

**CITY OF SCRANTON, PENNSYLVANIA
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2002**

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June 6, 2003

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the City of Scranton, Pennsylvania (the "City") as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Scranton, Pennsylvania management. Our responsibility is to express an opinion on these general purpose 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 \$31,414,405 at March 31, 2002 and total revenues of \$7,853,131 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$10,788,829 at December 31, 2002 and total revenues of \$1,712,156 for the year then ended; and the Redevelopment Authority of the City of Scranton, Pennsylvania (the "Redevelopment Authority") which statements reflect total assets of \$1,604,542 at December 31, 2002 and total revenues of \$425,519 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 Special Revenue Fund, 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.

As described in Note 1 to the general purpose financial statements, the City's general fixed assets including buildings and related improvements, furniture, and equipment are stated at values other than cost. In our opinion, such assets should be stated at historical cost to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of the preceding practice are not readily determinable.

In our opinion, based on our audit and the reports of other auditors, and except for the effects of the matters discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Scranton, Pennsylvania as of December 31, 2002, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2003 on our consideration of the City's internal control over financial reporting and on 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.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of the City taken as a whole. The additional information presented on pages 44 through 48 is presented for purposes of additional analysis and is not a required part of the general purpose, 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 not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Robert Rossi + Co." The signature is written in a cursive, flowing style.

CITY OF SCRANTON, PENNSYLVANIA
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002

	GOVERNMENT FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	INTERNAL SERVICE	ENTERPRISE	PENSION TRUST	GENERAL	GENERAL	
								FIXED ASSETS	LONG-TERM OBLIGATIONS	
ASSETS										
Cash and Cash Equivalents	\$ 997,253	\$ 7,836,010	\$ 2,533,885	1,556,533	\$ 1,686,876	\$ 1,627,039	\$ 28,737	\$ 0	\$ 0	\$ 16,266,333
Certificate of Deposit	0	0	0	0	0	613,690	0	0	0	613,690
Investments	0	0	720,541	14,768,762	2,457,532	0	54,576,727	0	0	72,523,562
Taxes and Fees Receivable, Net	14,718,808	0	0	0	0	0	0	0	0	14,718,808
Accounts Receivable, Net	0	0	0	0	0	1,523,353	0	0	0	1,523,353
Accrued Interest	0	0	10,037	104,513	0	140	0	0	0	114,690
Loans Receivable	0	32,709,337	0	0	0	0	0	0	0	32,709,337
Other Receivables, Net	960,589	0	0	0	0	0	0	0	0	960,589
Due From Other Funds	59,385	529,986	50,000	0	615,066	31,214	0	0	0	1,285,651
Due From Other Governments	0	1,647,732	0	0	0	277,762	0	0	0	1,925,494
Prepaid Assets	0	0	0	0	0	32,396	0	0	0	32,396
Other Assets	0	0	0	0	0	154,937	0	0	0	154,937
Restricted Cash and Cash Equivalents	0	285,462	0	0	0	1,051,495	0	0	0	1,336,957
Restricted Certificate of Deposit	0	0	0	0	0	1,621,248	0	0	0	1,621,248
Restricted Accounts Receivable	0	0	0	0	0	413,903	0	0	0	413,903
Restricted Interest Receivable	0	0	0	0	0	669	0	0	0	669
Property Held for Resale	0	107,551	0	0	0	0	0	0	0	107,551
Fixed Assets, Net	0	0	0	0	0	35,326,628	0	20,525,902	0	55,852,530
Deferred Charges, Net	0	0	0	0	0	1,019,837	0	0	0	1,019,837
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	0	0	0	0	0	32,279,558	32,279,558
Amount to be Provided for Compensated Absences	0	0	0	0	0	0	0	0	1,903,119	1,903,119
Amount Available in Debt Service Fund for Retirement of General Long-Term Obligations	0	0	0	0	0	0	0	0	3,264,463	3,264,463
TOTAL ASSETS	\$ 16,736,035	\$ 43,116,078	\$ 3,314,463	\$ 16,429,808	\$ 4,759,474	\$ 43,694,311	\$ 54,605,464	\$ 20,525,902	\$ 37,447,140	\$ 240,628,675

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002

	GOVERNMENT FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	INTERNAL SERVICE	ENTERPRISE	PENSION TRUST	GENERAL	GENERAL	
								FIXED ASSETS	LONG-TERM OBLIGATIONS	
LIABILITIES AND FUND EQUITY										
LIABILITIES:										
Demand Note Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,432,140	\$ 0	\$ 0	\$ 0	\$ 1,432,140
Accounts Payable	1,533,033	545,041	0	89,781	0	1,314,068	0	0	0	3,481,923
Accrued Liabilities	1,553,586	67,919	0	0	0	355,027	0	0	0	1,976,532
Due to Other Funds	414,984	227,513	0	643,154	0	0	0	0	0	1,285,651
Due to Other Governments	0	9,255,000	0	0	0	0	0	0	0	9,255,000
Workers' Compensation Claims Payable	0	0	0	0	12,618,678	0	0	0	0	12,618,678
Deferred Revenues	9,919,212	28,203,237	0	0	0	0	0	0	0	38,122,449
Long-Term Debt Obligations	0	0	50,000	0	0	8,695,000	0	0	35,544,021	44,289,021
Long-Term Liabilities Payable	0	0	0	0	0	125,861	0	0	0	125,861
Other Liabilities Payable From Restricted Assets	0	0	0	0	0	156,355	0	0	0	156,355
Compensated Absences	0	0	0	0	0	0	0	0	1,903,119	1,903,119
Total Liabilities	\$ 13,420,815	\$ 38,298,710	\$ 50,000	\$ 732,935	\$ 12,618,678	\$ 12,078,451	\$ 0	\$ 0	\$ 37,447,140	\$ 114,646,729
FUND EQUITY:										
Contributed Capital	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,055,031	\$ 0	\$ 0	\$ 0	\$ 16,055,031
Investment in Fixed Assets	0	0	0	0	0	0	0	20,525,902	0	20,525,902
Retained Earnings										
Designated for Retirement of										
Long-Term Obligations	0	0	0	0	0	1,794,324	0	0	0	1,794,324
Undesignated	0	0	0	0	(7,859,204)	13,766,505	0	0	0	5,907,301
Fund Balance:										
Reserved for Retirement Benefits	0	0	0	0	0	0	54,605,464	0	0	54,605,464
Reserved for Capital Projects	0	0	0	15,696,873	0	0	0	0	0	15,696,873
Reserved for Retirement of										
Long-Term Obligations	0	0	3,264,463	0	0	0	0	0	0	3,264,463
Reserved for Community Development	0	4,817,368	0	0	0	0	0	0	0	4,817,368
Unreserved - Undesignated	3,315,220	0	0	0	0	0	0	0	0	3,315,220
Total Fund Equity (Deficit)	\$ 3,315,220	\$ 4,817,368	\$ 3,264,463	\$ 15,696,873	\$ (7,859,204)	\$ 31,615,860	\$ 54,605,464	\$ 20,525,902	\$ 0	\$ 125,981,946
TOTAL LIABILITIES & FUND EQUITY	\$ 16,736,035	\$ 43,116,078	\$ 3,314,463	\$ 16,429,808	\$ 4,759,474	\$ 43,694,311	\$ 54,605,464	\$ 20,525,902	\$ 37,447,140	\$ 240,628,675

