landfill Fees	1,550,000	1,605,499	1,584,767	20,732
Salt	250,000	157,590	157,590	0
Flood Protection	150,000	175,845	325,210	(149,365)
Street Lighting	900,000	911,167	911,167	0
Total Public Works	<u>\$ 8,969,205</u>	<u>\$ 9,267,278</u>	<u>\$ 9,507,462</u>	<u>\$ (240,184)</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, 2004

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	GAAP	FINAL BUDGET
			BASIS	POSITIVE
				(NEGATIVE)
Community Development				
Salaries and Wages	\$ 456,763	\$ 456,763	\$ 422,445	\$ 34,318
Employee Benefits	12,000	12,000	11,009	991
Supplies	18,850	12,710	11,149	1,561
Total Community Development	\$ 487,613	\$ 481,473	\$ 444,603	\$ 36,870
Culture and Recreation				
Salaries and Wages	\$ 622,822	\$ 622,222	\$ 732,846	\$ (110,624)
Employee Benefits	1,760	1,760	1,760	0
Supplies	96,500	119,138	114,227	4,911
Programs	39,500	31,462	31,462	0
Total Culture and Recreation	\$ 760,582	\$ 774,582	\$ 880,295	\$ (105,713)
Total Expenditures	\$47,191,209	\$47,727,102	\$49,067,962	\$ (1,340,860)
Other Financing Uses				
Payments of Tax Anticipation Notes	\$ 8,220,000	\$ 8,114,658	\$ 8,107,924	\$ 6,734
Bond Issuance Cost Relative to Capitalized Leasing	0	0	93,000	(93,000)
Contingency	468,494	2,943	0	2,943
Operating Transfers Out to: Debt Service Fund	5,069,889	5,104,889	4,877,816	227,073
Total Other Financing Uses	\$13,758,383	\$13,222,490	\$13,078,740	\$ 143,750
Total Expenditures and Other Financing Uses	\$60,949,592	\$60,949,592	\$62,146,702	\$ (1,197,110)

"See accompanying independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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		\$ 6,313,934
Section 108 Loan Guarantees	14.248		3,000,000
Emergency Shelter Grants Program	14.231		205,894
Home Investment Partnerships Program	14.239		<u>588,994</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 10,108,822</u>
U.S. DEPARTMENT OF JUSTICE:			
COPS	16.710		\$ 134,067
Bulletproof Vest Program	16.607	2004 BUBX04023790	<u>27,222</u>
Total U.S. Department of Justice			<u>\$ 161,289</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 2004 Paid 2005			\$ 28,988
Lackawanna Avenue Bridge Rehabilitation Project	20.205	Reimbursement Agreement Number 0441761	
Incurred 2004 Paid 2004			136,383
Incurred 2004 Paid 2005			<u>44,081</u>
East Mountain Road Betterment Project	20.205	Reimbursement Agreement Number 048401	
Incurred 2004 Paid 2004			867,172
Incurred 2004 Paid 2005			<u>61,518</u>
Scranton K Routes	20.205	Reimbursement Agreement Number 048511	
Incurred 2004 Paid 2005			<u>475,772</u>
Central Business District Signalization Improvement Project	20.205	Reimbursement Agreement Number 041439	
Incurred 2004 Paid 2004			29,097
Incurred 2004 Paid 2005			<u>82,768</u>
Rockwell Avenue Bridge Replacement Project	20.205	Reimbursement Agreement Number 041222	
Incurred 2004 Paid 2004			53,422
Incurred 2004 Paid 2005			<u>7,161</u>
East Market Street Bridge	20.205	Reimbursement Agreement Number 042345	
Incurred 2004 Paid 2004			1,792,812
Incurred 2004 Paid 2005			<u>254,780</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Nay Aug Pedestrian Bridge	20.205	Reimbursement Agreement Number 048606	
Incurred 2004 Paid 2004			0
Incurred 2004 Paid 2005			<u>0</u>
Total U.S. Department of Transportation			<u>\$ 3,833,954</u>
DEPARTMENT OF HOMELAND SECURITY			
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Firefighters Grant Program	97.044	FEMA EMW - 2003 -FG - 0023	<u>\$ 210,778</u>
Total Direct Assistance Department of Homeland Security			<u>\$ 210,778</u>
Passed through the Pennsylvania Emergency Management Agency			
Tropical Depression Ivan Disaster	97.036		
Incurred 2004 Paid 2005			\$ 146,211
Hazard Mitigation Grant	97.039		
Incurred 2004 Paid 2004			<u>357,462</u>
Total Pennsylvania Emergency Management Agency			<u>\$ 503,673</u>
Total Department of Homeland Security			<u>\$ 714,451</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Pennsylvania Department of Health	93.197		
Childhood Lead Poisoning Prevention Projects		PALAG0025-94	<u>\$ 7,913</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 14,826,429</u></u>

