

**CITY OF SCRANTON, PENNSYLVANIA  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2003**

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES,  
AND SINGLE AUDIT ATTACHMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>PAGE</u>
Table of Contents	1-3
Independent Auditor's Report	4-6
Required Supplementary Information:	
Management Discussion and Analysis	7-16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	17-18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet - Governmental Funds	20-21
Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Assets	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	23-24
Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	25-26
Statement of Net Assets - Proprietary Funds	27-28
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	29
Statement of Cash Flows - Proprietary Funds	30-31
Statement of Net Assets - Fiduciary Fund - Pension Trust Fund	32
Notes to Basic Financial Statements	33-66

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES,  
AND SINGLE AUDIT ATTACHMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>PAGE</u>
Required Supplementary Information:	
Statement of Revenues, Expenditures and Change in Fund Balances - Budget and Actual	67-68
Other Supplementary Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	69-70
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	71
Statement of Changes in Net Assets - Fiduciary Funds, Pension Trust Fund	72
Additional Schedules:	
Statement of Revenues and Other Financing Sources - Budget and Actual	73-74
Statement of Expenditure and Other Financing Uses - Budget and Actual	75-76
Single Audit Attachments:	
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2003	77
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	78-79
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	80-81
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2003	82-85

CITY OF SCRANTON, PENNSYLVANIA  
INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES,  
AND SINGLE AUDIT ATTACHMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>PAGE</u>
Plan for Corrective Action Taken in Regard Audit Findings	86-87
Status of Corrective Action on Prior Year's Audit Findings	88

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

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

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

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

INDEPENDENT AUDITORS' REPORT

July 24, 2003

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

We have audited the accompanying general purpose financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scranton, Pennsylvania (the "City") as of and for the year ended December 31, 2003 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Scranton management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Sewer Authority of the City of Scranton, Pennsylvania (the "Sewer Authority") which statements reflect total assets of \$34,107,430 at March 31, 2003 and total revenues of \$7,710,055 for the year then ended; the Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") which statements reflect total assets of \$10,366,122 at December 31 2003 and total revenues of \$1,516,923 for the year then ended; and the Redevelopment Authority of the City of Scranton (the "Redevelopment Authority") which statements reflect total assets of \$3,990,038 at December 31, 2003 and total revenues of \$4,308,932 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sewer Authority and Parking Authority reflected in the City's Enterprise Funds and Redevelopment Authority reflected in the City's Aggregate Remaining Fund information, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

The City has determined its actuarial liability for its internal service workmen's compensation fund included in the aggregate remaining fund information at August 31, 2003 instead of December 31, 2003 as was the past practice. Accounting principles generally accepted in the United States of America require that liabilities be valued as of the report date. The amount by which this departure would affect the liabilities, fund balance, and expenditures of the aggregate remaining fund information is not reasonably determinable.

In our opinion, except for the effects, if any, of not valuing its actuarial liability as of December 31, 2003 in the aggregate remaining fund information as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the City of Scranton as of December 31, 2003, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, general fund, special revenue fund OECD, capital projects fund, sewer authority and municipal parking authority of the City of Scranton as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of December 31, 2003.

The management's discussion and analysis and budgetary comparison information on pages 7 through 16 and 67 through 68 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of opinions on the financial statements that collectively comprise the City of Scranton's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Scranton. The combining and individual nonmajor fund financial statements and the

schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

In Accordance with *Government Auditing Standards*, we have issued a report dated July 24, 2004 on our consideration of the City of Scranton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Robert Rossi + Co.*

## Management's Discussion and Analysis

As management of the City of Scranton, Pennsylvania, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Scranton for the fiscal year ended December 31, 2003. We encourage readers to review the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### Financial Highlights

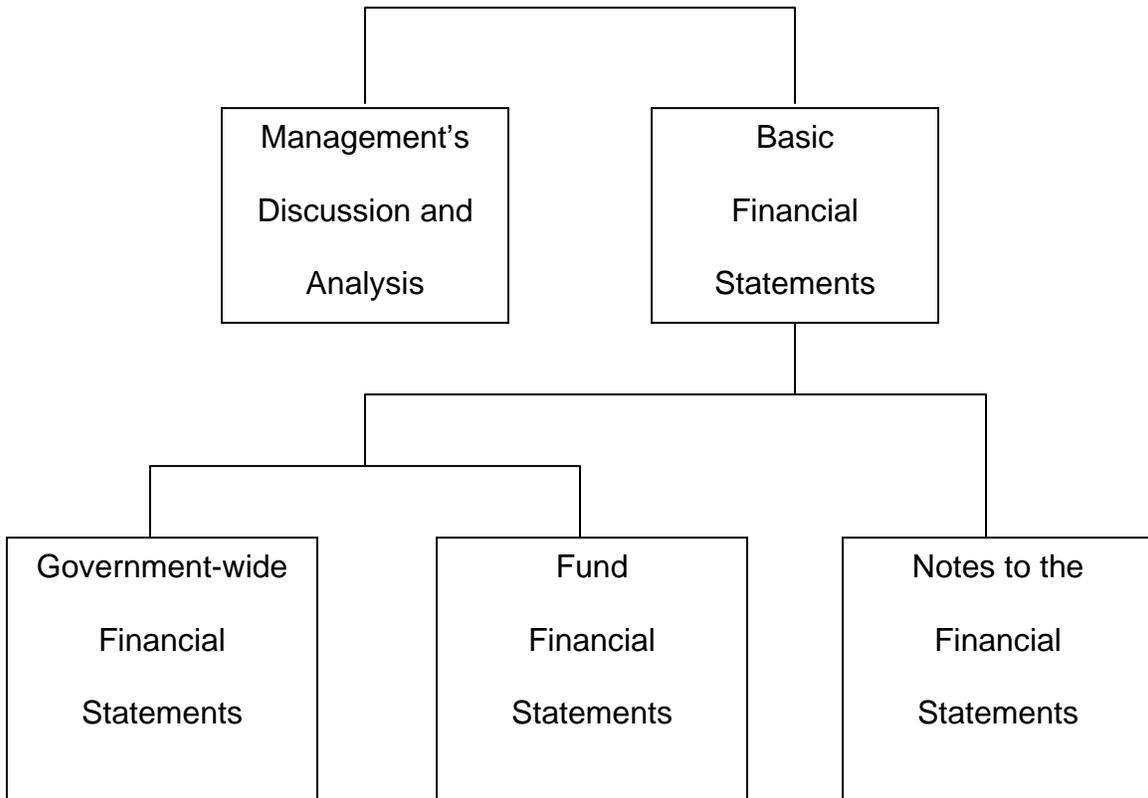
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$14,506,512 (*net assets*).
- The government's total net assets decreased by \$18,671,955.
- As of the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$30,254,151, an increase of \$3,160,184 in comparison with the prior year. Approximately 15.76% of this total amount or \$4,769,137 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,653,476, or 7.95% of total General Fund expenditures for the fiscal year.
- The City's total debt increased by \$49,196,870 (110.59%) during the current fiscal year. The key factor in this increase was the issuance of the 2003 series A-D Bonds. These were used in part to refinance old debt. They were also used to finance the previously unfunded liabilities of the City's Pension and Workers Compensation funds. Lastly a portion of the bonds will be used for new capital projects.
- The City of Scranton has a BBB bond rating from Standard and Poor's.

### Overview of the Financial Statements

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

*Required Components of Annual Financial Report*

Figure 1



Summary → Detail

**Basic Financial Statements**

The first two statements (pages 17 through 19) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 20 through 24) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

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

## **Government-wide Financial Statements**

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

The statement of net assets presents the City's assets and liabilities as of the end of the recent fiscal year. The statement of activities shows the City's current year's revenue and expenses as soon as the changes occur, regardless of the timing of the related cash flows (on the accrual basis). Thus, revenue and expenses are reported in this statement for some items that will provide cash flow or use cash flow in a future period. An example of a cash inflow in a future year would be when a taxpayer pays a prior year tax or fee in the future (see Taxes and Fees Receivable \$16,851,568). An example of a cash outflow in a future year would be the payment of prior year earned vacation pay (see Compensated Absences \$2,051,551). All major corporations use the accrual basis of accounting.

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

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

## **Fund Financial Statements**

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

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental

funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year.

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

The City of Scranton maintains individual government funds. Information in the governmental funds includes a balance sheet and a statement of revenues, expenditures, and changes in fund balances for the General Fund, OECD, and the Capital Projects Funds, all of which are considered to be major funds. The data for non major funds consisting of a) Special Cities Fund, b) Liquid Fuels Fund c) Redevelopment Authority and d) Debt service Fund are combined in a single accounting.

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 33 through 66 of this report.

**Other Information** – This report includes certain other required supplementary information concerning the City, (see pages 67 through 88). A description of the schedules and reports can be found on pages 2 and 3 of the Table of Contents.

## **Government-Wide Financial Analysis**

This is the first year the City has presented its financial statements in the format required by Governmental Accounting Standards Board Statement No. 34 (GASB 34). The City is just one of the many other units of government across the United States using this format for the first time. Prior to this year, the City maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Scranton. These statements were basically the equivalent of the fund financial statements that

appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

Because this reporting format is so different from the previous format, comparative data for all facets of this report are not available. In areas where comparative numbers were attainable, they have been shown, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

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

Figure 2

	Summary of Statement of Net Assets December 31, 2003		
	Governmental Activities	Business- Type Activities	Total
Current Assets	111,700,899	7,264,516	118,965,415
Restricted Assets	279,551	3,014,618	3,294,169
Capital Assets	17,434,834	36,121,924	53,556,758
Deferred Charges	2,096,153	891,702	2,987,855
<b>Total Assets</b>	<b>131,511,437</b>	<b>47,292,760</b>	<b>178,804,197</b>
Current Liabilities	11,171,993	8,563,766	19,735,759
Non Current Liabilities	137,518,740	7,043,186	144,561,926
<b>Total Liabilities</b>	<b>148,690,733</b>	<b>15,606,952</b>	<b>164,297,685</b>
Net Assets:			
Invested in Capital Assets, net of related debt	10,434,834	22,485,952	32,920,786
Restricted	10,385,014	1,802,392	12,187,406
Unrestricted	(37,999,144)	7,397,464	(30,601,680)
<b>Total Net Assets</b>	<b>(17,179,296)</b>	<b>31,685,808</b>	<b>14,506,512</b>

Net assets serve over time as one useful indicator of a government's financial condition. The assets of the City exceeded liabilities by \$14,506,512 as of December 31, 2003. Approximately 30% (29.95%) or \$53,556,758 of the assets are capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Scranton uses these capital assets to provide services to citizens.

### City of Scranton, Pennsylvania Changes in Net Assets

Figure 3  
City of Scranton, Pennsylvania Changes in Net Assets  
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<b>Revenues</b>			
Program Revenues			
Fees, Fines and Charges for Services	8,485,539	9,226,978	17,712,517
Operating Grants and Contributions	17,211,148	-	17,211,148
Capital Grants and Contributions	1,095,649	-	1,095,649
			-
General Revenues			
Property taxes	12,799,564		12,799,564
Act 511 Taxes	22,687,171		22,687,171
Grants, Subsidies & contributions unrestricted	1,267,672		1,267,672
Cable Television Franchise Revenue	723,966		723,966
Payments in Lieu of Taxes	238,957		238,957
Investment Earnings	892,353	176,798	1,069,151
Sewer Authority Concessions Fee	500,000		500,000
Gain (Loss) Sale/Retirement of Capital Assets		2,126,177	2,126,177
Miscellaneous	890,033	37,385	927,418
Rents & Concessions	7,217		7,217
Grant Funds Loaned to Qualified Parties	900,000		900,000
Transfers	8,703	20,251	28,954
<b>Total Revenue and Transfers</b>	<b>67,707,972</b>	<b>11,587,589</b>	<b>79,295,561</b>
<b>Expenses</b>			
General Government and Administration			
Public Safety	9,244,072		9,244,072
Public Works	31,975,044		31,975,044
Health and Welfare	9,968,640		9,968,640
Community Development	1,150,321		1,150,321
Cultural and Recreation	12,800,331		12,800,331
Other Expenditure	1,290,668		1,290,668
	429,715		429,715

Pension Trust Funding	9,922,374		9,922,374
Pension Trust Management Fee Buyout	7,327,626		7,327,626
Unallocated Depreciation	20,822		20,822
Interest on Long Term Debt	2,320,262		2,320,262
Sewer Authority		9,663,880	9,663,880
Municipal Recreation Authority		129,983	129,983
Municipal Parking Authority		1,723,778	1,723,778
Total Expenses	86,449,875	11,517,641	97,967,516
Change in Net Assets	(18,741,903)	69,948	(18,671,955)
Net Assets Beginning of Year	1,562,607	31,615,860	33,178,467
NET ASSETS, END OF YEAR	(17,179,296)	31,685,808	14,506,512

**Governmental activities.** Governmental activities decreased the City's net assets by \$18,741,903. The City's single greatest source of revenue is its Act 511 taxes. Act 511 taxes consist of the City's Wage Tax, Mercantile Tax and Occupational Privilege Tax. The City's Wage Tax is 2.4%. It is commonly incorrectly stated that the rate is 3.4%. The confusion is caused by the fact that the City's Wage Tax of 2.4% is collected along with the Scranton School District's 1% Wage Tax. The taxpayers make a single payment to the Scranton Collector of Taxes. The same collection system is used for the City and School Mercantile and Business Privilege Tax and thus the same type of confusion exists. The City's Mercantile and Business Privilege Tax rate is a flat .1% (.001) no matter what kind of business. The School District has three different rates. The wholesale business rate is .0452% (.00452), the retail rate is .0679% (.000679) and the service business rate is .513% (.00513) or more than five times the City rate.