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 ALL GOVERNMENT FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	TOTAL (MEMORANDUM ONLY)
Revenues:					
Taxes	\$ 35,192,525	\$ 0	\$ 0	\$ 0	\$ 35,192,525
Intergovernmental	3,837,609	12,855,784	0	0	16,693,393
Departmental Earnings	1,482,013	100,994	0	0	1,583,007
Refuse Disposal Fee	4,261,420	0	0	0	4,261,420
Licenses and Permits	1,456,313	0	0	0	1,456,313
Cable Television Franchise Revenue	695,820	0	0	0	695,820
Payments in Lieu of Taxes	29,832	0	0	0	29,832
Interest Income	128,702	81,863	70,939	321,031	602,535
Sewer Authority Concession Fee	500,000	0	0	0	500,000
User Fee	42,400	0	0	0	42,400
Other Revenues	322,391	1,136,301	0	0	1,458,692
Rents and Concessions	2,432	0	0	0	2,432
Program Income	0	1,114,852	0	0	1,114,852
Total Revenues	\$ 47,951,457	\$ 15,289,794	\$ 70,939	\$ 321,031	\$ 63,633,221
Expenditures:					
General Government	\$ 10,902,471	\$ 271,383	\$ 5,435	\$ 0	\$ 11,179,289
Public Safety	26,812,877	0	0	0	26,812,877
Public Works	7,554,947	132,444	0	0	7,687,391
Health and Welfare	0	1,740,131	0	0	1,740,131
Community Development	499,482	10,267,011	0	0	10,766,493
Culture and Recreation	693,941	0	0	0	693,941
Other Expenditures	0	182,477	0	0	182,477
Debt Service-Principal	0	0	1,080,000	0	1,080,000
Debt Service-Interest	0	65,722	1,721,094	0	1,786,816
Capital Projects	0	797,549	0	4,088,636	4,886,185
Total Expenditures	\$ 46,463,718	\$ 13,456,717	\$ 2,806,529	\$ 4,088,636	\$ 66,815,600
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 1,487,739</u>	<u>\$ 1,833,077</u>	<u>\$ (2,735,590)</u>	<u>\$ (3,767,605)</u>	<u>\$ (3,182,379)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 ALL GOVERNMENT FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
Other Financing Sources (Uses):					
Bond Proceeds	\$ 0	\$ 0	\$ 0	\$ 7,500,000	\$ 7,500,000
Proceeds From Long Term Debt	0	750,000	0	0	750,000
Proceeds From Tax Anticipation Note	7,699,916	0	0	0	7,699,916
Operating Transfers In	1,268,440	0	1,962,032	0	3,230,472
Operating Transfers Out	(2,290,087)	(1,743,952)	0	0	(4,034,039)
Bond Issuance Costs	0	0	0	(216,505)	(216,505)
Repayment of Tax Anticipation Note	(7,844,045)	0	0	0	(7,844,045)
Net Other Financing Sources (Uses)	<u>\$ (1,165,776)</u>	<u>\$ (993,952)</u>	<u>\$ 1,962,032</u>	<u>\$ 7,283,495</u>	<u>\$ 7,085,799</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses	\$ 321,963	\$ 839,125	\$ (773,558)	\$ 3,515,890	\$ 3,903,420
Fund Balances, Beginning of Year	<u>2,993,257</u>	<u>3,978,243</u>	<u>4,038,021</u>	<u>12,180,983</u>	<u>23,190,504</u>
FUND BALANCES, END OF YEAR	<u>\$ 3,315,220</u>	<u>\$ 4,817,368</u>	<u>\$ 3,264,463</u>	<u>\$ 15,696,873</u>	<u>\$ 27,093,924</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, 2002

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues			
Taxes	\$ 35,098,145	\$ 35,192,525	\$ 94,380
Intergovernmental	3,593,489	3,837,609	244,120
Departmental Earnings	1,599,846	1,482,013	(117,833)
Refuse Disposal Fees	5,248,183	4,261,420	(986,763)
Licenses and Permits	1,296,730	1,456,313	159,583
Cable Television Franchise Revenue	640,000	695,820	55,820
Payments in Lieu of Taxes	200,000	29,832	(170,168)
Interest Income	158,000	128,702	(29,298)
Sewer Authority Concession Fees	500,000	500,000	0
User Fees	25,000	42,400	17,400
Other Revenues	900,000	322,391	(577,609)
Rents and Concessions	3,000	2,432	(568)
Total Revenues	<u>\$ 49,262,393</u>	<u>\$ 47,951,457</u>	<u>\$ (1,310,936)</u>
Expenditures			
General Government	\$ 12,009,636	\$ 10,902,471	\$ 1,107,165
Public Safety	26,967,314	26,812,877	154,437
Public Works	7,544,463	7,554,947	(10,484)
Community Development	491,702	499,482	(7,780)
Culture and Recreation	1,174,957	693,941	481,016
Total Expenditures	<u>\$ 48,188,072</u>	<u>\$ 46,463,718</u>	<u>\$ 1,724,354</u>
Excess of Revenues Over Expenditures	<u>\$ 1,074,321</u>	<u>\$ 1,487,739</u>	<u>\$ 413,418</u>
Other Financing Sources (Uses)			
Proceeds from Tax Anticipation Notes	\$ 7,700,000	\$ 7,699,916	\$ (84)
Operating Transfers In	1,840,288	1,268,440	(571,848)
Operating Transfers Out	(2,770,564)	(2,290,087)	480,477
Payments of Tax Anticipation Notes	(7,844,045)	(7,844,045)	0
Net Other Financing Sources (Uses)	<u>\$ (1,074,321)</u>	<u>\$ (1,165,776)</u>	<u>\$ (91,455)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ 0</u>	<u>\$ 321,963</u>	<u>\$ 321,963</u>
Fund Balance, Beginning of Year	<u>2,993,257</u>	<u>2,993,257</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,993,257</u></u>	<u><u>\$ 3,315,220</u></u>	<u><u>\$ 321,963</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RETAINED EARNINGS
 PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	INTERNAL SERVICE FUND	ENTERPRISE FUNDS	TOTAL (MEMORANDUM ONLY)
Operating Revenues, Revenues	<u>\$ 3,632,175</u>	<u>\$ 10,177,243</u>	<u>\$ 13,809,418</u>
Operating Expenses:			
Workers' Compensation Claims	\$ 7,421,827	\$ 0	\$ 7,421,827
Salaries, Wages, and Fringe Benefits	0	683,007	683,007
Insurance	0	191,956	191,956
Depreciation	0	2,685,834	2,685,834
Other	<u>1,650</u>	<u>7,661,570</u>	<u>7,663,220</u>
 Total Operating Expenses	 <u>\$ 7,423,477</u>	 <u>\$ 11,222,367</u>	 <u>\$ 18,645,844</u>
 Operating Loss	 <u>\$ (3,791,302)</u>	 <u>\$ (1,045,124)</u>	 <u>\$ (4,836,426)</u>
Nonoperating Revenues (Expenses):			
Operating Transfers in	\$ 803,567	\$ 0	\$ 803,567
Interest Income	43,601	156,896	200,497
Interest Expense	0	(720,084)	(720,084)
Other	0	(5,780)	(5,780)
Intergovernmental Revenue	0	277,761	277,761
Amortization of Deferred Charges	<u>0</u>	<u>(12,826)</u>	<u>(12,826)</u>
 Total Nonoperating Revenues (Expenses)	 <u>\$ 847,168</u>	 <u>\$ (304,033)</u>	 <u>\$ 543,135</u>
 Net Loss	 <u>\$ (2,944,134)</u>	 <u>\$ (1,349,157)</u>	 <u>\$ (4,293,291)</u>
 Retained Earnings (Deficit), Beginning of Year	 <u>(4,915,070)</u>	 <u>16,909,986</u>	 <u>11,994,916</u>
 RETAINED EARNINGS (DEFICIT), END OF YEAR	 <u><u>\$ (7,859,204)</u></u>	 <u><u>\$ 15,560,829</u></u>	 <u><u>\$ 7,701,625</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	INTERNAL SERVICE FUND	ENTERPRISE FUNDS	TOTAL (MEMORANDUM ONLY)
Cash Flows From Operating Activities:			
Operating Loss	\$ (3,791,302)	\$ (1,045,124)	\$ (4,836,426)
Adjustments to Reconcile Operating Loss to Net Cash	0	0	0
Provided by (Used in) Operations:	0	0	0
Depreciation	0	2,685,834	2,685,834
(Increase) Decrease In:	0	0	0
Receivables	0	395,718	395,718
Prepaid and Other Assets	0	(15,749)	(15,749)
Increase (Decrease) In:	0	0	0
Accounts Payable	0	447,952	447,952
Accrued Liabilities	0	317,553	317,553
Due From Other Funds	1,284,705	0	1,284,705
Workers' Compensation Claims Payable	<u>2,504,947</u>	<u>0</u>	<u>2,504,947</u>
 Net Cash Provided by/(Used in) Operating Activities	 <u>\$ (1,650)</u>	 <u>\$ 2,786,184</u>	 <u>\$ 2,784,534</u>
Cash Flows From Noncapital Financing Activities:			
Operating Transfers from Other Funds	\$ 803,567	\$ 0	\$ 803,567
Other Revenues Received	0	3,833	3,833
Intergovernmental Revenue	<u>0</u>	<u>277,761</u>	<u>277,761</u>
 Net Cash Provided by Noncapital Financing Activities	 <u>\$ 803,567</u>	 <u>\$ 281,594</u>	 <u>\$ 1,085,161</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	\$ 0	\$ (1,214,690)	\$ (1,214,690)
Principal Payments on Debt	0	(470,000)	(470,000)
Interest Payments on Debt	0	(676,919)	(676,919)
Net Increase in Line of credit	0	616,532	616,532
Proceeds From Notes Payable	0	40,266	40,266
Repayments of Notes Payable	0	(456,661)	(456,661)
Loan Financing Costs	<u>0</u>	<u>(44,338)</u>	<u>(44,338)</u>
 Net Cash Used in Capital and Related Financing Activities	 <u>\$ 0</u>	 <u>\$ (2,205,810)</u>	 <u>\$ (2,205,810)</u>
Cash Flows From Investing Activities:			
Purchase of Investments	\$ (2,457,532)	\$ (1,999,768)	\$ (4,457,300)
Interest and Dividends on Investments	<u>43,601</u>	<u>154,809</u>	<u>198,410</u>
 Net Cash Used in Investing Activities	 <u>\$ (2,413,931)</u>	 <u>\$ (1,844,959)</u>	 <u>\$ (4,258,890)</u>
 Net Decrease in Cash and Cash Equivalents	 \$ (1,612,014)	 \$ (982,991)	 \$ (2,595,005)
Cash and Cash Equivalents (Including Restricted Amount of \$5,303,178), Beginning	<u>3,298,890</u>	<u>3,661,525</u>	<u>6,960,415</u>
Cash and Cash Equivalents (Including Restricted Amount of \$1,051,495), Ending	<u>\$ 1,686,876</u>	<u>\$ 2,678,534</u>	<u>\$ 4,365,410</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
PENSION TRUST FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2002