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

"See accompanying notes and independent auditors' report."

ROBERT ROSSI & CO.  
CERTIFIED PUBLIC ACCOUNTANTS

ROBERT L. ROSSI, C.P.A.  
ROBERT T. ARVONIO, C.P.A.  
PETER D. ARVONIO, JR., C.P.A.  
ROBERT A. HANIS, C.P.A.

299 MAIN ST. - STURGES  
OLYPHANT, PA 18447-2319  
TEL. (570) 876-2300 - FAX (570) 876-5153  
e-mail - rossi@rrco.net

SALVATORE A. NOLE, JR., C.P.A.  
JOSEPH E. ROSSI, C.P.A.  
SEAN J. GRASSI, C.P.A.  
RALPH R. MORRIS, III, C.P.A.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

June 17, 2005

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, Pennsylvania as of and for the year ended December 31, 2004, which collectively comprise the City of Scranton, Pennsylvania basic financial statements and have issued our report thereon dated June 17, 2005. 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.

Compliance

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

Internal Control

In planning and performing our audit, we considered the City of Scranton, Pennsylvania internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Scranton, Pennsylvania ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Scranton, Pennsylvania in a separate letter dated June 17, 2005

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

Robert Rossi & Co

ROBERT ROSSI & CO.  
CERTIFIED PUBLIC ACCOUNTANTS

ROBERT L. ROSSI, C.P.A.  
ROBERT T. ARVONIO, C.P.A.  
PETER D. ARVONIO, JR., C.P.A.  
ROBERT A. HANIS, C.P.A.

299 MAIN ST. - STURGES  
OLYPHANT, PA 18447-2319  
TEL. (570) 876-2300 - FAX (570) 876-5153  
e-mail - rossi@rrco.net

SALVATORE A. NOLE, JR., C.P.A.  
JOSEPH E. ROSSI, C.P.A.  
SEAN J. GRASSI, C.P.A.  
RALPH R. MORRIS, III, C.P.A.

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

June 17, 2005

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

COMPLIANCE

We have audited the compliance of the City of Scranton, Pennsylvania with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. The City of Scranton, Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Scranton, Pennsylvania's management. Our responsibility is to express an opinion on the City of Scranton, Pennsylvania's compliance based on our audit.

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

As described in item 2004-2 in the accompanying schedule of findings and questioned cost the City of Scranton, Pennsylvania did not comply with requirements regarding recordkeeping and reporting that are applicable to its Cops Ahead Program. Compliance with such requirements is necessary, in our opinion, for the City of Scranton, Pennsylvania to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Scranton, Pennsylvania complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

#### INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Scranton, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Scranton, Pennsylvania's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

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

*Robert Rossi FCO*

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Section I – Auditor’s Result Section

- (1) A qualified opinion was expressed on the aggregate remaining fund information of the auditee. An unqualified opinion was expressed on the remaining Governmental-Activities, Business Activities, and each major fund.
- (2) Reportable condition was disclosed by the audit of the financial statements in Internal Control. The condition is not reported as a material weakness.
- (3) The audit did not disclose any noncompliance which is material to the financial statements of the auditee.
- (4) No reportable conditions relating to the audit of the Major Federal Award Programs are reported.
- (5) The Auditor’s Report on compliance for Cops Ahead Program, expresses a qualified opinion; the report on the remaining programs are unqualified.
- (6) Audit findings that are required to be reported in accordance with Section 510(A) OMB Circular A-133 are reported in this schedule.
- (7) Identification of major programs is as follows:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.248	Section 108 Loan Guarantees
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 \$360,000.
- (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, 2004

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

2004-1

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

2004-2

Department of Justice:  
Universal Hiring Program CFDA 16.710  
Cops in School CFDA 16.710  
Cops in Community Prosecution CFDA 16.710

Condition: The Police Department does not maintain adequate written accounting procedures needed to ensure proper control, monitoring, reporting, and receiving of grant funds.