**Business-type activities:** Business-type activities increased the City's assets by \$68,948.

The largest item contributing to this increase was the \$2,126,177 realized on the sale of the Scranton Municipal Golf course.

### Financial Analysis of the City's Funds

**Governmental Funds** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. The General Fund total revenues were up \$948,437 from the prior year. Total General Fund Revenue was \$48,899,894 for the year 2003 versus \$47,951,457 for the year

2002. The General Fund expenditures for the year 2003 went down by \$525,633. Total General Fund Expenditures were \$45,938,085 for 2003 versus \$46,463,718 in 2002. The single largest decrease in expenses was in Public Safety \$1,871,210. Total Public Safety Expenditures were \$24,941,667 for 2003 versus \$26,812,877.

At December 31, 2003, the Governmental Funds of the City of Scranton reported a combined fund balance of \$30,254,151, an 11.7% percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Projects Funds.

### **General Fund Budgetary Highlights**

Revenues were greater than the budgeted amounts. Tax collections were greater than expected. Intergovernmental revenue was higher by more than \$350,000. The primary reason was that the expected reimbursement from the State was \$2.2 million. The actual amount received was \$2.7 million. Departmental earnings were over \$300,000 more than budgeted. The primary increase was in money the City received from the utility companies for pave cuts. The City budgeted \$174,465; it received \$401,347. There was approximately \$683,000 of revenue that was not budgeted. This amount is shown as "Other Revenue." It was unrestricted capital funds from the \$7.5 million bond that was obtained primarily to purchase streetlights.

Expenditures were higher than budgeted. Within the governmental expenditures Workers' Compensation claims were budgeted in excess of the budgeted amount by approximately \$3,400,000. However, this was offset by the fact that in 2003 the City budgeted Workers' Compensation under Operating Transfers to other Funds and not the General Government as in prior years in order to more accurately track these expenditures. In Public Safety expenditures, salaries were approximately \$273,759 lower than budgeted; employee benefits were approximately \$789,000 higher than budgeted.

### **Capital Assets**

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

**Figure 4**

Capital Assets (net of depreciation)

December 31, 2003

	Governmental Activities	Business- Type Activities	Total
Land & Land Improvements	4,846,200	1,307,338	6,153,538
Building & Building Improvements	4,696,193	83,047,851	87,744,044
Infrastructure	1,368,400		1,368,400
Furniture & Equipment	2,084,597	7,098,721	9,183,318
Vehicles	8,446,501		8,446,501
Construction in Progress	4,277,859	5,954,685	10,232,544
Accumulated Depreciation	(8,284,916)	(61,286,671)	(69,571,587)
	17,434,834	36,121,924	53,556,758

**City of Scranton, Pennsylvania's Outstanding Debt****General Obligation and Revenue Bonds****Figure 4**

Long Term Debt

December 31, 2003

	Governmental Activities	Business- Type Activities	Total
Balance January 1, 2003	35,792,205	8,695,000	44,487,205
Debt issued in 2003	71,785,057	4,983,107	76,768,164
Accretion & Amortization	8,790		8,790
Less: Retirements	(26,600,003)	(980,000)	(27,580,003)
Balance December 31, 2003	80,986,049	12,698,107	93,684,156

The City of Scranton, Pennsylvania has a BBB bond rating from Standard and Poor's.

### **Pension Trust Fund**

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

### **Internal Service Workmen's Compensation**

The independent auditors qualified their opinion on the City's Aggregate Remains Fund information. In a letter dated June 24, 2004 the firm that prepared the August 31, 2003 valuation for the City's Workmen's Compensation Fund, addressed the auditors' concerns. The letter states in part that "... the valuation performed as of August 31, 2003 was still a reasonable projection for the December 31, 2003 financial statements. This was due to the fact that the August 31, 2003 valuation included an expected ultimate loss level for the full 2003 program year (not just 8 months) and the actual paid losses as of December 31, 2003 were within 1% of the anticipated loss that one would have expected based upon the projected payout patterns underlying the August 31, 2003 valuation. Coupled with reasonable growth within the reported incurred levels as of December 31, 2003, my opinion was based upon a general reasonability check."

### **Distressed Municipality Status**

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

### **Requests for Information**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Leonard Kresefski, Business Administrator, 340 N. Washington Avenue, Scranton, PA 18503.

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash and Cash Equivalents	\$ 20,137,670	\$ 1,108,736	\$ 21,246,406
Certificate of Deposit	0	4,337,594	4,337,594
Investments	33,854,227	0	33,854,227
Receivables:			
Taxes and Fees Receivable, Net	16,851,568	0	16,851,568
Accounts Receivable, Net	187,175	1,553,000	1,740,175
Accrued Interest	185,910	26,947	212,857
Loans Receivable	34,516,866	0	34,516,866
Other Receivables, Net	1,514,506	0	1,514,506
Due From Other Funds	3,207,988	28,601	3,236,589
Due From Other Governments	639,214	0	639,214
Prepaid Assets	0	44,694	44,694
Other Assets	605,775	164,944	770,719
Restricted Assets:			
Restricted Cash and Cash Equivalents	172,000	805,884	977,884
Restricted Certificate of Deposit	0	1,802,392	1,802,392
Restricted Accounts Receivable	0	405,983	405,983
Restricted Interest Receivable	0	359	359
Property Held for Resale	107,551	0	107,551
Capital Assets:			
Land & Land Improvements	4,846,200	1,307,338	6,153,538
Buildings & Building Improvements	4,696,193	83,047,851	87,744,044
Infrastructure	1,368,400	0	1,368,400
Furniture & Equipment	2,084,597	7,098,721	9,183,318
Vehicles	8,446,501		8,446,501
Construction In Progress	4,277,859	5,954,685	10,232,544
Accumulated Depreciation	(8,284,916)	(61,286,671)	(69,571,587)
Deferred Charges, Net	2,096,153	891,702	2,987,855
<b>TOTAL ASSETS</b>	<b>\$ 131,511,437</b>	<b>\$ 47,292,760</b>	<b>\$ 178,804,197</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 GOVERNMENT WIDE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2003

LIABILITIES	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Short Term Debt	\$ 0	\$ 937,865	\$ 937,865
Accounts Payable	3,523,746	1,464,572	4,988,318
Accrued Liabilities	1,082,929	249,668	1,332,597
Accrued Interest	1,042,154	0	1,042,154
Due to Other Funds	3,236,589	0	3,236,589
Current Liabilities Payable From Restricted Assets:			
Revenue Bonds Payable	0	5,760,000	5,760,000
General Obligation Bonds Payable	2,065,000	0	2,065,000
Governmental Notes Payable	221,575	0	221,575
Accrued Revenue Bond Interest Payable	0	151,661	151,661
Noncurrent Liabilities			
Workers' Compensation Claims Payable	18,335,089	0	18,335,089
Deferred Revenues	42,376,681	0	42,376,681
Long-Term Debt Obligations	78,560,233	6,938,107	85,498,340
Deferred Loss On Early retirement Of Debt	(3,943,974)		(3,943,974)
Long-Term Liabilities Payable	0	105,079	105,079
Capitalized Lease Debt	139,160	0	139,160
Compensated Absences	2,051,551	0	2,051,551
	\$ 148,690,733	\$ 15,606,952	\$164,297,685
NET ASSETS			
Investment in Capital Assets, net of related Debt	\$ 10,434,834	\$ 22,485,952	\$ 32,920,786
Restricted for:			
Debt Service	2,403,432	0	2,403,432
Reserved for Capital Projects	7,981,582	0	7,981,582
Reserved for Retirement of Long-Term Obligations	0	1,802,392	1,802,392
Unreserved - Undesignated	(37,999,144)	7,397,464	(30,601,680)
	\$ (17,179,296)	\$ 31,685,808	\$ 14,506,512

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GOVERNMENTWIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003

PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS		
		FEES, FINES AND CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
Governmental Activities							
General Government							
and Administration	\$ 9,244,072	\$ 41,000	\$ 321,022	\$ 0	\$ (8,882,050)	\$ 0	\$ (8,882,050)
Public Safety	31,975,044	891,275	2,620,046	0	(28,463,723)	0	(28,463,723)
Public Works	9,968,640	5,677,006	2,428,667	1,095,649	(767,318)	0	(767,318)
Health & Welfare	1,150,321	676,316	2,260,494	0	1,786,489	0	1,786,489
Community Development	12,800,331	1,165,898	9,576,344	0	(2,058,089)	0	(2,058,089)
Culture and Recreation	1,290,668	34,044	0	0	(1,256,624)	0	(1,256,624)
Other Expenditure	429,715	0	4,575	0	(425,140)	0	(425,140)
Pension Trust Funding	9,922,374	0	0	0	(9,922,374)	0	(9,922,374)
Pension Trust Management Fee Buyout	7,327,626	0	0	0	(7,327,626)	0	(7,327,626)
Unallocated Depreciation	20,822	0	0	0	(20,822)	0	(20,822)
Interest on Long Term Debt	2,320,262	0	0	0	(2,320,262)	0	(2,320,262)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 86,449,875	\$ 8,485,539	\$ 17,211,148	\$ 1,095,649	\$ (59,657,539)	\$ 0	\$ (59,657,539)
Business-Type Activities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Sewer Authority	9,663,880	7,710,055	0	0	0	(1,953,825)	(1,953,825)
Municipal Recreation Authority	129,983	0	0	0	0	(129,983)	(129,983)
Municipal Parking Authority	1,723,778	1,516,923	0	0	0	(206,855)	(206,855)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 11,517,641	\$ 9,226,978	\$ 0	\$ 0	\$ 0	\$ (2,290,663)	\$ (2,290,663)
TOTAL GOVERNMENT	\$ 97,967,516	\$ 17,712,517	\$ 17,211,148	\$ 1,095,649	\$ (59,657,539)	\$ (2,290,663)	\$ (61,948,202)
General Revenues:							
Property taxes, levied for general purposes					\$ 12,799,564	\$ 0	\$ 12,799,564
Act 511 Taxes					22,687,171	0	22,687,171
Grants, Subsidies, and contributions not restricted					1,267,672	0	1,267,672
Cable Television Franchise Revenue					723,966	0	723,966
Payments in Lieu of Taxes					238,957	0	238,957
Investment Earnings					892,353	176,798	1,069,151
Sewer Authority Concession Fee					500,000	0	500,000
Gain (Loss) on sale/retirement of capital assets					0	2,126,177	2,126,177
Miscellaneous					890,033	37,385	927,418
Rents and Concessions					7,217	0	7,217
Grant Funds Loaned To Qualified Parties					900,000	0	900,000
Transfers					8,703	20,251	28,954
Total General Revenues and Transfers					\$ 40,915,636	\$ 2,360,611	\$ 43,276,247
Change in Net Assets					\$ (18,741,903)	\$ 69,948	\$ (18,671,955)
Net Assets, Beginning of Year					1,562,607	31,615,860	33,178,467
NET ASSETS, END OF YEAR					\$ (17,179,296)	\$ 31,685,808	\$ 14,506,512