Operating Revenues		
Contributions	\$ 4,393,846	
Net Depreciation in Fair Value of Investments	<u>(7,450,398)</u>	
Total Operating Revenues		\$ (3,056,552)
Operating Expenses		
Benefit Payments	\$ 8,010,742	
Other	<u>158,080</u>	
Total Operating Expenses		<u>8,168,822</u>
Net Loss		\$ (11,225,374)
Fund Balance, Beginning of Year		<u>65,830,838</u>
FUND BALANCE, END OF YEAR		<u>\$ 54,605,464</u>

"See accompanying notes and independent auditors' report."

**CITY OF SCRANTON, PENNSYLVANIA
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2002**

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

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 general purpose 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:

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 general purpose 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.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

- 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 general purpose 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, 2002:

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 general purpose financial statements for the Sewer Authority reflects its operating results for its fiscal year of April 1, 2001 to March 31, 2002.

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") operates the City's municipal golf course. The, City appoints all Recreation Authority members and guarantees its debt.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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: The accounts of the City are organized on the basis of funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. These funds and account groups are used to report on the City's legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. Resources are accounted for in individual funds based upon the purposes for which they are to be spent and the restrictions, if any, on the spending activities.

Governmental Fund Types: Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental fund types. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

- a) The General Fund is the general operating fund of the City and 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.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

- 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 general purpose 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.
- 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 Expenditures.
- 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.

Proprietary Fund Types: Proprietary Funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net Income, financial position, and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its balance sheet. Proprietary Fund equity is segregated into contributed capital and retained earnings. The following are the City's 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.
- 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.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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.

Account Groups: Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt obligations. The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

- a) General Fixed Assets Account Group: This account group is established to account for all fixed assets of the City, other than those assets accounted for in the Proprietary Funds. Capital outlays in funds other than Proprietary Funds are recorded as expenditures of those funds at the time of purchase and are subsequently recorded for control purposes in the General Fixed Assets Account Group.

- b) General Long-Term Debt Account Group: This account group is established to account for all of the City's long-term debt and governmental fund compensated absences that will be financed from general governmental resources. Long-term liabilities of all Proprietary Funds are accounted for in those funds.

The total columns presented in the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. No consolidating entries or other elimination's were made in the aggregation of the totals; thus they do not present consolidated information and do not purport to present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles.

Basis of Accounting: The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers real estate and ACT 511 taxes and refuse disposal fees as available if they are collected within 60 days after year-end. A one year availability period is generally used for revenue recognition on all other governmental fund type revenue. Expenditures are generally recognized under the modified accrual basis of

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

accounting when the related fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on general long-term debt which are recorded as fund liabilities when due or when amounts have been accumulated in the Debt Service Fund for payments to be made early in the following year, and accrued vacation and sick leave which is recorded when payable from current available financial resources.

Revenues which are susceptible to accrual include taxes, fees, grants, interest and operating revenues.

The Proprietary Fund and Fiduciary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded at the time liabilities are incurred. The Proprietary Funds apply all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The City reports deferred revenue on its combined 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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

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.

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, 2002. 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.

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 a maturity of three months or less when purchased and all certificates of deposit to be cash equivalents.

Investments: Investments of the Sewer Authority included in the Enterprise Funds have been categorized as held-to-maturity and, as such, are carried at amortized cost. Other 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.

Loans Receivable: Loans receivable included in the Special Revenue Fund consist of economic development loans to third parties that are administered by OECD. 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.

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, 2002, upon which the 2002 levy was based, was approximately \$382 million. Delinquent taxes are collected by an outside collection agency. The schedule for real estate taxes levied is as follows:

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

February 1	Original levy date
February 1 – March 1	2 ½% 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, 2002 was 82.122 mills on the assessed value of land and 17.86 mills on the assessed value of improvements.

Fixed Assets: General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group.

In the General Fixed Assets Account Group, buildings and improvements, furniture and equipment are reflected at insurable values. Assets in the General Fixed Assets Account Group are not depreciated.

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

	<u>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	

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies (Continued)

Reservation and Designation of Fund Balance:

Components of fund equity include the following:

- a. Reserves - amounts not appropriable, legally segregated for specific usage or commitments to outside third parties.
- b. Designations - amounts representing tentative management plans, but subject to change.
- c. Contributed capital-represents amounts acquired by proprietary funds through contributions from Federal, State, and Local Governments.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2002 the aggregate liability for unused vacation and sick pay is \$1,903,119.

Note 2 Cash and Cash Equivalents and Investments

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

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

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.

As of December 31, 2002, the aggregate bank balance of bank deposits included in cash and cash equivalents was \$20,292,348 of which \$1,208,808 was insured by the FDIC (Category 1). The remaining bank balance of \$19,083,540 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, 2002 was \$19,836,028.

Investments: The investments of the City at December 31, 2002 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, 2002 are classified as follows:

	Category 3	Carrying Amount
DEBT SERVICE FUND:		
U.S. Government Securities Held by Custodian Under Repurchase Agreement	\$ 720,541	\$ 720,541
CAPITAL PROJECT FUND:		
U.S. Government Securities Held by Custodian Under Repurchase Agreement	9,471,415	9,471,415
INTERNAL SERVICE FUND		
U.S. Government Securities Held In Financial Institution Trust Department	<u>2,457,532</u>	<u>2,457,532</u>
	<u>\$12,649,488</u>	<u>\$12,649,488</u>
CAPITAL PROJECT FUND:		
Guaranteed Investment Contract		<u>\$ 5,297,347</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and Cash Equivalents and Investments (Continued)

PENSION TRUST FUNDS:

Nationwide Insurance Company

Assets at Contract Value:

Fixed Income	\$ 4,630,185
Deposit Account	595,430
International Value	2,681,617
Diversified Bond Fund	17,277,574
Small Cap Value	5,691,648
Large Cap Value	10,868,762
Small Cap Growth	3,877,886
Large Cap Growth	<u>8,953,625</u>
Total Pension Trust Funds	<u>\$54,576,727</u>

TOTAL ALL FUNDS	<u>\$72,523,562</u>
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Note 3 Taxes and Fees Receivable and Deferred Revenue

Taxes and fees receivable in the General Fund consist of the following at December 31, 2002:

Current real estate taxes	\$ 308,213
Delinquent real estate taxes	9,353,173
Act 511 taxes:	
Earned Income	3,947,389
Occupational privilege	47,990
Business privilege/mercantile	94,334
Delinquent refuse disposal fee	<u>2,114,473</u>
Total	<u>\$15,865,572</u>
Less allowance for uncollectible taxes and fees	<u>1,146,764</u>
Net	<u>\$14,718,808</u>

The City recognizes revenue related to the above if collected within sixty days of year-end. The remainder is considered deferred revenue.