Criteria: Documented financial procedures should be prepared to describe all accounting functions and related activities to ensure adequate control of grant funds.

Effects: Due to a change over in staff and lack of detailed procedures, the following deficiencies were noted:

- 1.) Quarterly financial status reports are due within forty-five (45) days after the end of a quarter. The first quarter of the 2004 quarterly reports were filed within forty-five (45) days after the quarter's end. For one grant we were not provided with a filed fourth quarter report.

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

- 2.) To draw down money from the program requires the use of (personnel identification number) PIN after quarterly reports were filed. The new personnel was not aware of this requirement or where such PIN was located. As a result, the City did not receive any Federal reimbursement in 2004 for the COPS program until September 2004.
- 3.) Upon completion of the grant, the grantee is required to file a final financial status report within ninety (90) days. One grant expired in August 2003 and another in April 2004 and a final completion report was not submitted. In June 2004 the City requested an extension for this grant. However, we were not provided with an approved extension request.
- 4.) For one Grant, the total Federal expenditures are listed as \$250,000. However, Federal records only indicate payments of \$209,635. This Grant expired in April 2004.
- 5.) For one Grant, the total Federal expenditures are listed as \$625,000. However, Federal records only indicate payments of \$608,457. This Grant expired in August 2003.

Recommendation: Procedures should be implemented to ensure that all necessary reports are filed timely and accurately. The City has access to authorized funds when available and upon completion of a grant the final completion report is prepared and all funds have been expended within the allotted ninety (90) days after the grant period has ended.

## Department of Business Administration

City Hall  
340 North Washington Avenue  
Scranton, Pennsylvania 18503  
Tel: (570) 348-4118  
Fax: (570) 348-4225



SCRANTON

### CORRECTIVE ACTION PLAN

Cognizant or Oversight Agencies for Audit: Department of Justice

The City of Scranton, Pennsylvania respectfully submits the following corrective action plan for the year ended December 31, 2004:

Name and address of independent public accounting firm:

Robert Rossi & Co.  
299 Main Street – Sturges  
Olyphant, PA 18447

Audit period: January 1, 2004 to December 31, 2004

The findings from the December 31, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS – FINANCIAL STATEMENT AUDIT**

#### **REPORTABLE CONDITIONS**

##### **2004-1 Accounts Payable Segregation of Duties**

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

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

### **FINDINGS – FEDERAL AWARDS PROGRAM AUDIT**

#### **DEPARTMENT OF JUSTICE**

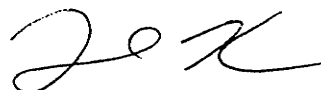
##### **2004-2 Universal Hiring Program CFDA 16.710**

Cops in School CFDA 16.710

Cops in Community Prosecution CFDA 16.710

Recommendation: Procedures should be implemented to ensure that all necessary reports are filed timely and accurately. The City has access to authorized funds when available and upon completion of a grant the final completion report is prepared and all funds have been expended within the allotted ninety (90) days after the grant has ended.

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

A handwritten signature in dark ink, appearing to read 'J. K.', is positioned above the printed name.

Leonard Kresefski  
Business Administrator

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

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

Finding 2003-2

The audit for the year ended December 31, 2003 noted that the City should develop a CAP or IDCRP if indirect costs are to be charged to the Grants.

For 2004, no indirect costs were charged to Grants and no CAP or IDCRP was developed by the City.

Finding 2003-3

The audit for the year ended December 31, 2003 noted that the City needs to implement necessary corrective action to ensure that reports are filed timely, the City has authorized funds when available and upon completion of a Grant a final completion report is prepared. Compliance has improved, however, instances of non-compliance with documentation procedures still exists.