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2003

ASSETS	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and Cash Equivalents	\$ 1,718,670	\$ 3,657,447	\$ 6,236,092	\$ 7,293,130	\$ 18,905,339
Investments	0	0	16,421,965	0	16,421,965
Taxes and Fees Receivable, Net	16,851,568	0	0	0	16,851,568
Accounts Receivable, Net	0	0	0	187,175	187,175
Accrued Interest	0	0	128,596	0	128,596
Loans Receivable	0	33,616,866	0	900,000	34,516,866
Other Receivables, Net	675,419	0	0	839,087	1,514,506
Due From Other Funds	484,152	1,293,620	1,095,650	0	2,873,422
Due From Other Governments	0	639,214	0	0	639,214
Other Assets	0	605,775	0	0	605,775
Property Held for Resale	0	0	0	1,257,551	1,257,551
<b>TOTAL ASSETS</b>	<b>\$19,729,809</b>	<b>\$ 39,812,922</b>	<b>\$ 23,882,303</b>	<b>\$ 10,476,943</b>	<b>\$ 93,901,977</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2003

LIABILITIES AND FUND BALANCES	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
LIABILITIES					
Accounts Payable	\$ 1,137,989	\$ 619,675	\$ 359,917	\$ 1,115,235	\$ 3,232,816
Accrued Liabilities	1,030,185	40,144	0	12,600	1,082,929
Due to Other Funds	1,082,872	105,598	440,804	1,608,508	3,237,782
Deferred Revenues	<u>12,825,287</u>	<u>38,756,839</u>	<u>0</u>	<u>4,512,173</u>	<u>56,094,299</u>
 TOTAL LIABILITIES	 <u>\$16,076,333</u>	 <u>\$ 39,522,256</u>	 <u>\$ 800,721</u>	 <u>\$ 7,248,516</u>	 <u>\$ 63,647,826</u>
FUND BALANCES					
Debt Service	\$ 0	\$ 0	\$ 0	\$ 2,403,432	\$ 2,403,432
Reserved for Capital Projects	0	0	23,081,582	0	23,081,582
Unreserved - Undesignated	<u>3,653,476</u>	<u>290,666</u>	<u>0</u>	<u>824,995</u>	<u>4,769,137</u>
 TOTAL FUND BALANCES	 <u>\$ 3,653,476</u>	 <u>\$ 290,666</u>	 <u>23,081,582</u>	 <u>\$ 3,228,427</u>	 <u>\$ 30,254,151</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u><u>\$19,729,809</u></u>	 <u><u>\$ 39,812,922</u></u>	 <u><u>\$ 23,882,303</u></u>	 <u><u>\$ 10,476,943</u></u>	 <u><u>\$ 93,901,977</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

Total Fund Balance - Total Governmental Funds \$ 30,254,151

Amounts Reported for Governmental Activities in the statement  
of Net Assets are Different Because:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported as assets in governmental funds. The cost of the assets  
is \$ 25,719,750. and the accumulated depreciation is \$ 8,284,916. 17,434,834

Governmental funds report the effects of bond issuance cost when the debt is  
first issued, whereas these amounts are deferred and amortized . 2,096,153

Property taxes receivable will be collected but are not available soon enough  
to pay for the current period's expenditures and therefore are deferred in the fund. 10,254,707

Refuse fee receivable will be collected but are not available soon enough  
to pay for the current period's expenditures and therefore are deferred in the fund. 2,562,911

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

Change in net assets is as follows:

Cash and cash equivalents	\$	1,232,331	
Investments		17,432,262	
Accrued Interest		57,314	
Due From Other Funds		334,566	
Restricted Cash & Cash Equivalents		172,000	
Accounts Payable		(289,737)	
Workers' Compensation Claims Payable		<u>(18,335,089)</u>	
Increase In Net Assets			603,647

Deferred loans are loans made by SRA to qualified projects that will be repaid  
in future years but are not available soon enough to pay for the current period's  
expenditures and therefore are deferred in the funds. 900,000

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

Long-Term liabilities are not due and payable in the current period and  
therefore are not reported as liabilities in the funds. Long-Term liabilities at  
year end consist of the following:

General obligation bonds payable		(79,293,130)	
Governmental notes payable		(1,553,678)	
Accrued interest payable		(1,042,154)	
Capitalized Lease payable		(139,160)	
Compensated absences		(2,051,551)	
Deferred loss on early retirement of debt		<u>3,943,974</u>	
Increase in Long Term Liabilities			<u>(80,135,699)</u>

Net Assets of Governmental Activities \$ (17,179,296)

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues:</b>					
Taxes	\$ 35,279,532	\$ 0	\$ 0	\$ 0	\$ 35,279,532
Intergovernmental	3,213,479	5,540,237	0	10,713,055	19,466,771
Departmental Earnings	1,858,669	0	0	75,381	1,934,050
Refuse Disposal Fee	4,727,136	0	0	0	4,727,136
Licenses and Permits	1,156,079	0	0	0	1,156,079
Cable Television Franchise Revenue	723,966	0	0	0	723,966
Payments in Lieu of Taxes	238,957	0	0	0	238,957
Investment Income	122,732	37	469,020	85,288	677,077
Sewer Authority Concession Fee	500,000	0	0	0	500,000
User Fee	34,044	0	0	0	34,044
Other Revenues	890,033	0	0	954,735	1,844,768
Rents and Concessions	267	0	0	6,950	7,217
Donations	155,000	0	0	0	155,000
Program Income	0	1,060,223	0	0	1,060,223
<b>Total Revenues</b>	<b>\$ 48,899,894</b>	<b>\$ 6,600,497</b>	<b>\$ 469,020</b>	<b>\$ 11,835,409</b>	<b>\$ 67,804,820</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government	\$ 11,226,724	\$ 0	\$ 0	\$ 774,249	\$ 12,000,973
Public Safety	24,941,667	0	0	0	24,941,667
Public Works	8,303,742	0	0	1,960,170	10,263,912
Health and Welfare	0	0	0	2,439,638	2,439,638
Community Development	413,666	9,368,880	0	4,662,373	14,444,919
Culture and Recreation	1,052,286	0	0	0	1,052,286
Other Expenditures	0	0	0	14,335	14,335
<b>Debt Service</b>					
Debt Service-Principal	0	0	0	1,385,979	1,385,979
Debt Service-Interest	0	0	0	1,316,803	1,316,803
Capital Outlay	0	0	4,936,593	525,025	5,461,618
<b>Total Expenditures</b>	<b>\$ 45,938,085</b>	<b>\$ 9,368,880</b>	<b>\$ 4,936,593</b>	<b>\$ 13,078,572</b>	<b>\$ 73,322,130</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 2,961,809</b>	<b>\$ (2,768,383)</b>	<b>\$ (4,467,573)</b>	<b>\$ (1,243,163)</b>	<b>\$ (5,517,310)</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	GENERAL	OECD	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
Other Financing Sources (Uses):					
Bond Proceeds	\$ 31,625,000	\$ 0	\$ 12,400,000	\$ 0	\$ 44,025,000
Bond Proceeds Refunding Bonds	0	0	0	28,275,000	28,275,000
Proceeds From Long Term Debt	0	0	0	636	636
Proceeds From Tax Anticipation Note	7,699,914	0	0	0	7,699,914
Operating Transfers In	1,680,776	0	1,237,928	3,100,862	6,019,566
Disposition of Assets Transferred to SRA	1,150,000	0	0	0	1,150,000
Transfer of Asset To SRA	(1,150,000)	0	0	0	(1,150,000)
Operating Transfers Out	(4,177,679)	0	(1,385,646)	(1,695,624)	(7,258,949)
Bond Issuance Costs	(1,375,000)	0	(400,000)	(927,083)	(2,702,083)
Workmen's Compensation Funding	(13,000,000)	0	0	0	(13,000,000)
Pension Trust Funding	(9,922,374)	0	0	0	(9,922,374)
Pension Trust Management Fee Buyout	(7,327,626)	0	0	0	(7,327,626)
Payment to Refund bond escrow agent	0	0	0	(29,305,026)	(29,305,026)
Repayment of Tax Anticipation Note	(7,826,564)	0	0	0	(7,826,564)
Net Other Financing Sources (Uses)	<u>\$ (2,623,553)</u>	<u>\$ 0</u>	<u>\$ 11,852,282</u>	<u>\$ (551,235)</u>	<u>\$ 8,677,494</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 338,256	\$ (2,768,383)	\$ 7,384,709	\$ (1,794,398)	\$ 3,160,184
Fund Balances, Beginning of Year	<u>3,315,220</u>	<u>3,059,049</u>	<u>15,696,873</u>	<u>5,022,825</u>	<u>27,093,967</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 3,653,476</u></u>	<u><u>\$ 290,666</u></u>	<u><u>\$ 23,081,582</u></u>	<u><u>\$ 3,228,427</u></u>	<u><u>\$ 30,254,151</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2003

Net Changes in Fund Balances - Total Governmental Funds \$ 3,160,184

Amounts Reported for Governmental Activities in the statement of activities are different because:

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 10,377,717	
Depreciation	<u>(826,725)</u>	9,550,992

Because some property taxes will not be collected for several months after the City's year end they are not considered as "available" revenues in the governmental funds. Deferred tax revenue increased by this amount this year. 207,203

Because some refuse fees will not be collected for several months after the City's year end they are not considered as "available" revenues in the governmental funds. Deferred refuse fee revenue decreased by this amount this year. (7,705)

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

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

Change in revenue and expenditures is as follows:

Investment Income	\$ 215,276	
Elimination of expenditure on general fund and revenue on internal service fund	17,857,402	
Recording on expenditures on internal service fund in governmental activities	<u>(9,609,827)</u>	8,462,851

Deferred loans are loans made by SRA to qualified projects that will be repaid in future years but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 900,000

In the statement of activities compensated absences are measured by the amounts earned during the year. In governmental funds however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. (148,432)

CITY OF SCRANTON, PENNSYLVANIA  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2003

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

Issuance of General Bond Obligations	\$ (72,300,000)	
Issuance of Proceeds Governmental Note Payable	(636)	
Bond Discount, Net of Amortization	506,870	
Deferred Loss on early Retirement of Debt, net of amortization	3,943,974	
Repayment of General Bond Principal	25,680,000	
Repayment of Governmental Note Payable	810,979	
Repayment of Capitalized Lease Principal	59,024	
Bond issuance cost, net of amortization	<u>2,096,153</u>	(39,203,636)

Interest on Long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.