Deferred revenue in the General Fund consisted of the following at December 31, 2002:

Delinquent real estate taxes	\$ 8,154,336
Delinquent refuse disposal fees	1,762,206
Other deferred revenue	<u>2,670</u>
Total	<u>\$ 9,919,212</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 4 Due From and Due to Other Funds

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2002 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 59,385	\$ 414,984
Special Revenue Funds,		
OECD	196,216	31,297
Special City	333,770	0
Redevelopment Authority	0	196,216
Internal Source Fund	615,066	0
Debt Service	50,000	0
Capital Projects Fund	0	643,154
Enterprise Funds,		
Parking Authority	31,214	0
Total	<u>\$ 1,285,651</u>	<u>\$ 1,285,651</u>

Note 5 Fixed Assets

A summary of general fixed assets transactions for the year ended December 31, 2002 is as follows:

	<u>Balance 01/01/02</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/02</u>
Buildings	\$13,584,000	\$ 638,168	\$ (69,000)	\$14,153,168
Equipment	4,258,955	1,359,080	(42,850)	5,575,185
	<u>\$17,842,955</u>	<u>\$1,997,248</u>	<u>\$ (111,850)</u>	<u>\$19,728,353</u>
Redevelopment Authority:				
Land	\$ 0	\$ 750,000	\$ 0	\$ 750,000
Equipment	0	47,549	0	\$ 47,549
	<u>\$ 0</u>	<u>\$ 797,549</u>	<u>\$ 0</u>	<u>\$ 797,549</u>
Total General Fixed Assets	<u>\$17,842,955</u>	<u>\$2,794,797</u>	<u>\$ (111,850)</u>	<u>\$20,525,902</u>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 5 Fixed Assets (Continued)

The Fixed Assets beginning balance is reflected at insurable values. Additions are recorded at cost.

A summary of Enterprise Fund Property, Plant, and Equipment at December 31, 2002 is as follows:

Land and Land Improvements	\$ 1,882,991
Building and Building Improvements	82,413,662
Leasehold Improvements	114,541
Equipment	8,322,096
Construction in Progress	<u>1,602,195</u>
	\$ 94,335,485
Less: Accumulated Depreciation	<u>59,008,857</u>
	<u>\$ 35,326,628</u>

Note 6 Short-Term Debt

The following summarizes the charges in short-term debt of the Enterprise Fund for the year ended December 31, 2002:

	<u>Balance</u> <u>01/01/02</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/02</u>
Sewer Authority:				
Line of Credit	\$776,418	\$616,532	\$ 0	\$ 1,392,950
Demand Note Payable	<u>0</u>	<u>40,266</u>	<u>1,076</u>	<u>39,190</u>
	<u>\$776,418</u>	<u>\$656,798</u>	<u>\$ 1,076</u>	<u>\$ 1,432,140</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 general obligation debt for the year ended December 31, 2002:

	<u>Balance</u> 01/01/02	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> 12/31/02
General Long-Term Obligations:				
Series A of 1993	\$ 925,000	\$ 0	\$ 450,000	\$ 475,000
DCED Act 47 Loan	300,000	0	200,000	100,000
Series A of 1997	2,905,000	0	125,000	2,780,000
Series A & C of 2001	22,630,000	0	305,000	22,325,000
Emmaus General Authority Series 2002	<u>0</u>	<u>7,500,000</u>	<u>0</u>	<u>7,500,000</u>
	<u>\$26,760,000</u>	<u>\$7,500,000</u>	<u>\$1,080,000</u>	<u>\$ 33,180,000</u>
Redevelopment Authority:				
Note Payable	<u>\$ 1,614,021</u>	<u>\$ 750,000</u>	<u>0</u>	<u>\$ 2,364,021</u>
	<u>\$28,374,021</u>	<u>\$8,250,000</u>	<u>\$1,080,000</u>	<u>\$ 35,544,021</u>
	<u>Balance</u> 01/01/02	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> 12/31/02
Debt Service Fund:				
OCED Act 47 Loan Due 10/02	<u>\$ 0</u>	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 50,000</u>
Total General Long-Term Obligations				<u>\$ 35,594,021</u>

A summary of general obligation debt outstanding at December 31, 2002:

Series A of 1993:

General obligation bonds, due in annual principal installments of \$405,000 to \$475,000 through December 2003 plus interest payable semi-annually at 4.8% to 5.8%

DCED Act 47 Loan:

Noninterest-bearing loan payable to the Pennsylvania Department of Community and Economic Development ("DCED") due in quarterly installments of \$50,000 with final payment in April 2003

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Series A of 1997:

General obligation bonds, due in annual principal installments of \$115,000 to \$210,000 through November 2013 plus interest payable semi-annually at 4% to 5.3%

Series A and C of 2001:

General obligation bonds, due in annual principal installments of \$305,000 to \$1,695,000 through September 2031 plus interest payable semi-annually at 4.4% to 7.0%

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.

Redevelopment Authority: The Authority has a note payable with a financial institution with maximum borrowings of \$2,500,000, maturing in December 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 per cent of the New York Prime Rate on each adjustment date. The outstanding debt is secured by the assignment of the repayments on seven loans held by the City of Scranton related to Urban Development Action Grants, Enterprise Development Zone Grants, and City of Scranton Commercial Industrial Loans. In addition, the Authority is required to maintain a minimum balance in the related bank account in the amount equal to the annual debt service on the outstanding principal. Total restricted cash at December 31, 2002 was \$285,462. The authority is currently making interest only payments on the outstanding balance. Interest payments in 2002 totaled \$65,722.

Future debt service requirements on these obligation as of December 31, 2002 are as follows:

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Year Ending December 31	General Long-Term Debt		Redevelopment Authority	
	Principal	Interest	Principal	Interest
2003	\$ 1,020,000	\$ 1,804,456	\$ 0	\$ 103,780
2004	655,000	1,755,091	113,954	101,506
2005	685,000	1,729,536	119,059	96,401
2006	715,000	1,702,059	124,392	91,068
2007	750,000	1,672,361	129,964	85,496
2008-12	4,355,000	7,823,812	742,537	334,763
2013-17	5,080,000	6,658,320	1,134,115	27,149
2018-22	5,700,000	5,355,544	0	0
2023-27	7,640,000	3,569,429	0	0
2028-31	6,580,000	1,131,647	0	0
	<u>\$33,180,000</u>	<u>\$ 33,202,255</u>	<u>\$ 2,364,021</u>	<u>\$ 840,163</u>

Enterprise Fund Debt: The following summarizes the changes in Enterprise Fund debt for the year ended December 31, 2002:

	Balance 01/01/02	Retirements	Balance 12/31/02
Parking Authority	\$ 8,265,000	\$ 265,000	\$ 8,000,000
Municipal Recreation Authority	900,000	205,000	695,000
TOTAL	<u>\$ 9,165,000</u>	<u>\$ 470,000</u>	<u>\$ 8,695,000</u>

Parking Authority:

1969 Parking Authority Bonds, due in annual installments through 2009, bearing interest rates of 4.75% to 5.85%.

1995 Parking Revenue Bonds, due in annual installments through 2020, bearing interest rate of 5.00% to 7.15%.

Municipal Recreation Authority:

5.39% note payable to financial institution due in annual principal installments of \$105,000 to \$130,000 through December 31, 2005 and semi-annual interest payments due June and December.

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

Future debt service requirements on Enterprise Fund debt as of December 31, 2002 are as follows:

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Year Ending December 31,	PRINCIPAL			Total Interest	Total Principal and Interest
	Parking Authority	Municipal Recreation Authority	Total Principal		
2003	\$ 275,000	\$105,000	\$ 390,000	\$ 586,279	\$ 976,279
2004	300,000	105,000	405,000	563,316	968,316
2005	320,000	110,000	430,000	539,310	969,310
2006	335,000	120,000	455,000	513,653	968,653
2007	355,000	125,000	480,000	486,308	966,308
Thereafter	<u>6,405,000</u>	<u>130,000</u>	<u>6,535,000</u>	<u>3,566,361</u>	<u>10,101,361</u>
Total	<u>\$ 8,000,000</u>	<u>\$695,000</u>	<u>\$8,695,000</u>	<u>\$6,255,227</u>	<u>\$ 14,950,227</u>

Note 8 Risk Management

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, 2002, the City's self-insured retention limits are as follows:

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

Accrued Worker's Compensation Claims:

The City Administers a Self-Insured Retention Program (SIR) for worker's compensation claims within the Internal Service Fund. Claims in excess of SIR limit of \$350,000 are covered through third party insurance policies. Payment 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.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management (Continued)

The Accrued Worker's Compensation Claim loss reserve of \$12,618,678 at December 31, 2002 was determined by an actuary and represents the discounted present value of expected losses using a 5.48% interest factor. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2002 is calculated as follows:

Claims and Costs Paid	\$3,632,175
Increase in Actuarial Discounted Loss Reserve	2,504,947
Buyout Settlement Payments	<u>1,284,705</u>
 Worker's Compensation Claims	 <u><u>\$7,421,827</u></u>

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2002 were as follows:

	<u>Operating Transfers in</u>	<u>Operating Transfers Out</u>
General Fund	\$ 1,268,440	\$ 2,290,087
Special Revenue Fund:		
Liquid Fuels	0	933,765
Special City	0	810,187
Debt Service Fund	1,962,032	0
Internal Service Fund	<u>803,567</u>	<u>0</u>
 TOTAL	 <u><u>\$ 4,034,039</u></u>	 <u><u>\$ 4,034,039</u></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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

The Police pension plan provides for normal retirement with 25 years of credited service with a retirement age of 60 years. The Fireman’s pension plan provides for normal retirement at age 55 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 general purpose financial statements as a fiduciary fund type – Pension Trust Funds.