(513,360)

Change in Net Assets of Governmental Activities

\$ (18,741,903)

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS		NON-MAJOR		
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY	TOTAL	
ASSETS					
Cash and Cash Equivalents	\$ 750,113	\$ 317,617	\$ 41,006	\$ 1,108,736	\$ 1,232,331
Certificate of Deposit	1,586,249	0	2,751,345	4,337,594	0
Investments	0	0	0	0	17,432,262
Accounts Receivable, Net	1,486,141	66,859	0	1,553,000	0
Accrued Interest	0	0	26,947	26,947	57,314
Due From Other Funds	0	28,601	0	28,601	334,566
Prepaid Assets	0	44,694	0	44,694	0
Other Assets	164,916	28	0	164,944	0
Restricted Assets:					
Restricted Cash and Cash Equivalents	0	805,884	0	805,884	172,000
Restricted Certificate of Deposit	1,802,392	0	0	1,802,392	0
Restricted Accounts Receivable	405,983	0	0	405,983	0
Restricted Interest Receivable	0	359	0	359	0
Capital Assets:					
Land	95,000	903,293	0	998,293	0
Land Improvements	0	309,045	0	309,045	0
Buildings and Improvements	70,936,797	12,111,054	0	83,047,851	0
Equipment	6,840,849	257,872	0	7,098,721	0
Construction In Progress	5,921,257	33,428	0	5,954,685	0
Accumulated Depreciation	(56,520,281)	(4,766,390)	0	(61,286,671)	0
Deferred Charges, Net	637,924	253,778	0	891,702	0
TOTAL ASSETS	\$ 34,107,340	\$ 10,366,122	\$ 2,819,298	\$ 47,292,760	\$ 19,228,473

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	MAJOR FUNDS			NON-MAJOR	
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY	TOTAL	
LIABILITIES					
Short-Term Debt	\$ 937,865	\$ 0	\$ 0	\$ 937,865	\$ 0
Accounts Payable	1,399,049	65,523	0	1,464,572	289,737
Accrued Liabilities	116,282	133,386	0	249,668	0
Current Liabilities Payable From Restricted Assets					
Revenue Bonds Payable	0	5,760,000	0	5,760,000	0
Accrued Revenue Bond Interest Payable	0	151,661	0	151,661	0
Noncurrent Liabilities					
Workers' Compensation Claims Payable	0	0	0	0	18,335,089
Long-Term Debt Obligations	4,983,107	1,955,000	0	6,938,107	0
Long-Term Liabilities Payable	105,079	0	0	105,079	0
TOTAL LIABILITIES	<u>\$ 7,541,382</u>	<u>\$ 8,065,570</u>	<u>\$ 0</u>	<u>\$ 15,606,952</u>	<u>\$ 18,624,826</u>
NET ASSETS					
Investment in Capital Assets, net of related Debt	\$ 21,352,650	\$ 1,133,302	\$ 0	\$ 22,485,952	\$ 0
Restricted for:					
Reserved for Retirement of Long-Term Obligations	1,802,392	0	0	1,802,392	603,647
Unreserved - Undesignated	3,410,916	1,167,250	2,819,298	7,397,464	0
TOTAL NET ASSETS	<u>\$ 26,565,958</u>	<u>\$ 2,300,552</u>	<u>\$ 2,819,298</u>	<u>\$ 31,685,808</u>	<u>\$ 603,647</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Operating Revenues	\$ 7,710,055	\$ 1,516,923	\$ 0	\$ 9,226,978	\$ 3,609,316
Operating Expenses:					
Workers' Compensation Claims	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,606,227
Salaries, Wages, and Fringe Benefits	0	397,159	21,997	419,156	0
Insurance	13,380	160,861	4,716	178,957	0
Depreciation	2,254,247	339,961	13,893	2,608,101	0
Other	7,275,864	277,450	25,728	7,579,042	3,600
Total Operating Expenses	\$ 9,543,491	\$ 1,175,431	\$ 66,334	\$ 10,785,256	\$ 9,609,827
Income (Loss) from Operations	\$ (1,833,436)	\$ 341,492	\$ (66,334)	\$ (1,558,278)	\$ (6,000,511)
Non operating Revenues (Expenses):					
Investment Income	\$ 122,345	\$ 9,359	\$ 45,094	\$ 176,798	\$ 215,276
Interest Expense	(119,175)	(536,958)	(63,649)	(719,782)	0
Other	46,798	(9,413)	0	37,385	0
Workmen's Compensation Funding	0	0	0	0	13,000,000
Gain on Sale of Capital Assets	0	0	2,126,177	2,126,177	0
Amortization of Deferred Charges	(1,214)	(11,389)	0	(12,603)	0
Total Non operating Revenues (Expenses)	\$ 48,754	\$ (548,401)	\$ 2,107,622	\$ 1,607,975	\$ 13,215,276
Transfers In	\$ 0	\$ 0	\$ 20,251	\$ 20,251	\$ 1,248,086
Net Transfers In	\$ 0	\$ 0	\$ 20,251	\$ 20,251	\$ 1,248,086
Change in Net Assets	\$ (1,784,682)	\$ (206,909)	\$ 2,061,539	\$ 69,948	\$ 8,462,851
Net Assets at Beginning of Year	28,350,640	2,507,461	757,759	31,615,860	(7,859,204)
NET ASSETS AT END OF YEAR	\$ 26,565,958	\$ 2,300,552	\$ 2,819,298	\$ 31,685,808	\$ 603,647

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Cash Flows From Operating Activities:					
Cash Received from Customers	\$ 7,726,120	\$ 1,841,583	\$ 0	\$ 9,567,703	\$ 0
Cash Received from Other Funds for Services	0	0	0	0	3,609,316
Cash Payments to Vendors	(7,314,112)	(1,133,711)	(70,747)	(8,518,570)	(3,323,179)
Cash Payments to Employees	0	0	(20,012)	(20,012)	0
Net Cash Provided by (Used In) Operating Activities	\$ 412,008	\$ 707,872	\$ (90,759)	\$ 1,029,121	\$ 286,137
Cash Flows From Non Capital Financing Activities:					
Grants	\$ 277,762	\$ 0	\$ 0	\$ 277,762	\$ 0
Transfers From Other Funds	0	0	20,251	20,251	14,248,086
Other Revenue Received	46,798	0	0	46,798	0
Net Cash Provided by Non Capital Financing Activities	\$ 324,560	\$ 0	\$ 20,251	\$ 344,811	\$ 14,248,086
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	\$ (4,595,915)	\$ (69,863)	\$ 0	\$ (4,665,778)	\$ 0
Proceeds from Capital Debt	4,983,107	0	0	4,983,107	0
Proceeds from Sale of Capital Assets	0	0	3,475,000	3,475,000	0
Interest Paid on Bonds	(87,487)	(541,651)	(63,649)	(692,787)	0
Retirement of Bonds	(494,275)	(285,000)	(695,000)	(1,474,275)	0
Payments on Deferred Charges	0	(12,012)	0	(12,012)	0
Net Cash Provided by (Used In) Capital and Related Financing Activities	\$ (194,570)	\$ (908,526)	\$ 2,716,351	\$ 1,613,255	\$ 0
Cash Flow From Investing Activities:					
Purchase of Investments	\$ (1,153,703)	\$ 0	\$ 0	\$ (1,153,703)	\$ (23,346,559)
Sale of Investments	0	0	0	0	8,425,632
Purchase of Certificates of Deposit	0	0	(2,751,345)	(2,751,345)	0
Interest on Cash and Investments	126,019	9,781	18,147	153,947	104,159
Net Cash Provided by (Used In) Investing Activities	\$ (1,027,684)	\$ 9,781	\$ (2,733,198)	\$ (3,751,101)	\$ (14,816,768)
Net Decrease in Cash and Cash Equivalents	\$ (485,686)	\$ (190,873)	\$ (87,355)	\$ (763,914)	\$ (282,545)
Cash and Cash Equivalents, Beginning of Year	1,235,799	1,314,374	128,361	2,678,534	1,686,876
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 750,113	\$ 1,123,501	\$ 41,006	\$ 1,914,620	\$ 1,404,331

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	SEWER AUTHORITY	MUNICIPAL PARKING AUTHORITY	MUNICIPAL RECREATION AUTHORITY		
Reconciliation Of Income (Loss) from Operations to Net Cash Provided by (Used In) Operating Activities:					
Income (Loss) from Operations	\$(1,833,436)	\$ 341,492	\$ (66,334)	\$ (1,558,278)	\$ (6,000,511)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used In) Operating Activities					
Depreciation	2,254,247	339,961	13,893	2,608,101	0
Change in Assets and Liabilities:					
(Increase) Decrease in:					
Accounts Receivable	16,065	(35,179)	0	(19,114)	0
Due From Other Funds	0	0	0	0	280,500
Other Assets	(13,653)	(12,298)	0	(25,951)	0
Increase (Decrease):					
Accounts Payable	149,779	31,090	(38,318)	142,551	289,737
Accrued Liabilities	(160,994)	42,806	0	(118,188)	0
Accrued Workers' Compensation Claims Payable	0	0	0	0	5,716,411
Net Cash Provided (Used) by Operating Activities	<u>\$ 412,008</u>	<u>\$ 707,872</u>	<u>\$ (90,759)</u>	<u>\$ 1,029,121</u>	<u>\$ 286,137</u>
Reconciliation of Total Cash and Cash Equivalents					
Current Assets - Cash and Cash Equivalents	\$ 750,113	\$ 317,617	\$ 41,006	\$ 1,108,736	\$ 1,232,331
Restricted Assets - Cash and Cash Equivalents	<u>0</u>	<u>805,884</u>	<u>0</u>	<u>805,884</u>	<u>172,000</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 750,113</u></u>	<u><u>\$ 1,123,501</u></u>	<u><u>\$ 41,006</u></u>	<u><u>\$ 1,914,620</u></u>	<u><u>\$ 1,404,331</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
DECEMBER 31, 2003

ASSETS

Receivables:

Members' Contributions	\$	16,932
Pension Reimbursements		<u>17,335</u>

Total Receivables \$ 34,267

Investments at Contract Value 70,361,114

TOTAL ASSETS \$70,395,381

LIABILITIES

Accounts Payable \$ 2,048

Net Assets Held In Trust For Pension Benefits \$70,393,333

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the calendar year ended December 31, 2003 the City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

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

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

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1            Summary of Significant Accounting Policies (Continued)

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

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

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

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

As a result of applying these criteria, the following organizations have been categorized and determined to be and are presented as blended component units for the year ended December 31, 2003.

Sewer Authority of the City of Scranton, Pennsylvania: The Sewer Authority of the City of Scranton, Pennsylvania (the "Sewer Authority") owns the sewer system that provides waste water treatment services to the City and nearby communities. The City appoints all Sewer Authority members and guarantees its bonded debt and approves all rates. The Sewer Authority reports its financial position and its operating activities on a fiscal year of April 1 to March 31. The amounts included in the accompanying government-wide and fund-financial statements for the Sewer Authority reflects its operating results for its fiscal year of April 1, 2002 to March 31, 2003.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

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

#### BASIS OF PRESENTATION

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

The funds of the financial reporting entity are described below:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1            Summary of Significant Accounting Policies (Continued)

Special cities is classified as a non-major fund. Liquid fuels is classified as a non-major fund. Office of Economic and Community Development (OECD) is classified as a major fund. Redevelopment Authority of the City of Scranton is classified as a non-major fund.

- c) Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest, and related costs on general long-term debt. The fund balance of the Debt Service Fund is reserved to signify the amounts are restricted exclusively for Debt Service Expenditure, and is classified as a non-major fund.
- d) Capital Project Fund is used to account for the acquisition or construction of capital facilities being financed from general obligation bond proceeds, or transfers from other funds and is classified as a major fund.

2. Proprietary Fund Types:

- a) Internal Service Funds: The Internal Service Fund is used to account for the financing of goods or services provided by one department to other departments on a cost reimbursement basis. The City accounts for its self-insurance of worker's compensation claims in this fund. These are Proprietary Funds reported within governmental activities in the government-wide financial statements.
- b) Enterprise Funds: The enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Sewer Authority, Parking Authority, and Recreation Authority.

The Sewer Fund is classified as a major fund. The Parking Authority is classified as a major fund. The Recreation Authority is classified as a non-major fund.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses from the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

- 3)      Fiduciary Fund Type: Fiduciary Funds are used to account for assets held by the City in a trustee capacity or an agent for individuals, private organizations, other governmental units and/or other funds. The Pension Trust Funds consist of the Police Pension Fund, Firemen Pension Fund, and Nonuniformed Pension Fund. These funds are accounted for within a single aggregate fund.

Management Focus and Basis of Accounting. The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the term of the plan.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the calendar year. Expenditures are recorded when the related fund liability is incurred except for general obligation bond principal and interest which are reported as expenditures in the year due.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1          Summary of Significant Accounting Policies (Continued)

Major revenue sources susceptible to accrual include: Act 511 Taxes, property taxes, refuse disposal fee, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The City reports deferred revenue on its government-wide and fund financial balance sheet. Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying Expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**Budgetary Process:** The City follows these procedures in developing the budgetary data reflected in the accompanying financial statements:

The preparation of the annual operating budget begins by September 15 for the subsequent budget year. By November 15, the Mayor submits to City Council a proposed budget for the General Fund for the fiscal year commencing January 1. City Council publishes, in one or more newspapers of general circulation within the City, a summary of the budget and a notice that the budget is available for public inspection. A public hearing takes place by December 1, at which time City Council may adopt the budget with or without amendment. In amending the budget, City Council may delete, increase or decrease programs or amounts, except for expenditures required by law or for debt service. If a change in a program or a budgetary item exceeds 10% of the Mayor's proposed budget, another public hearing must take place within 72 hours to justify the change. In no case can an amendment increase authorized expenditures to an amount greater than total estimated funds available. City Council must adopt an annual budget by December 15. If City Council fails to adopt a budget by December 15, the Mayor's proposed budget becomes the official budget for the City for the ensuing year.

**Cash, Cash Equivalents and Investments:** For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1          Summary of Significant Accounting Policies (Continued)

Investments: City investments are stated at fair value based on quoted market prices. Fair value is the amount at which a financial investment could be exchanged in a current transaction between willing parties.

Real Estate Taxes: Real Estate Taxes are based upon assessed valuations provided by Lackawanna County, the elected tax collector bills and collects real estate taxes. The assessed value at January 1, 2003, upon which the 2003 levy was based, was approximately \$379 million. Delinquent taxes are collected by an outside collection agency. The schedule for real estate taxes levied is as follows:

February 1	Original levy date
February 1 - March 1	2 1/2% discount period
March 1 - April 30	2% discount period
May 1 - June 30	Face payment period
July 1 - January 15	10% penalty period
January 16	Lien date

In addition, City taxes may be paid in four installments in which the first two quarterly payments aggregating 50% of the face amount are due by June 30. The third and fourth quarterly payments are due on August 31 and October 31, respectively. Any delinquent installment is subject to a penalty of 10%.

The millage rate at January 1, 2003 was 82.122 mills on the assessed value of land and 17.86 mills on the assessed value of improvements.

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

Allowance for Doubtful Accounts: Accounts Receivable included in the Enterprise Fund represent amounts outstanding from Sewer Authority customer's reported net of an allowance for doubtful accounts of \$1,300,000 at December 31, 2003. The Authority's policy for providing for uncollectible accounts is to charge current year earnings for accounts receivable considered currently uncollectible, based on the historical collection experience of the Sewer Authority and collection percentages applicable to public utilities.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1           Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

#### Government-wide Statements

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

Fund Financial Statements

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

Long-term Debt

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1      Summary of Significant Accounting Policies (Continued)

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

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

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

Government-wide Statements

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 1           Summary of Significant Accounting Policies (Continued)

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

Compensated Absences: The City's vacation policy generally provides that unused vacation benefits lapse at year-end. Unused vacation may be carried over only with the approval of the department head. Unused sick pay accumulates to varying maximum amounts for the various classes of City employees. At December 31, 2003 aggregate liability for unused vacation and sick pay is \$2,051,551.

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.

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, 2003, the aggregate bank balance of bank deposits included in cash and cash equivalents was \$28,234,588 of which \$1,273,290 was insured by the FDIC (Category 1). The remaining bank balance of \$26,961,298 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, 2003 was \$28,186,831.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 2      Cash and Cash Equivalents and Investments (Continued)

Investments: The investments of the City at December 31, 2003 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, 2003 are classified as follows:

	<u>Category 3</u>	<u>Carrying Amount</u>
<b>CAPITAL PROJECT FUND:</b>		
U.S. Government Securities Held by Custodian Under Repurchase Agreement	\$ 7,197,846	\$ 7,170,860
<b>INTERNAL SERVICE FUND</b>		
U.S. Government Securities Held In Financial Institution Trust Department	<u>17,432,632</u>	<u>17,432,632</u>
	<u>\$24,630,478</u>	<u>\$24,603,492</u>
<b>CAPITAL PROJECT FUND:</b>		
Guaranteed Investment Contract		<u>\$ 3,122,016</u>
<b>PENSION TRUST FUNDS:</b>		
Nationwide Insurance Company		
Assets at Contract Value:		
Fixed Income		\$ 2,361,881
Deposit Account		8,266,327
International Value		3,722,849
Diversified Bond Fund		16,848,326
Small Cap Value		7,916,130
Large Cap Value		6,274,466
Small Cap Growth		6,467,539
Large Cap Growth		<u>18,503,596</u>
Total Pension Trust Funds		<u>\$70,361,114</u>
<b>TOTAL ALL FUNDS</b>		<u><u>\$98,086,622</u></u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 3      Taxes and Fees Receivable

Taxes and fees receivable in the General Fund consist of the following at December 31, 2003:

Current real estate taxes	\$ 220,422
Delinquent real estate taxes	12,537,220
Act 511 taxes:	
Earned Income	3,131,982
Occupational privilege	38,806
Business privilege/mercantile	72,378
Delinquent refuse disposal fee	<u>3,360,841</u>
Total	\$19,361,649
 Less allowance for uncollectible taxes and fees	 <u>(2,510,081)</u>
 Net	 <u>\$16,851,568.</u>

Of the above, the receivables not expected to be collected within one year are \$10,737,000 delinquent real estate taxes and \$1,960,000 delinquent refuse disposal fee.

Note 4      Due From and Due to Other Funds

A summary of the total amounts due from and due to other funds, by fund, at December 31, 2003 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 645,976	\$1,081,679
Special Revenue Funds,		
OECD	1,293,620	105,598
Special City	0	1,529,790
Redevelopment Authority	0	240,542
Internal Source Fund	334,566	0
Capital Projects Fund	1,095,650	440,804
Enterprise Funds,		
Parking Authority	<u>28,601</u>	<u>0</u>
Total	<u>\$ 3,398,413</u>	<u>\$ 3,398,413</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance at January 1, 2003	Additions	Disposals	Balance at December 31, 2003
<b>Governmental Activities:</b>				
Land & Land Improvemnets	\$ 1,950,484	\$ 2,895,716	\$ 0	\$ 4,846,200
Building & Building Improvements	3,996,543	699,650	0	4,696,193
Infrastructure	0	1,368,400	0	1,368,400
Furniture & Equipment	1,235,986	948,611	100,000	2,084,597
Vehicles	6,974,699	1,471,802	0	8,446,501
Construction in Progress	<u>1,284,321</u>	<u>2,993,538</u>	<u>0</u>	<u>4,277,859</u>
<b>Totals at Historical Cost</b>	<b><u>\$ 15,442,033</u></b>	<b><u>\$ 10,377,717</u></b>	<b><u>\$ 100,000</u></b>	<b><u>\$ 25,719,750</u></b>
<b>Less: Accumulated Depreciation</b>				
Land & Land Improvemnets	\$ 0	\$ (26,435)	\$ 0	\$ (26,435)
Building & Building Improvements	(2,478,820)	(84,785)	0	(2,563,605)
Infrastructure	0	(45,613)	0	(45,613)
Furniture & Equipment	(993,457)	(100,929)	(100,000)	(994,386)
Vehicles	<u>(4,085,914)</u>	<u>(568,963)</u>	<u>0</u>	<u>(4,654,877)</u>
<b>Total Accumulated Depreciation</b>	<b><u>\$ (7,558,191)</u></b>	<b><u>\$ (826,725)</u></b>	<b><u>\$ (100,000)</u></b>	<b><u>\$ (8,284,916)</u></b>
<b>Governmental Activities Capital Assets, Net</b>	<b><u>\$ 7,883,842</u></b>	<b><u>\$ 9,550,992</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 17,434,834</u></b>
<b>Business - Type Activities:</b>				
Land & Land Improvemnets	\$ 1,304,083	\$ 3,255	\$ 0	\$ 1,307,338
Building & Building Improvements	82,677,111	370,740	0	83,047,851
Furniture & Equipment	7,072,986	25,735	0	7,098,721
Construction in Progress	<u>1,602,195</u>	<u>4,460,971</u>	<u>108,481</u>	<u>5,954,685</u>
<b>Totals at Historical Cost</b>	<b><u>\$ 92,656,375</u></b>	<b><u>\$ 4,860,701</u></b>	<b><u>\$ 108,481</u></b>	<b><u>\$ 97,408,595</u></b>
<b>Less: Accumulated Depreciation</b>				
Land & Land Improvemnets	\$ (281,483)	\$ (6,955)	\$ 0	\$ (288,438)
Building & Building Improvements	(52,152,078)	(2,351,888)	0	(54,503,966)
Furniture & Equipment	<u>(6,258,902)</u>	<u>(235,365)</u>	<u>0</u>	<u>(6,494,267)</u>
<b>Total Accumulated Depreciation</b>	<b><u>\$(58,692,463)</u></b>	<b><u>\$ (2,594,208)</u></b>	<b><u>\$ 0</u></b>	<b><u>\$(61,286,671)</u></b>
<b>Business - type Capital Assets, Net</b>	<b><u>\$ 33,963,912</u></b>	<b><u>\$ 2,266,493</u></b>	<b><u>\$ 108,481</u></b>	<b><u>\$ 36,121,924</u></b>

Depreciation Expense was charged to Governmental activities as follows:

General	\$ 26,386
Public Safety	385,200
Public Works	315,285
Parks & Recreation	79,032
Unallocated	<u>20,822</u>
<b>Total Depreciation Expense</b>	<b><u>\$ 826,725</u></b>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 6            Short-Term Debt

The following summarizes the changes in short-term debt of the Enterprise Fund for the year ended December 31, 2003:

	<u>Balance</u> <u>01/01/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/03</u>
Sewer Authority:				
Line of Credit	\$1,392,950	\$        0	\$ 481,237	\$    911,713
Demand Note Payable	<u>39,190</u>	<u>0</u>	<u>13,038</u>	<u>26,152</u>
	<u>\$1,432,140</u>	<u>\$        0</u>	<u>\$ 494,275</u>	<u>\$    937,865</u>

Line of Credit: In August 2000, the Sewer Authority obtained a \$4,000,000 line of credit to provide interim financing for a capital improvement program. Interest is payable monthly at a variable rate equal to 70% of the prime rate. Security for the line of credit is all receipts and accounts receivable. The line of credit matures sixty months after the closing date of the long-term financing.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt

The following summarizes the changes in long-term debt for the year ended December 31, 2003:

	Balance 01/01/03	Additions	(Amortization) Accretion	Retirements	Balance 12/31/03
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligations Bonds:					
Series A of 1993	\$ 475,000	\$ 0	\$ 0	\$ 475,000	\$ 0
DCED Act 47 Loan	100,000	0	0	100,000	0
Series A of 1997	2,780,000	0	0	2,780,000	0
Series A & C Of 2001	22,325,000	0	0	22,325,000	0
Emmaus General Authority					
Series 2002	7,500,000	0	0	0	7,500,000
Series A of 2003	0	4,998,294	1,770	0	5,000,064
Series B of 2003	0	35,553,097	(6,323)	0	35,546,774
Series C of 2003	0	17,847,650	9,466	0	17,857,116
Series D of 2003	0	13,385,380	3,796	0	13,389,176
Total General Obligation Bonds	<u>\$ 33,180,000</u>	<u>\$71,784,421</u>	<u>\$ 8,709</u>	<u>\$25,680,000</u>	<u>\$ 79,293,130</u>
Lease Obligations Payable					
Total Lease Obligations Payable	<u>\$ 198,184</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 59,024</u>	<u>\$ 139,160</u>
Redevelopment Authority:					
Note Payable	<u>\$ 2,364,021</u>	<u>\$ 636</u>	<u>\$ 0</u>	<u>\$ 810,979</u>	<u>\$ 1,553,678</u>
Debt Service Fund:					
DCED Act 47 Loan	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50,000</u>	<u>\$ 0</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u><b>\$ 35,792,205</b></u>	<u><b>\$71,785,057</b></u>	<u><b>\$ 8,709</b></u>	<u><b>\$26,600,003</b></u>	<u><b>\$ 80,985,968</b></u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Revenue Bonds:					
Major Enterprise Fund:					
Parking Authority					
1969 Series	\$ 1,175,000	\$ 0	\$ 0	\$ 145,000	\$ 1,030,000
1995 Series	6,825,000	0	0	140,000	6,685,000
Sewer Authority					
2002 Series	0	4,388,844	0	0	4,388,844
2002 Series	0	594,263	0	0	594,263
Total Revenue Bonds	<u>\$ 8,000,000</u>	<u>\$ 4,983,107</u>	<u>\$ 0</u>	<u>\$ 285,000</u>	<u>\$ 12,698,107</u>
Notes Payable:					
Other Enterprise Funds					
Recreational Authority	<u>\$ 695,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 695,000</u>	<u>\$ 0</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u><b>\$ 8,695,000</b></u>	<u><b>\$ 4,983,107</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 980,000</b></u>	<u><b>\$ 12,698,107</b></u>
<b>TOTAL LONG-TERM DEBT</b>	<u><b>\$ 44,487,205</b></u>	<u><b>\$76,768,164</b></u>	<u><b>\$ 8,709</b></u>	<u><b>\$27,580,003</b></u>	<u><b>\$ 93,684,075</b></u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

A summary of long-term debt outstanding at December 31, 2003

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 5.5%

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

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%. The Bonds were advance refunded and called on November 15, 2003 from the proceeds of the 2003 B series issue.