Police are required to contribute 4% of covered payroll. Firemen are required to contribute 3.5% of covered payroll. Nonuniformed nonunion employees are required to contribute 3% of covered payroll but not more than \$22 per month if hired after July 1, 1987. Nonuniformed union employees shall contribute \$6 per month if hired after July 1, 1987 and \$24 per month if hired before July 1, 1987.

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, 2002. 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 2002 consisted of the following:

	POLICE	FIREMEN	NON- UNIFORMED	TOTAL
City/Commonwealth	\$253,330	\$3,155,164	\$ 9,067	\$ 3,417,561
Employees	280,893	235,618	88,146	604,657
Total	\$534,223	\$3,390,782	\$ 97,213	\$ 4,022,218

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

A summary of the change in the net pension obligation as of January 1, 2002, 2001, and 2000 is presented below:

	<u>January 1, 2002</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
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	<u>(6,973)</u>	<u>146,239</u>	<u>(11,065)</u>	<u>128,201</u>
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>

	<u>January 1, 2001</u>			
	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
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	<u>1,989,876</u>	<u>597,016</u>	<u>262,939</u>	<u>2,849,831</u>
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			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>
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>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2000

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Annual required contribution	\$ 755,568	\$ 830,304	\$ 124,697	\$ 1,710,569
Interest on pension benefit obligation	769,288	3,205,332	30,703	4,005,323
Adjustment to annual required contribution	<u>2,330,830</u>	<u>1,164,432</u>	<u>246,462</u>	<u>3,741,724</u>
Annual pension costs	\$ 3,855,686	\$ 5,200,068	\$ 401,862	\$ 9,457,616
Contributions made	(2,497,678)	(4,364,557)	(389,292)	(7,151,527)
Increase for plan amendment			9,454	9,454
Net actuarial loss on plan assets	<u>1,141,424</u>	<u>1,652,931</u>	<u>81,249</u>	<u>2,875,604</u>
Net increase in pension benefit obligation	\$ 2,499,432	\$ 2,488,442	\$ 203,273	\$ 5,191,147
Pension benefit obligation, beginning	<u>9,616,103</u>	<u>40,066,653</u>	<u>383,793</u>	<u>50,066,549</u>
Pension benefit obligation, ending	<u>\$12,115,535</u>	<u>\$42,555,095</u>	<u>\$ 587,066</u>	<u>\$55,257,696</u>

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2002. 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.

At January 1, 2002, 2001, and 2000 the latest actuarial valuation dates, the pension benefit obligation was as follows:

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	40,935,914	29,168,463	5,509,236	75,613,613
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>

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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 75% 41% 86% 58%

Covered payroll \$ 6,012,396 \$ 5,955,684 \$ 5,834,856 17,802,936

Pension benefit obligation to covered payroll 222% 673% 16% 305%

January 1, 2000

	<u>Police</u>	<u>Firemen</u>	<u>Non-Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$52,510,047	\$70,140,509	\$ 6,211,708	\$ 28,862,264
Actuarial value of assets	<u>40,394,512</u>	<u>27,585,414</u>	<u>5,624,642</u>	<u>73,604,568</u>
Pension benefit obligation	<u>\$12,115,535</u>	<u>\$42,555,095</u>	<u>\$ 587,066</u>	<u>\$ 55,257,696</u>

Funded ratio 77% 39% 91% 57%

Covered payroll \$ 5,199,414 \$ 5,318,877 \$ 5,215,7689 \$ 12,734,059

Pension benefit obligation to covered payroll 233% 800% 11% 433%

Historical trend information for the Plans is presented below:

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

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

Police Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/00	\$3,855,686	64.8%	\$12,115,535
01/01/01	\$3,760,879	64.1%	\$13,327,372
01/01/02	\$1,845,165	24.6%	\$13,914,845

Firemen Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/00	\$5,200,068	83.9%	\$42,555,095
01/01/01	\$4,851,794	86.2%	\$40,069,389
01/01/02	\$4,191,468	82.9%	\$40,633,641

Non-Uniformed Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/00	\$ 401,862	72.0%	\$ 587,066
01/01/01	\$ 417,418	72.4%	\$ 937,112
01/01/02	\$ 191,020	42.5%	\$ 1,568,268

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 \$140,536 in 2002.

The Parking Authority sponsors a defined contribution pension plan covering all eligible employees. Pension expense was \$29,791 for the year ended December 31, 2002.

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.

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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%.

The City uses the cash basis to account for these expenditures. The City has not determined the amount of such expenditures for 2002 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 92% of the total taxes collected by the City in 2002. Although the City has a diversified taxing basis, 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 Fund Balances/Retained Earnings

The following discloses the restatement of the fund balance as of the beginning of the year.

	<u>Special Revenue Fund</u>
Fund balance, beginning of year as previously stated	\$2,790,038

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 12 Fund Balances/Retained Earnings (Continued)

Increase due to addition of Redevelopment Authority as a component unit	<u>1,188,205</u>
FUND BALANCE, BEGINNING OF YEAR AS RESTATED	<u>\$3,978,243</u>

Fund balances have been reserved or designated for the following purposes at December 31, 2002:

Reserved for Retirement Benefits: This reserve of \$54,605,464 represents funds restricted for the future payment of members' benefits and plan administrative expenses.

Reserved for Capital Projects: This reserve of \$15,696,873 represents funds restricted for future capital projects.

Reserved for Community Development: This reserve of \$4,817,368 represents funds restricted for use in community development projects as well as street improvements.

Reserved for Retirement of Long-Term Obligations: The reserves of \$3,265,463 in Debt Service Fund and the designated retained earnings of \$1,794,324 in the Enterprise Funds, represent funds restricted to the repayment of long-term debt.

Note 13 Segment Disclosure

The City maintains three Enterprise Funds. The Sewer Authority provides wastewater treatment services to the City and nearby communities. The Parking Authority operates parking facilities within the City. The Municipal Recreation Authority provides operations and maintenance of the City's Municipal Golf Course. Key financial information as of and for the year ended December 31, 2002 (March 31, 2002 for the Sewer Authority) for these funds are as follows:

	SEWER AUTHORITY	MUNICIPAL RECREATION AUTHORITY	PARKING AUTHORITY	TOTAL
Operating revenues	\$ 7,853,131	\$ 611,956	\$ 1,712,156	\$10,177,243
Depreciation	2,290,943	55,572	339,319	2,685,834
Operating income (loss)	(1,561,324)	(18,631)	584,831	(1,045,124)
Net income (loss)	(1,262,335)	(65,096)	(21,726)	(1,349,157)
Fixed asset additions	1,166,654	0	48,036	1,214,690
Net working capital	665,494	(14,957)	(37,596)	612,941

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 13 Segment Disclosure (Continued)

Total assets	31,414,405	1,491,077	10,788,829	43,694,311
Bonds and other long-term				
Debts:				
Current portion	0	105,000	285,000	390,000
Long-term portion	125,861	590,000	7,715,000	8,305,000
Total fund equity	28,350,640	757,759	2,507,461	31,615,860

Note 14 Related Party Transactions

The City paid approximately \$585,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$31,000,000 of tax revenues on behalf of the City in 2002.

Note 15 Commitments and Contingencies

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

In 2001, the City was found negligent by an arbitration panel in regards to staffing requirements with the City's police union. The police union was awarded \$1 million dollars for its members as a result of the negligence. The City paid \$500,000 of this award in 2001 and the remainder was paid in 2002. The City recognized the award in its 2000 financial statements as the staffing violation primarily took place prior to December 31, 2000.

In other actions, 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.

Collective Bargaining Agreements: Substantially all of the City's nonmanagement employees are covered by collective bargaining agreements between the City and various unions. The Department of Public Works agreement has expired at the end of 2001, and continues to be negotiated. The Police, Fire and Non-uniform agreements expired at the end of 2002.

Fund Deficit Self-Insurance Fund Settlement Agreement: On December 18, 2001, the City entered into a Settlement Agreement and Release with the Commonwealth of

CITY OF SCRANTON, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Note 15 Commitments and Contingencies (Continued)

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 2002 through 2012 and to keep current on annual costs for claims, administration, and operating expenses. During the year 2002, the City made operating transfers from the General Fund to the Internal Service Fund in the amount of \$803,567.

Pension Management Termination Fee: In 2000, the City and Provident Mutual Life Insurance Company (Provident) entered into an exclusive agreement for Provident to manage the assets of the City's three pension plans. The agreement required a payment by Provident of a one-time concession fee of \$7.5 million which has been recognized by the City as revenue in the 2000 general purpose financial statements. However, if Provident is terminated at any time during the 15 year term of the agreement, the City is liable for a withdrawal penalty which is calculated on a sliding scale based on the value of the pension assets under management. In no event will this withdrawal penalty be less than the accrued value of the original concession fee less the asset charges applied under the agreement.