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%. The Bonds were advance refunded and proceeds of the 2003 A & B issue were placed in an irrevocable trust.

Emmaus General Authority Series 2003:

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.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

General Obligation Bonds, Series A of 2003:

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

General Obligation Bonds, Series B of 2003:

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

General Obligation Bonds, Series C of 2003:

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7      Long-Term Debt (Continued)

their stated dates of maturity at the option of the City on or after September 1, 2013 at a redemption price of 100%.

General Obligation Bonds, Series D of 2003:

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

Redevelopment Authority:

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 rate was adjusted in November 2003 to 2.066%. The outstanding debt is secured by the assignment of the repayments on seven loans held by the City of Scranton related to 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. The note is payable in monthly installments of \$14,000, including principal and interest, and an annual principal installment of \$84,000. Total restricted cash at December 31, 2003 was \$285,462. The Authority is currently making interest only payments on the outstanding balance. Interest payments in 2003 totaled \$88,769.

Parking Authority:

1969 Parking Authority Bonds, due in annual installments through 2009, bearing interest rates of 4.75% to 5.85%. In January 2004, the Authority used a portion of the proceeds from the 2004 series bonds to redeem and retire the 1969 series bonds.

1995 Parking Revenue Bonds, due in annual installments through 2020, bearing interest rate of 5.00% to 7.15%. In January 2004, the Authority used a

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

portion of the proceeds from the 2004 series bonds to advance refund \$4,590,000 of the outstanding 1995 series bonds.

Sewer Authority 2002 Series:

The balance outstanding at March 31, 2003 amounted to \$4,388,844. The loan is secured by the gross revenues of the Authority and the guarantee of the City of Scranton. Interest only is payable on advances until July 1, 2003, when monthly principal and interest payments are due up to and including January 2003. Interest is at 1.522% for the first 75 months and 3.045% thereafter. Legal fees relating to obtaining the financing amounted to \$44,338 and have been recorded as deferred charges. Construction was completed for this phase in July 2003, but the final inspection has not occurred as of the financial statement date. Therefore, principal payments have been deferred by PENNVEST.

Sewer Authority 2002 Series:

The balance outstanding at March 31, 2003 amounted to \$594,263. The security is the same as above. Interest only is payable on advances until August 1, 2004, when monthly principal and interest payments are due up to and including July 1, 2024. Interest is at 1.38% for the first 81 months and 2.74% thereafter.

The Authority has received a commitment letter for a third loan in the amount of \$2,874,649 to complete Phase I. The loan is expected to close October 2003.

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

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. This loan was retired with proceeds from the sale of the City's golf course.

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Future Debt Service Requirements as of December 31, 2003 are as follows:

Year Ending December 31,	Governmental Activities General Obligation Bonds			Year Ending December 31,	Governmental Activities Note Payable		
	Principal	Interest	Total		Principal	Interest	Total
2004	\$ 2,065,000	\$ 3,217,499	\$ 5,282,499	2004	\$ 221,575	\$ 30,225	\$ 251,800
2005	2,110,000	3,185,601	5,295,601	2005	226,401	25,599	252,000
2006	2,145,000	3,154,232	5,299,232	2006	231,123	20,877	252,000
2007	2,185,000	3,114,438	5,299,438	2007	235,943	16,057	252,000
2008	2,235,000	3,065,227	5,300,227	2008	240,864	11,136	252,000
2009-13	12,300,000	14,258,832	26,558,832	Thereafter	397,772	7,537	405,309
2014-18	13,340,000	11,849,488	25,189,488		<u>\$1,553,678</u>	<u>\$ 111,431</u>	<u>\$ 1,665,109</u>
2019-23	17,185,000	8,551,252	25,736,252				
2024-28	15,745,000	4,779,198	20,524,198				
2029-33	10,490,000	1,318,535	11,808,535				
	<u>\$79,800,000</u>	<u>\$56,494,302</u>	<u>\$136,294,302</u>				

Year Ending December 31,	Business-Type Activities Revenue Bonds Parking Authority		
	Principal	Interest	Total
2004	\$ 5,760,000	\$ 144,030	\$ 5,904,030
2005	150,000	135,070	285,070
2006	150,000	125,320	275,320
2007	165,000	115,345	280,345
2008	175,000	104,125	279,125
Thereafter	1,315,000	337,750	1,652,750
	<u>\$ 7,715,000</u>	<u>\$ 961,640</u>	<u>\$ 8,676,640</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

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

Year Ending December 31,	Principal	Interest	Total
2004	\$ 67,739	\$ 5,746	\$ 73,485
2005	71,421	2,064	73,485
TOTAL	\$ 139,160	\$ 7,810	\$ 146,970

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

The interest rate on the capital lease is 5.0%

The cost of the assets is \$ 204,308

The accumulated depreciation expense through December 31, 2003 is 33,577

The net book value of the capitalized leased vehicles is \$ 170,731

Advance and Current Refunding

On August 7, 2003 the City issued \$ 5,025,000. in General Obligation Bonds Series A dated August 1, 2003 with an average interest rate (coupon) of 2.934% to advance refund \$4,885,000. of outstanding 2001 A series bonds with an average interest rate of 5.620%. Total proceeds included bond discount and accrued interest was \$ 5,000,406. Underwriting fees and other issuance cost were \$ 123,247. Net proceeds of \$ \$ 4,875,047. were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 504,997. from the debt service fund (sinking fund) and an additional \$ 233,318. from the 2003 B issue were deposited in the irrevocable trust. Subsequent debt service payments on the refunded bond issue will be paid from the irrevocable trust. As a result, refunded series 2001 A is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. The City advance refunded these bonds to benefit from recent declines in interest rates and achieve an economic gain of \$ 99,752. Comparative debt service cash flows on the old and new debt show a cash flow benefit of \$ 540,303.

On August 7, 2003 the City issued \$ 20,870,000. in General Obligation Bonds Series B dated August 1, 2003 with an average interest rate (coupon) of 4.407% to advance refund \$17,440,000. of outstanding 2001 C series bonds with an average interest rate of 6.407%. Total proceeds included bond discount and accrued interest was \$20,792,205. Underwriting fees and other issuance cost were \$ 645,712. Net proceeds of \$ 19,516,640. were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 1,700,162. from the

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

debt service fund (sinking fund) and an additional \$355,629. from the sinking fund applicable to the 2001 C bonds were deposited in the irrevocable trust. Additional proceeds of \$233,318. were deposited in the irrevocable trust to advance refund the 2001 A bonds noted above. Additional proceeds of \$207,611 were deposited in the irrevocable trust to advance refund the 1997 A bonds noted below. Additional proceeds of \$174,232 were deposited into the 2003 sinking fund to fund the September 1, 2003 interest payments. Subsequent debt service payments on the refunded bond issue will be paid from the irrevocable trust. As a result, refunded series 2001 C is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. The City advance refunded these bonds to benefit from recent declines in interest rates and achieve an economic gain of \$1,926,618. Comparative debt service cash flows on the old and new debt show cash flow benefit of \$3,992,959.

On August 7, 2003 the City issued \$2,380,000. in General Obligation Bonds Series B dated August 1, 2003 with an average interest rate (coupon) of 3.497% to advance refund \$2,780,000. of outstanding 1997 A series bonds with an average interest rate of 4.835%. Total proceeds included bond premium and accrued interest was \$2,405,628. Underwriting fees and other issuance cost were \$ 63,353. Net proceeds of \$2,341,069. were used to purchase United States Treasury Securities – State and Local Governments deposited in an irrevocable trust with an escrow agent. An additional \$ 273,025. from the debt service fund (sinking fund) and an additional \$207,611. from the 2003 B noted above were deposited in the irrevocable trust. Subsequent debt service payments on the refunded bond issue will be paid from the irrevocable trust. As a result, refunded series 1997 A is considered to be defeased as of the issuance date and the liability for those bonds removed from the financial statements in the period of defeasance. The City advance refunded these bonds to benefit from recent declines in interest rates and achieve an economic gain of \$ 319,984. Comparative debt service cash flows on the old and new debt show a cash flow benefit of \$ 663,525. The 1997 A issue bonds were called on September 8, 2003 and have been retired.

The amount of defeased debt outstanding at December 31, 2003 is as follows:

2001 Series A General Obligation Bonds	\$ 4,615,000.
2001 Series C General Obligation Bonds	\$ 17,395,000.

Bond Closing Cost were incurred for the Series of 2003 in the amount of \$ 2,186,504. as follows:

Gross Bond Insurance Premium	\$ 1,272,722.
Total Underwriter's Discount	614,550.
Financial Advisor	106,667.
Bond Counsel	100,000.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 7 Long-Term Debt (Continued)

Underwriters Counsel	50,000.
Trustee & Counsel Fees	6,000.
Rating Agency Fees	18,000.
POS Official Statement	10,000.
Verification Agent	6,000.
Miscellaneous	2,565.

Note 8 Risk Management

The City's risk management activities are reported with governmental activities and recorded in the Workman's Compensation Internal Service Fund. The purpose of this fund is to administer a Self-Insured Retention Program (SIR). Claims in excess of SIR limit of \$350,000 are covered through third party insurance policies. Payments of actual claim costs are made by a third party administrator and are billed to the City and reimbursed by the General Fund. The claims costs are reflected as revenues in the Internal Service Fund.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions, injuries to employees; and natural disasters.

The City retains the risk up to various levels depending on the type of risk. Excess loss coverage is purchased for coverage on claims exceeding the retention level.

At December 31, 2003, the City's self -insured retention limits are as follows;

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 8 Risk Management (Continued)

Accrued Worker's Compensation Claims:

The Accrued Worker's Compensation Claim loss reserve of \$18,335,089 at December 31, 2003 was determined by an actuary and represents the discounted present value of expected losses using a 5.00% interest factor. The actuarial value was determined as of August 31, 2003 and in prior years the actuarial valuation was determined as of December, 31. The amount of Worker's Compensation Claims operating expense for the Internal Service Fund for the year ended December 31, 2003 is calculated as follows:

Claims and Costs Paid	\$3,609,316
Increase in Actuarial Discounted Loss Reserve	5,716,411
Buyout Settlement Payments	<u>280,500</u>
Worker's Compensation Claims	<u><u>\$9,606,227</u></u>

Note 9 Interfund Transfers

Interfund transfers during the year ended December 31, 2003 were as follows:

	<u>Operating Transfers in</u>	<u>Operating Transfers Out</u>
General Fund	\$ 1,680,776	\$ 4,177,679
Special Revenue Fund:		
Liquid Fuels	0	1,416,259
Special City	253,297	279,365
Debt Service Fund	2,847,565	0
Internal Service Fund	1,248,086	0
Recreation Fund	20,251	0
Pension Fund	0	28,954
Capital Projects	<u>1,237,928</u>	<u>1,385,646</u>
TOTAL	<u><u>\$ 7,287,903</u></u>	<u><u>\$ 7,287,903</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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

The Police pension plan provides for normal retirement with 25 years of credited service with a retirement age of 55 years. The Fireman's pension plan provides for normal retirement at age 60 with 25 years of credited service. The Nonuniformed pension plan provides for normal retirement at age 55 with 20 years of credited service including continuous service of 15 years. Members are 100% vested when eligible.

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

Police are required to contribute 4% of covered payroll. Firemen are required to contribute 4% 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, 2003. 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 2003 consisted of the following:

	<u>POLICE</u>	<u>FIREMEN</u>	NON- <u>UNIFORMED</u>	<u>TOTAL</u>
City/Commonwealth	\$345,504	\$2,801,487	\$ 120,229	\$ 3,267,220
Employees	<u>213,796</u>	<u>211,383</u>	<u>67,349</u>	<u>492,528</u>
Total	<u>\$559,300</u>	<u>\$3,012,870</u>	<u>\$ 187,578</u>	<u>\$ 3,759,748</u>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

January 1, 2003

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

January 1, 2002

	<u>Police</u>	<u>Non- Firemen</u>	<u>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>

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

January 1, 2001

	<u>Police</u>	<u>Non- Firemen</u>	<u>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	0	0	127,258	127,258
Net actuarial gain on plan assets	<u>(137,894)</u>	<u>(3,156,173)</u>	<u>107,401</u>	<u>(3,186,666)</u>
Net increase (decrease) in pension benefit obligation	\$ 1,211,837	\$ (2,485,706)	\$ 350,046	\$ (923,823)
Pension benefit obligation, beginning	<u>12,115,535</u>	<u>42,555,095</u>	<u>587,066</u>	<u>55,257,696</u>
Pension benefit obligation, ending	<u>\$13,327,372</u>	<u>\$ 40,069,389</u>	<u>\$ 937,112</u>	<u>\$54,333,873</u>

The pension benefit obligations were determined as part of an actuarial valuation at January 1, 2003. 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.

January 1, 2003

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Pension benefit obligation to covered payroll	<u>468%</u>	<u>1026%</u>	<u>72%</u>	<u>506%</u>
<u>January 1, 2002</u>				
	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$54,850,759	\$69,802,104	\$ 7,077,504	\$ 131,730,367
Actuarial value of assets	<u>40,935,914</u>	<u>29,168,463</u>	<u>5,509,236</u>	<u>75,613,613</u>
Pension benefit obligation	<u>\$13,914,845</u>	<u>\$40,633,641</u>	<u>\$ 1,568,268</u>	<u>\$ 56,116,754</u>
Funded ratio	<u>75%</u>	<u>42%</u>	<u>78%</u>	<u>57%</u>
Covered payroll	<u>\$ 6,814,392</u>	<u>\$5,904,732</u>	<u>\$ 5,781,576</u>	<u>\$ 18,500,700</u>
Pension benefit obligation to covered payroll	<u>204%</u>	<u>688%</u>	<u>27%</u>	<u>303%</u>
<u>January 1, 2001</u>				
	<u>Police</u>	<u>Firemen</u>	<u>Non- Uniformed</u>	<u>Total</u>
Actuarial accrued liability	\$54,120,301	\$68,167,798	\$ 6,504,126	\$128,792,225
Actuarial value of assets	<u>40,792,929</u>	<u>28,098,409</u>	<u>5,567,014</u>	<u>74,458,352</u>
Pension benefit obligation	<u>\$13,327,372</u>	<u>\$40,069,389</u>	<u>\$ 937,112</u>	<u>\$ 54,333,873</u>
Funded ratio	<u>75%</u>	<u>41%</u>	<u>86%</u>	<u>58%</u>
Covered payroll	<u>\$ 6,012,396</u>	<u>\$5,955,684</u>	<u>\$ 5,834,856</u>	<u>17,802,936</u>
Pension benefit obligation to covered payroll	<u>222%</u>	<u>673%</u>	<u>16%</u>	<u>305%</u>

Historical trend information for the Plans is presented below:

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 10 Pension Plans/Other Postemployment Benefits (Continued)

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

Police Pension Fund

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

Firemen Pension Fund

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/01/01	\$4,851,794	86.2%	\$40,069,389
01/01/02	\$4,191,468	82.9%	\$40,633,641
01/01/03	\$5,079,186	85.0%	\$49,590,010

Non-Uniformed Pension Fund

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

Defined Contribution Plan: The City contributes to a union sponsored, multi-employer plan for certain of its employees. The Plan is not administered by the City and contributions are determined in accordance with labor contracts. Pension expense was \$165,282. in 2003.

The Parking Authority sponsors a defined contribution pension plan covering all eligible employees. Pension expense was \$24,328 for the year ended December 31, 2003.

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 2003 nor the number of participants eligible for these benefits.

Note 11 Credit Risk and Market Risk

The City uses its authority to levy certain general purpose taxes. Major taxing revenue sources include real estate, earned income, mercantile, and business privilege taxes. These taxes account for approximately 93% of the total taxes collected by the City in 2003. Although the City has a diversified taxing base, its citizens' ability to honor their taxing obligations is substantially dependent upon the general economic condition of the region.

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

Note 12 Related Party Transactions

The City paid approximately \$589,000 to the Single Tax Office to subsidize certain operating costs of this entity. The Single Tax Office collected approximately \$31,100,000 of tax revenues on behalf of the City in 2003.

Note 13 Commitments and Contingencies

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

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 13      Commitments and Contingencies (Continued)

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 and continues to be negotiated.

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

The settlement requires the City to correct various program deficiencies and to provide for unfunded outstanding claims in various annual increments beginning in 2003 through 2012 and to keep current on annual costs for claims, administration, and operating expenses. During the year 2003, the City made operating transfers from the General Fund to the Internal Service Fund in the amount of \$1,248,086 and funded the Internal Service Fund with \$13,000,000 from 2003 debt issuance.

**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.. In 2003, the City terminated the Agreement and paid Provident \$7,327,626 from the 2003 debt issuance.

CITY OF SCRANTON, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Note 14      Distressed Municipality Status

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

Note 15      Current Real Estate Taxes

Current real estate taxes collected at December 31, 2003

	<u>Land</u>	<u>Building</u>	<u>Total</u>
Total Assessed Value	95,896,302	283,578,822	379,475,124
Millage Rates	<u>0.082122</u>	<u>0.017860</u>	
Total Original Taxes Levied	7,875,196	5,064,718	\$12,939,914
Add: Additions			154,229
Less: Abatements			<u>(50,293)</u>
Real Estate Taxes To be Collected At Face			\$13,043,850
Add: Penalties Collected			<u>77,384</u>
Total Before Deductions			\$13,121,234
Less: Discounts Taken			(190,833)
Less: Home Vouchers			(253,856)
Less: Delinquent Taxes Returned			<u>(1,906,124)</u>
 TOTAL REAL ESTATE TAXES COLLECTED			 <u><u>\$10,770,421</u></u>

## **SUPPLEMENTARY INFORMATION**

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes	\$35,084,246	\$35,084,246	\$35,279,532	\$ 195,286
Intergovernmental	2,862,852	2,862,852	3,213,479	350,627
Departmental Earnings	1,552,127	1,552,127	1,858,669	306,542
Refuse Disposal Fees	4,703,151	4,703,151	4,727,136	23,985
Licenses and Permits	1,063,665	1,063,665	1,156,079	92,414
Cable Television Franchise Revenue	640,000	640,000	723,966	83,966
Payments in Lieu of Taxes	200,000	200,000	238,957	38,957
Interest Income	142,000	142,000	122,732	(19,268)
Sewer Authority Concession Fees	500,000	500,000	500,000	0
User Fees	25,000	25,000	34,044	9,044
Other Revenues	262,020	262,020	890,033	628,013
Donations	0	0	155,000	155,000
Rents and Concessions	3,000	3,000	267	(2,733)
<b>Total Revenues</b>	<b>\$47,038,061</b>	<b>\$47,038,061</b>	<b>\$48,899,894</b>	<b>\$ 1,861,833</b>
Expenditures				
General Government	\$ 9,591,773	\$ 8,143,603	\$11,226,724	\$ (3,083,121)
Public Safety	24,151,764	24,482,436	24,941,667	(459,231)
Public Works	7,917,508	8,403,291	8,303,742	99,549
Community Development	434,127	416,156	413,666	2,490
Culture and Recreation	889,098	1,055,086	1,052,286	2,800
<b>Total Expenditures</b>	<b>\$42,984,270</b>	<b>\$42,500,572</b>	<b>\$45,938,085</b>	<b>\$ (3,437,513)</b>
Excess of Revenues Over Expenditures	<u>\$ 4,053,791</u>	<u>\$ 4,537,489</u>	<u>\$ 2,961,809</u>	<u>\$ (1,575,680)</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, 2003

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Financing Sources (Uses)				
Bond Proceeds	\$ 0	\$ 0	\$31,625,000	\$ 31,625,000
Proceeds from Tax Anticipation Notes	7,700,000	7,700,000	7,699,914	(86)
Disposition of Assets Transferred to S	0	0	1,150,000	1,150,000
Operating Transfers In	1,583,485	1,583,485	1,680,776	97,291
Operating Transfers Out	(5,394,276)	(5,994,410)	(4,177,679)	1,816,731
Transfer of Asset to SRA	0	0	(1,150,000)	(1,150,000)
Bond Cost	0	0	(1,375,000)	(1,375,000)
Workmen Comp Funding	0	0	(13,000,000)	(13,000,000)
Pension Trust Funding	0	0	(9,922,374)	(9,922,374)
Pension Trust Management Fee Buy	0	0	(7,327,626)	(7,327,626)
Payments of Tax Anticipation Notes	(7,943,000)	(7,826,564)	(7,826,564)	0
Net Other Financing Sources (Uses)	<u>\$(4,053,791)</u>	<u>\$(4,537,489)</u>	<u>\$(2,623,553)</u>	<u>\$ 1,913,936</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$(4,053,791)</u>	<u>\$(4,537,489)</u>	<u>\$(2,623,553)</u>	<u>\$ 1,913,936</u>
Fund Balance, Beginning of Year	<u>3,315,220</u>	<u>3,315,220</u>	<u>3,315,220</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u><u>\$ (738,571)</u></u>	<u><u>\$(1,222,269)</u></u>	<u><u>\$ 691,667</u></u>	<u><u>\$ 1,913,936</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2003

	SPECIAL CITIES	LIQUID FUELS	REDEVELOPMENT AUTHORITY	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 4,555,638	\$ 4,236	\$ 329,824	\$ 2,403,432	\$ 7,293,130
Accounts Receivable, Net	0	0	187,175	0	187,175
Loans Receivable	0	0	900,000	0	900,000
Other Receivables, Net	839,087	0	0	0	839,087
Property Held for Resale	0	0	1,257,551	0	1,257,551
<b>TOTAL ASSETS</b>	<b>\$ 5,394,725</b>	<b>\$ 4,236</b>	<b>\$ 2,674,550</b>	<b>\$ 2,403,432</b>	<b>\$ 10,476,943</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2003

	SPECIAL CITIES	LIQUID FUELS	REDEVELOPMENT AUTHORITY	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 261,377	\$ 0	\$ 853,858	\$ 0	\$ 1,115,235
Accrued Liabilities	0	0	12,600	0	12,600
Due to Other Funds	1,367,966	0	240,542	0	1,608,508
Deferred Revenues	3,612,173	0	900,000	0	4,512,173
<b>TOTAL LIABILITIES</b>	<b>\$ 5,241,516</b>	<b>\$ 0</b>	<b>\$ 2,007,000</b>	<b>\$ 0</b>	<b>\$ 7,248,516</b>
<b>FUND BALANCES</b>					
Debt Service	\$ 0	\$ 0	\$ 0	2,403,432	\$ 2,403,432
Unreserved - Undesignated	153,209	4,236	667,550	0	824,995
<b>TOTAL FUND BALANCES</b>	<b>\$ 153,209</b>	<b>\$ 4,236</b>	<b>\$ 667,550</b>	<b>\$ 2,403,432</b>	<b>\$ 3,228,427</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,394,725</b>	<b>\$ 4,236</b>	<b>\$ 2,674,550</b>	<b>\$ 2,403,432</b>	<b>\$ 10,476,943</b>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	SPECIAL CITIES	LIQUID FUELS	REDEVELOPMENT AUTHORITY	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>Revenues:</b>					
Intergovernmental	\$ 6,130,780	\$ 1,182,046	\$ 3,400,229	\$ 0	\$ 10,713,055
Departmental Earnings	75,381	0	0	0	75,381
Interest Income	16,323	6,517	1,753	60,695	85,288
Other Revenues	954,735	0	0	0	954,735
Rents and Concessions	0	0	6,950	0	6,950
<b>Total Revenues</b>	<b>\$ 7,177,219</b>	<b>\$ 1,188,563</b>	<b>\$ 3,408,932</b>	<b>\$ 60,695</b>	<b>\$ 11,835,409</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government	\$ 765,101	\$ 0	\$ 0	\$ 9,148	\$ 774,249
Public Works	1,960,170	0	0	0	1,960,170
Health and Welfare	2,439,638	0	0	0	2,439,638
Community Development	1,970,690	0	2,691,683	0	4,662,373
Other Expenditures	14,335	0	0	0	14,335
<b>Debt Service</b>					
Debt Service-Principal	0	0	810,979	575,000	1,385,979
Debt Service-Interest	0	0	88,769	1,228,034	1,316,803
Capital Outlay	0	0	525,025	0	525,025
<b>Total Expenditures</b>	<b>\$ 7,149,934</b>	<b>\$ 0</b>	<b>\$ 4,116,456</b>	<b>\$ 1,812,182</b>	<b>\$ 13,078,572</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 27,285</b>	<b>\$ 1,188,563</b>	<b>\$ (707,524)</b>	<b>\$ (1,751,487)</b>	<b>\$ (1,243,163)</b>
<b>Other Financing Sources (Uses):</b>					
Bond Proceeds Refunding Bonds	\$ 0	\$ 0	\$ 0	\$28,275,000	\$ 28,275,000
Proceeds From Long Term Debt	0	0	636	0	636
Operating Transfers In	253,297	0	0	2,847,565	3,100,862
Operating Transfers Out	(279,365)	(1,416,259)	0	0	(1,695,624)
Bond Issuance Costs	0	0	0	(927,083)	(927,083)
Payment to Refund bond escrow agent	0	0	0	(29,305,026)	(29,305,026)
<b>Net Other Financing Sources (Uses)</b>	<b>\$ (26,068)</b>	<b>\$ (1,416,259)</b>	<b>\$ 636</b>	<b>\$ 890,456</b>	<b>\$ (551,235)</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and and Other Financing Uses</b>	<b>\$ 1,217</b>	<b>\$ (227,696)</b>	<b>\$ (706,888)</b>	<b>\$ (861,031)</b>	<b>\$ (1,794,398)</b>
<b>Fund Balances, Beginning of Year</b>	<b>151,992</b>	<b>231,932</b>	<b>1,374,438</b>	<b>3,264,463</b>	<b>5,022,825</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 153,209</b>	<b>\$ 4,236</b>	<b>\$ 667,550</b>	<b>\$ 2,403,432</b>	<b>\$ 3,228,427</b>

"See accompanying notes and independent auditors' report."