Note 16 Distressed Municipality Status

In 1992, the Pennsylvania Department of Community and Economic Development (DCED) declared the City a distressed municipality under the Financially Distressed Municipalities Act (Act). DCED then appointed the Pennsylvania Economy League as coordinator to administer a recovery plan for the City pursuant to this Act. While the City has improved its financial situation since this designation, the City still remains a distressed municipality pursuant to the Act.

Note 17 Subsequent Events

On March 20, 2003 the City sold the Municipal Golf Course assets to an unrelated party for \$3,497,500.

On July 10, 2003 the City authorized the issuance of \$72,300,000 General Obligation Bonds Series A-D 2003 for the purpose of advance refunding the Series A 1997 and Series A and C 2001 General Obligation Bond Issues, fund various capital projects of the City, fund a portion of the City's unfunded actuarial accrued pension liability, fund a Worker's Compensation Insurance Reserve and pay the costs of issuing and insuring the Bonds.

SUPPLEMENTARY INFORMATION

CITY OF SCRANTON, PENNSYLVANIA
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2002

	<u>SPECIAL CITY</u>	<u>LIQUID FUELS</u>	<u>OECD</u>	<u>REDEVELOPMENT AUTHORITY</u>	<u>TOTAL</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 2,843,504	\$ 231,932	\$ 3,559,126	\$ 1,201,448	\$ 7,836,010
Loans Receivable, Net	1,782,245	0	30,917,011	10,081	32,709,337
Due From Other Governments	120,104	0	1,527,628	0	1,647,732
Due From Other Funds	333,770	0	196,216	0	529,986
Restricted Cash	0	0	0	285,462	285,462
Property Held for Resale	0	0	0	107,551	107,551
	<u>0</u>	<u>0</u>	<u>0</u>	<u>107,551</u>	<u>107,551</u>
 TOTAL	 <u>\$ 5,079,623</u>	 <u>\$ 231,932</u>	 <u>\$ 36,199,981</u>	 <u>\$ 1,604,542</u>	 <u>\$ 43,116,078</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Accounts Payable	\$ 63,614	\$ 0	\$ 481,427	\$ 0	\$ 545,041
Deferred Revenues	4,864,017	0	23,329,139	10,081	28,203,237
Due to Other Governments	0	0	9,255,000	0	9,255,000
Due to Other Funds	0	0	31,297	196,216	227,513
Accrued Liabilities	0	0	44,069	23,850	67,919
	<u>0</u>	<u>0</u>	<u>44,069</u>	<u>23,850</u>	<u>67,919</u>
 Total Liabilities	 <u>\$ 4,927,631</u>	 <u>\$ 0</u>	 <u>\$ 33,140,932</u>	 <u>\$ 230,147</u>	 <u>\$ 38,298,710</u>
 Fund Balances	 <u>151,992</u>	 <u>231,932</u>	 <u>3,059,049</u>	 <u>1,374,395</u>	 <u>4,817,368</u>
 TOTAL	 <u>\$ 5,079,623</u>	 <u>\$ 231,932</u>	 <u>\$ 36,199,981</u>	 <u>\$ 1,604,542</u>	 <u>\$ 43,116,078</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2002

	SPECIAL CITY	LIQUID FUELS	OECD	REDEVELOPMENT AUTHORITY	TOTAL
Revenues:					
Intergovernmental	\$ 5,117,758	\$ 1,158,917	\$ 6,341,371	\$ 237,738	\$ 12,855,784
Departmental Earnings	87,840	0	0	13,154	100,994
Other Operating Revenues	830,152	0	143,649	162,500	1,136,301
Interest Income	41,677	1,803	26,256	12,127	81,863
Program Income	<u>0</u>	<u>0</u>	<u>1,114,852</u>	<u>0</u>	<u>1,114,852</u>
 Total Revenues	 <u>\$ 6,077,427</u>	 <u>\$ 1,160,720</u>	 <u>\$ 7,626,128</u>	 <u>\$ 425,519</u>	 <u>\$ 15,289,794</u>
Expenditures:					
Community Development	\$ 2,933,851	\$ 0	\$ 7,207,102	\$ 126,058	\$ 10,267,011
General Government	271,383	0	0	0	271,383
Public Works	132,444	0	0	0	132,444
Health and Welfare	1,740,131	0	0	0	1,740,131
Other	182,477	0	0	0	182,477
Debt Service-Interest	0	0	0	65,722	65,722
Capital Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>797,549</u>	<u>797,549</u>
 Total Expenditures	 <u>\$ 5,260,286</u>	 <u>\$ 0</u>	 <u>\$ 7,207,102</u>	 <u>\$ 989,329</u>	 <u>\$ 13,456,717</u>
Excess of Revenues Over (Under) Expenditures	\$ 817,141	\$ 1,160,720	\$ 419,026	\$ (563,810)	\$ 1,833,077
Other Financing Sources (Uses)					
Operating Transfers to Other Funds	(810,187)	(933,765)	0	\$ 0	\$ (1,743,952)
Proceeds from Long Term Debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>750,000</u>	<u>750,000</u>
Net Other Financing Sources (Uses)	<u>\$ (810,187)</u>	<u>\$ (933,765)</u>	<u>\$ 0</u>	<u>\$ 750,000</u>	<u>\$ (993,952)</u>
Excess of Revenues Over Expenditures and Other Financing (Sources) Uses	\$ 6,954	\$ 226,955	\$ 419,026	\$ 186,190	\$ 839,125
Fund Balances, Beginning of Year	<u>145,038</u>	<u>4,977</u>	<u>2,640,023</u>	<u>1,188,205</u>	<u>3,978,243</u>
FUND BALANCES, END OF YEAR	<u>\$ 151,992</u>	<u>\$ 231,932</u>	<u>\$ 3,059,049</u>	<u>\$ 1,374,395</u>	<u>\$ 4,817,368</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
ENTERPRISE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2002

	SEWER AUTHORITY	MUNICIPAL RECREATION AUTHORITY	MUNICIPAL PARKING AUTHORITY	TOTAL
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 1,062,723	\$ 128,361	\$ 435,955	\$ 1,627,039
Certificate of Deposit	613,690	0		613,690
Accounts Receivable, Net	1,494,286	0	29,067	1,523,353
Accrued Interest	0	0	140	140
Due From Other Funds	0	0	31,214	31,214
Due From Other Governments	277,762	0	0	277,762
Prepaid Assets	0	0	32,396	32,396
Other Assets	154,937	0	0	154,937
Total Current Assets	\$ 3,603,398	\$ 128,361	\$ 528,772	\$ 4,260,531
Restricted Cash	\$ 173,076	\$ 0	\$ 878,419	\$ 1,051,495
Restricted Certificate of Deposit	1,621,248	0	0	1,621,248
Restricted Accounts Receivable	413,903	0	0	413,903
Restricted Interest Receivable	0	0	669	669
Fixed Assets, Net	24,845,512	1,362,716	9,118,400	35,326,628
Deferred Charges, Net	757,268	0	262,569	1,019,837
TOTAL	\$ 31,414,405	\$ 1,491,077	\$ 10,788,829	\$ 43,694,311

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
 ENTERPRISE FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2002

	SEWER AUTHORITY	MUNICIPAL RECREATION AUTHORITY	MUNICIPAL PARKING AUTHORITY	TOTAL
<u>LIABILITIES AND FUND EQUITY</u>				
Current Liabilities:				
Demand Note Payable	\$ 1,432,140	\$ 0	\$ 0	\$ 1,432,140
Accounts Payable	1,241,317	38,318	34,433	1,314,068
Accrued Liabilities	264,447	0	90,580	355,027
Current Portion of Long-Term Debt Payable	0	105,000	285,000	390,000
Current Liabilities Payable From Restricted Assets	0	0	156,355	156,355
Total Current Liabilities	\$ 2,937,904	\$ 143,318	\$ 566,368	\$ 3,647,590
Long-Term Liabilities	125,861	0	0	125,861
Long-Term Debt Obligations	0	590,000	7,715,000	8,305,000
Total Liabilities	\$ 3,063,765	\$ 733,318	\$ 8,281,368	\$ 12,078,451
Fund Equity:				
Contributed Capital	\$ 13,273,803	\$ 0	\$ 2,781,228	\$ 16,055,031
Retained Earnings:				
Designated for Retirement of Long-Term Obligations	1,794,324	0	0	1,794,324
Undesignated	13,282,513	757,759	(273,767)	13,766,505
Total Fund Equity	\$ 28,350,640	\$ 757,759	\$ 2,507,461	\$ 31,615,860
TOTAL	\$ 31,414,405	\$ 1,491,077	\$ 10,788,829	\$ 43,694,311

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>SEWER AUTHORITY</u>	<u>MUNICIPAL RECREATION AUTHORITY</u>	<u>MUNICIPAL PARKING AUTHORITY</u>	<u>TOTAL</u>
Operating Revenues, Charges for Services	\$ 7,853,131	\$ 611,956	\$ 1,712,156	\$ 10,177,243
Operating Expenses:				
Salaries, Wages, and Fringe Benefits	\$ 0	\$ 221,698	\$ 461,309	\$ 683,007
Insurance	9,663	29,709	152,584	191,956
Depreciation	2,290,943	55,572	339,319	2,685,834
Other	<u>7,113,849</u>	<u>323,608</u>	<u>224,113</u>	<u>7,661,570</u>
Total Operating Expenses	<u>\$ 9,414,455</u>	<u>\$ 630,587</u>	<u>1,177,325</u>	<u>11,222,367</u>
Operating Income (Loss)	<u>\$ (1,561,324)</u>	<u>\$ (18,631)</u>	<u>534,831</u>	<u>(1,045,124)</u>
Nonoperating Revenues (Expenses):				
Interest Income	\$ 136,838	\$ 1,860	\$ 18,198	\$ 156,896
Interest Expense	(118,229)	(48,325)	(553,530)	(720,084)
Other	3,833	0	(9,613)	(5,780)
Intergovernmental Revenue	277,761	0	0	277,761
Amortization of Deferred Charges	<u>(1,214)</u>	<u>0</u>	<u>(11,612)</u>	<u>(12,826)</u>
Net Nonoperating Expenses	<u>\$ 298,989</u>	<u>\$ (46,465)</u>	<u>\$ (556,557)</u>	<u>\$ (304,033)</u>
Net Loss	\$ (1,262,335)	\$ (65,096)	\$ (21,726)	\$ (1,349,157)
Retained Earnings (Deficit), Beginning of Year	<u>16,339,172</u>	<u>822,855</u>	<u>(252,041)</u>	<u>16,909,986</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ 15,076,837</u>	<u>\$ 757,759</u>	<u>\$ (273,767)</u>	<u>\$ 15,560,829</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

	SEWER AUTHORITY	MUNICIPAL RECREATION AUTHORITY	MUNICIPAL PARKING AUTHORITY	TOTAL
Operating Income (Loss)	\$ (1,561,324)	\$ (18,631)	\$ 534,831	\$ (1,045,124)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	2,290,943	55,572	339,319	2,685,834
(Increase) Decrease In:				
Receivables	383,286	0	12,432	395,718
Prepaid and Other Assets	(1,507)	0	(14,242)	(15,749)
Increase (Decrease) In:				
Accounts Payable	387,819	38,318	21,815	447,952
Accrued Liabilities	<u>315,679</u>	<u>0</u>	<u>1,874</u>	<u>317,553</u>
Net Cash Provided by Operating Activities	<u>\$ 1,814,896</u>	<u>\$ 75,259</u>	<u>\$ 896,029</u>	<u>\$ 2,786,184</u>
Cash Flows From Noncapital Financing Activities:				
Other Revenues Received	\$ 3,833	\$ 0	\$ 0	\$ 3,833
Intergovernmental Revenue	<u>277,761</u>	<u>0</u>	<u>0</u>	<u>277,761</u>
Net Cash Provided by Noncapital Financing Activities	<u>\$ 281,594</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 281,594</u>
Cash Flows From Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	\$ (1,166,654)	\$ 0	\$ (48,036)	\$ (1,214,690)
Principal Payments on Debt	0	(205,000)	(265,000)	(470,000)
Interest Payments on Debt	(70,759)	(48,325)	(557,835)	(676,919)
Net Increase in Line of Credit	616,532	0	0	616,532
Proceeds From Notes Payable	40,266	0	0	40,266
Repayments of Notes Payable	(456,661)	0	0	(456,661)
Loan Financing Costs	<u>(44,338)</u>	<u>0</u>	<u>0</u>	<u>(44,338)</u>
Net Cash Used in Capital and Related Financing Activities	<u>\$ (1,081,614)</u>	<u>\$ (253,325)</u>	<u>\$ (870,871)</u>	<u>\$ (2,205,810)</u>
Cash Flows From Investing Activities:				
Purchase of Investments	\$ (1,999,768)	\$ 0	\$ 0	\$ (1,999,768)
Interest and Dividends on Investments	<u>132,773</u>	<u>1,860</u>	<u>20,176</u>	<u>154,809</u>
Net Cash Provided by(Used In) Investing Activities	<u>\$ (1,866,995)</u>	<u>\$ 1,860</u>	<u>\$ 20,176</u>	<u>\$ (1,844,959)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (852,119)	\$ (176,206)	\$ 45,334	\$ (982,991)
Cash and Cash Equivalents (Including Restricted Amount of \$2,004,288), Beginning of Year	<u>2,087,918</u>	<u>304,567</u>	<u>1,269,040</u>	<u>3,661,525</u>
Cash and Cash Equivalents (Including Restricted Amount of \$1,051,495), End of Year	<u>\$ 1,235,799</u>	<u>\$ 128,361</u>	<u>\$ 1,314,374</u>	<u>\$ 2,678,534</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING RESOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues			
Taxes			
Act 511:			
Wage	\$18,000,000	\$18,314,244	\$ 314,244
Real Estate Transfer	1,800,000	2,380,669	580,669
Mercantile	899,400	959,200	59,800
Business Privilege	510,000	563,803	53,803
Occupational Privilege	335,000	320,245	(14,755)
Delinquent Mercantile	100,000	70,368	(29,632)
Delinquent Business Privilege	<u>70,000</u>	<u>104,830</u>	<u>34,830</u>
Total Act 511	\$21,714,400	\$22,713,359	\$ 998,959
Current Real Estate	11,351,920	10,713,213	(638,707)
Delinquent Real Estate	1,645,825	1,650,364	4,539
Public Utility	70,000	66,185	(3,815)
Penalties & Interest	<u>316,000</u>	<u>49,404</u>	<u>(266,596)</u>
Total Taxes	<u>\$35,098,145</u>	<u>\$35,192,525</u>	<u>\$ 94,380</u>
Intergovernmental			
Supplemental State Assisted Pension	\$ 2,400,000	\$ 2,575,084	\$ 175,084
Attorney General, Drug Task Force	50,000	46,655	(3,345)
Cops Ahead Program	720,583	792,964	72,381
Act 101	<u>422,906</u>	<u>422,906</u>	<u>0</u>
Total Intergovernmental	<u>\$ 3,593,489</u>	<u>\$ 3,837,609</u>	<u>\$ 244,120</u>
Departmental Earnings			
Parking Meters	\$ 530,000	\$ 540,545	\$ 10,545
Fines and Forfeits	819,846	678,501	(141,345)
Pave Cuts	100,000	137,147	37,147
Alarm Fees	40,000	85,930	45,930
Rescue Fees	95,000	29,464	(65,536)
Zoning	<u>15,000</u>	<u>10,426</u>	<u>(4,574)</u>
Total Departmental Earnings	<u>\$ 1,599,846</u>	<u>\$ 1,482,013</u>	<u>\$ (117,833)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING RESOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
Other Revenues			
Refuse Disposal Fees	\$ 5,248,183	\$ 4,261,420	\$ (986,763)
Licenses and Permits	1,296,730	1,456,313	159,583
Cable Television Franchise Revenue	640,000	695,820	55,820
Payments in Lieu of Taxes	200,000	29,832	(170,168)
Interest Income	158,000	128,702	(29,298)
Sewer Authority Concession Fees	500,000	500,000	0
User Fees	25,000	42,400	17,400
Other Revenues	900,000	322,391	(577,609)
Rents and Concessions	<u>3,000</u>	<u>2,432</u>	<u>(568)</u>
Total Other Revenues	<u>\$ 8,970,913</u>	<u>\$ 7,439,310</u>	<u>\$ (1,531,603)</u>
Total Revenues	<u>\$ 49,262,393</u>	<u>\$ 47,951,457</u>	<u>\$ (1,310,936)</u>
Other Financing Sources			
Proceeds from Tax Anticipation Notes	\$ 7,700,000	\$ 7,699,916	\$ (84)
Operating Transfers in from:			
Liquid Fuels Fund	1,150,000	933,765	(216,235)
Internal Service Fund	400,000	334,675	(65,325)
Other Funds	<u>290,288</u>	<u>0</u>	<u>(290,288)</u>
Total Other Financing Sources	<u>\$ 9,540,288</u>	<u>\$ 8,968,356</u>	<u>\$ (571,932)</u>
Total Revenues and Other Financing Sources	<u>\$ 58,802,681</u>	<u>\$ 56,919,813</u>	<u>\$ (1,882,868)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Expenditures			
General Government			
Salaries and Wages	\$ 1,949,548	\$ 1,980,030	\$ (30,482)
Employee Benefits	2,732,809	2,188,895	543,914
Workers' Compensation Claims	3,632,175	3,632,175	0
General Insurance	812,968	861,322	(48,354)
Office Supplies and Expense	157,522	169,290	(11,768)
Professional Fees	351,954	352,254	(300)
Telephone	212,939	212,939	0
Equipment	36,629	37,966	(1,337)
Travel	1,875	1,875	0
Other	1,447,996	757,027	690,969
Boards and Commissions	84,059	84,059	0
Utilities	546,494	614,539	(68,045)
Grants and Contributions	10,100	10,100	0
Court Awards & Settlements	32,568	0	32,568
	<u>\$12,009,636</u>	<u>\$10,902,471</u>	<u>\$ 1,107,165</u>
Total General Government			
Public Safety			
Salaries and Wages	\$16,478,405	\$16,399,333	\$ 79,072
Employee Benefits	9,962,422	9,885,089	77,333
Supplies	88,424	90,204	(1,780)
Equipment	42,158	42,346	(188)
Parking Authority Ticket Issuers	277,701	277,701	0
Training	106,883	106,883	0
Travel	10,971	10,971	0
Professional Fees	350	350	0
	<u>\$26,967,314</u>	<u>\$26,812,877</u>	<u>\$ 154,437</u>
Total Public Safety			
Public Works			
Salaries and Wages	\$ 3,135,050	\$ 3,232,564	\$ (97,514)
Employee Benefits	428,502	448,810	(20,308)
Supplies	513,676	325,862	187,814
Professional Fees	16,165	17,243	(1,078)
Equipment	800,584	712,814	87,770
Electric	251,785	251,785	0
Landfill Fees	1,406,132	1,416,407	(10,275)
Salt	43,987	129,235	(85,248)
Street Lighting	948,582	1,020,227	(71,645)
	<u>\$ 7,544,463</u>	<u>\$ 7,554,947</u>	<u>\$ (10,484)</u>
Total Public Works			

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
Community Development			
Salaries and Wages	\$ 463,555	\$ 471,335	\$ (7,780)
Employee Benefits	11,628	11,628	0
Supplies	<u>16,519</u>	<u>16,519</u>	<u>0</u>
Total Community Development	<u>\$ 491,702</u>	<u>\$ 499,482</u>	<u>\$ (7,780)</u>
Culture and Recreation			
Salaries and Wages	\$ 533,722	\$ 543,254	\$ (9,532)
Employee Benefits	1,760	1,760	0
Supplies	593,952	101,986	491,966
Programs	<u>45,523</u>	<u>46,941</u>	<u>(1,418)</u>
Total Culture and Recreation	<u>\$ 1,174,957</u>	<u>\$ 693,941</u>	<u>\$ 481,016</u>
Total Expenditures	<u>\$48,188,072</u>	<u>\$46,463,718</u>	<u>\$ 1,724,354</u>
Other Financing Uses			
Payments of Tax Anticipation Notes	\$ 7,844,045	\$ 7,844,045	\$ 0
Operating Transfers Out to:			
Special City Fund	843,567	328,054	515,513
Debt Service Fund	<u>1,926,997</u>	<u>1,962,033</u>	<u>(35,036)</u>
Total Other Financing Uses	<u>\$10,614,609</u>	<u>\$10,134,132</u>	<u>\$ 480,477</u>
Total Expenditures and Other Financing Uses	<u><u>\$58,802,681</u></u>	<u><u>\$56,597,850</u></u>	<u><u>\$ 2,204,831</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002

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		\$ 5,162,073
Emergency Shelter Grants Program	14.231		163,417
Home Investment Partnerships Program	14.239		653,456
Community Development Block Grants/Economic Development Initiative	14.246		500,000
Section 108 Loan Program	14.248		<u>1,355,609</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 7,834,555</u>
U.S. DEPARTMENT OF JUSTICE:			
COPS	16.710		\$ 695,176
Bulletproof Vest Program	16.607		<u>5,847</u>
Total U.S. Department of Justice			<u>\$ 701,023</u>
U.S. DEPARTMENT OF TREASURY			
Great Grant Program	21.053		<u>\$ 11,599</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Pennsylvania Department of Transportation Highway Planning and Construction	20.205		<u>\$ 278,739</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Pennsylvania Department of Health Childhood Lead Poisoning Prevention Projects	93.197	PALAG0025-94	<u>\$ 257,798</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,083,714</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.
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SEAN J. GRASSI, 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 6, 2003

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

We have audited the general purpose financial statements of the City of Scranton, Pennsylvania as of and for the year ended December 31, 2002, and have issued our report thereon dated June 6, 2003 which was qualified because general fixed assets are stated at amounts other than cost or estimated cost. Except as discussed in the preceding sentence, we conduct 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 general purpose 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 OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Scranton, Pennsylvania internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to the 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's ability to record, process, summarize,

and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2002-1.

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 general purpose 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 according, 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, which we have reported to management of the City of Scranton, Pennsylvania in a separate letter dated June 6, 2003.

This report is intended solely for the information and use of the Mayor, City Council, management, 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.
CERTIFIED PUBLIC ACCOUNTANTS

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

June 6, 2003

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, 2002. 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 2002-2 in the accompanying schedule of findings and questioned cost the City of Scranton, Pennsylvania did not comply with requirements regarding cash management that are applicable to its Community Development Block Grant/Entitlement Grants and Home Investment Partnerships Program. Compliance with such requirements is necessary, in our opinion, for the City of Scranton, Pennsylvania to comply with requirements applicable to that program.

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, 2002.

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.

CITY OF SCRANTON, PENNSYLVANIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Section I – Auditor’s Result Section

- (1) A qualified opinion was expressed on the general purpose financial statements of the auditee.
- (2) One 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 Community Development Block Grants/Entitlement Grants, and Home Investment Partnerships Program, the major programs, 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>
14.218	CDBG/Entitlement Grants
14.239	Home Investment Partnerships Program
14.246	Community Development Block Grants/ Economic Development Initiative
14.248	Section 108 Loan Program
16.710	COPS

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

CITY OF SCRANTON, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2002

Section II – Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards.

2002-1 CASH RECONCILIATIONS

- Condition: The City's Special Revenue, special City's cash accounts are not being reconciled on a monthly basis.
- Criteria: Cash accounts should be reconciled to the general ledger accounts on a monthly basis.
- Effect: Because of the failure to reconcile the cash accounts on a monthly basis errors or omissions can go undetected.
- Recommendation: Procedures should be implemented to ensure cash accounts are reconciled on a monthly basis.

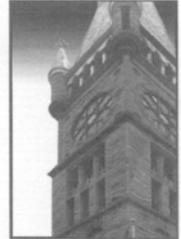
Section III - Findings and questioned costs for Federal Awards which shall include audit findings as defined in Section 510(A) of OMB Circular A-133

Department of Housing and Urban Development:
CDBG/Entitlement Grants CFDA 14.218; Home Investment Partnerships Program CFDA 14.239.

2002-2 Project No. B-01-MC-42-0014 Year Ended June 30, 2002
Project No. M-01-MC-42-0205 Year Ended June 30,2002

- Condition: Program income is not being disbursed before requesting additional cash payments.
- Criteria: Compliance with the programs requires that program income be disbursed before requesting additional cash payments.
- Effect: There is a loss of income due to the time value of money.
- Recommendations: Procedures should be implemented to ensure program income is disbursed before requesting additional cash payments.

Department of Business Administration



SCRANTON

CORRECTIVE ACTION PLAN

Cognizant or Oversight Agency for Audit: Department of Housing and Urban Development

City of Scranton, Pennsylvania respectfully submits the following corrective action plan for the year ended December 31, 2002:

Name and address of independent public accounting firm: Robert Rossi & Co.
299 Main Street – Sturges
Olyphant, PA 18447

Audit period: January 1, 2002 to December 31, 2002

The findings from the December 31, 2002 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

2002-1 Cash Reconciliations

Recommendations: Procedures should be implemented to ensure cash accounts are reconciled on a monthly basis.

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

FINDING – FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

**2002-2 CDBG (Entitlement Grants – CFDA 14.218)
Home Investment Partnerships Program – CFDA 14.239**

Recommendations: Procedures should be implemented to ensure program income is disbursed before requesting additional cash payments.

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

Sincerely yours,



LEONARD A. KRESEFSKI
Business Administrator