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION TRUST FUND  
YEAR ENDED DECEMBER 31, 2003

Additions:

Contributions

Employee	\$ 492,528	
Employer	552,268	
Commonwealth State Aid	2,714,952	
Total Contributions	<u>3,759,748</u>	\$ 3,759,748

Investment Income:

Investment Return	\$ 11,795,275	
Dividend Income	218	
Total Investment Income	<u>11,795,493</u>	11,795,493

Other Income:

Miscellaneous Receipts	\$ 7,519	
Buy-Backs	13,766	
Pension Trust Add'l Funding	9,922,374	
Total Other Income	<u>9,943,659</u>	9,943,659

TOTAL ADDITIONS \$ 25,498,900

DEDUCTIONS

Benefit Payments	\$ 9,589,870	
Administrative Expenses	69,919	
Transfer To General Fund	28,954	
Death Benefit Payments	1,000	
Refund Of Members' Contributions	21,288	
Total Deductions	<u>9,711,031</u>	9,711,031

CHANGE IN NET ASSETS \$ 15,787,869

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

Beginning of Year	<u>54,605,464</u>
END OF YEAR	<u><u>\$ 70,393,333</u></u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes				
Act 511:				
Wage	\$ 18,731,735	\$ 18,731,735	\$ 18,348,593	\$ (383,142)
Real Estate Transfer	1,800,000	1,800,000	2,234,592	434,592
Mercantile	994,044	994,044	822,791	(171,253)
Business Privilege	568,674	568,674	642,815	74,141
Occupational Privilege	330,007	330,007	339,964	9,957
Delinquent Mercantile	109,325	109,325	59,468	(49,857)
Delinquent Business Privilege	0	0	68,703	68,703
Total Act 511	<u>\$ 22,533,785</u>	<u>\$ 22,533,785</u>	<u>\$ 22,516,926</u>	<u>\$ (16,859)</u>
Current Real Estate	\$ 10,523,607	\$ 10,523,607	\$ 10,770,421	\$ 246,814
Delinquent Real Estate	1,861,854	1,861,854	1,821,940	(39,914)
Public Utility	25,000	25,000	124,490	99,490
Penalties & Interest	140,000	140,000	45,755	(94,245)
Total Taxes	<u>\$ 35,084,246</u>	<u>\$ 35,084,246</u>	<u>\$ 35,279,532</u>	<u>\$ 195,286</u>
Intergovernmental				
Supplemental State Assisted Pension	\$ 2,200,000	\$ 2,200,000	\$ 2,714,952	\$ 514,952
Attorney General, Drug Task Force	51,000	51,000	0	(51,000)
Cops Ahead Program	486,852	486,852	270,325	(216,527)
Act 101	125,000	125,000	228,202	103,202
Total Intergovernmental	<u>\$ 2,862,852</u>	<u>\$ 2,862,852</u>	<u>\$ 3,213,479</u>	<u>\$ 350,627</u>
Departmental Earnings				
Parking Meters	\$ 535,005	\$ 535,005	\$ 556,228	\$ 21,223
Fines and Forfeits	737,657	737,657	798,501	60,844
Pave Cuts	174,465	174,465	401,347	226,882
Alarm Fees	55,000	55,000	76,230	21,230
Rescue Fees	50,000	50,000	16,544	(33,456)
Zoning	0	0	9,819	9,819
Total Departmental Earnings	<u>\$ 1,552,127</u>	<u>\$ 1,552,127</u>	<u>\$ 1,858,669</u>	<u>\$ 306,542</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Other Revenues				
Refuse Disposal Fees	\$ 4,703,151	\$ 4,703,151	\$ 4,727,136	\$ 23,985
Licenses and Permits	1,063,665	1,063,665	1,156,079	92,414
Cable Television Franchise Revenue	640,000	640,000	723,966	83,966
Payments in Lieu of Taxes	200,000	200,000	238,957	38,957
Interest Income	142,000	142,000	122,732	(19,268)
Sewer Authority Concession Fees	500,000	500,000	500,000	0
User Fees	25,000	25,000	34,044	9,044
Other Revenues	262,020	262,020	890,033	628,013
Donations	0	0	155,000	155,000
Rents and Concessions	3,000	3,000	267	(2,733)
	<u>7,538,836</u>	<u>7,538,836</u>	<u>8,548,214</u>	<u>1,009,378</u>
Total Other Revenues	<u>\$ 7,538,836</u>	<u>\$ 7,538,836</u>	<u>\$ 8,548,214</u>	<u>\$ 1,009,378</u>
Total Revenues	<u>\$ 47,038,061</u>	<u>\$ 47,038,061</u>	<u>\$ 48,899,894</u>	<u>\$ 1,861,833</u>
Other Financing Sources				
Proceeds from Tax Anticipation Notes	\$ 7,700,000	\$ 7,700,000	\$ 7,699,914	\$ (86)
Bond Proceeds	0	0	31,625,000	31,625,000
Disposition of Assets Transferred to SRA	0	0	1,150,000	1,150,000
Operating Transfers in from:				
Liquid Fuels Fund	1,183,485	1,183,485	1,416,259	232,774
Internal Service Fund	0	0	0	0
Other Funds	400,000	400,000	264,517	(135,483)
	<u>9,283,485</u>	<u>9,283,485</u>	<u>42,155,690</u>	<u>32,872,205</u>
Total Other Financing Sources	<u>\$ 9,283,485</u>	<u>\$ 9,283,485</u>	<u>\$ 42,155,690</u>	<u>\$ 32,872,205</u>
Total Revenues and Other Financing Sources	<u>\$ 56,321,546</u>	<u>\$ 56,321,546</u>	<u>\$ 91,055,584</u>	<u>\$ 34,734,038</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
General Government				
Salaries and Wages	\$ 2,036,255	\$ 1,848,177	\$ 1,930,565	\$ (82,388)
Employee Benefits	2,761,967	2,647,239	2,465,596	181,643
Workers' Compensation Claims	0	105,438	3,535,576	(3,430,138)
General Insurance	850,000	1,262,848	1,237,104	25,744
Office Supplies and Expense	254,099	248,427	226,372	22,055
Professional Fees	695,466	640,727	529,415	111,312
Telephone	188,000	142,669	141,055	1,614
Equipment	63,700	52,087	56,763	(4,676)
Travel	6,750	5,774	3,828	1,946
Other	713,381	196,443	186,245	10,198
Boards and Commissions	150,573	148,956	112,818	36,138
Utilities	661,432	665,477	658,758	6,719
Grants and Contributions	10,150	10,150	18,150	(8,000)
Court Awards & Settlements	1,200,000	166,018	121,306	44,712
Surety Bonds	0	3,173	3,173	0
Total General Government	\$ 9,591,773	\$ 8,143,603	\$ 11,226,724	\$ (3,083,121)
Public Safety				
Salaries and Wages	\$ 14,377,997	\$ 13,600,612	\$ 13,327,853	\$ 272,759
Employee Benefits	8,994,861	10,109,882	10,898,499	(788,617)
Supplies	96,500	114,231	127,183	(12,952)
Equipment	177,000	97,387	115,978	(18,591)
Parking Authority Ticket Issuers	312,269	312,269	289,502	22,767
Training	102,000	208,873	166,522	42,351
Travel	15,000	10,904	10,904	0
Professional Fees	76,137	28,278	5,226	23,052
Total Public Safety	\$ 24,151,764	\$ 24,482,436	\$ 24,941,667	\$ (459,231)
Public Works				
Salaries and Wages	\$ 3,375,659	\$ 3,491,905	\$ 3,339,944	\$ 151,961
Employee Benefits	417,838	502,180	498,596	3,584
Supplies	619,400	828,086	445,457	382,629
Professional Fees	80,930	46,667	17,633	29,034
Equipment	473,681	529,013	980,366	(451,353)
Electric	245,000	259,956	256,016	3,940
Landfill Fees	1,475,000	1,606,767	1,627,499	(20,732)
Salt	250,000	218,777	218,291	486
Street Lighting	980,000	919,940	919,940	0
Total Public Works	\$ 7,917,508	\$ 8,403,291	\$ 8,303,742	\$ 99,549

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUDGETED AMOUNTS		ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Community Development				
Salaries and Wages	\$ 400,777	\$ 389,260	\$ 388,668	\$ 592
Employee Benefits	12,000	12,000	10,368	1,632
Supplies	21,350	14,896	14,630	266
Total Community Development	<u>\$ 434,127</u>	<u>\$ 416,156</u>	<u>\$ 413,666</u>	<u>\$ 2,490</u>
Culture and Recreation				
Salaries and Wages	\$ 472,647	\$ 646,552	\$ 646,552	\$ 0
Employee Benefits	1,760	1,760	1,760	0
Supplies	336,339	366,604	363,804	2,800
Programs	78,352	40,170	40,170	0
Total Culture and Recreation	<u>\$ 889,098</u>	<u>\$ 1,055,086</u>	<u>\$ 1,052,286</u>	<u>\$ 2,800</u>
Total Expenditures	<u>\$ 42,984,270</u>	<u>\$ 42,500,572</u>	<u>\$ 45,938,085</u>	<u>\$ (3,437,513)</u>
Other Financing Uses				
Payments of Tax Anticipation Notes	\$ 7,943,000	\$ 7,826,564	\$ 7,826,564	\$ 0
Bond Cost	0	0	1,375,000	(1,375,000)
Workmen Comp Bond Proceeds	0	0	13,000,000	(13,000,000)
Pension Trust Funding	0	0	9,922,374	(9,922,374)
Pension Buyout	0	0	7,327,626	(7,327,626)
Transfer of Asset to SRA	0	0	1,150,000	(1,150,000)
Operating Transfers Out to:				
Other Funds	3,511,373	4,610,612	1,277,680	3,332,932
Bond Capital Budget	0	491,975	491,975	0
Debt Service Fund	1,882,903	891,823	2,408,024	(1,516,201)
Total Other Financing Uses	<u>\$ 13,337,276</u>	<u>\$ 13,820,974</u>	<u>\$ 44,779,243</u>	<u>\$ (30,958,269)</u>
Total Expenditures and Other Financing Uses	<u>\$ 56,321,546</u>	<u>\$ 56,321,546</u>	<u>\$ 90,717,328</u>	<u>\$ (34,395,782)</u>

"See accompanying notes and independent auditors' report."

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Community Development Block Grants/Entitlement Grants	14.218		\$ 6,966,033
Emergency Shelter Grants Program	14.231		182,950
Home Investment Partnerships Program	14.239		<u>501,612</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 7,650,595</u>
U.S. DEPARTMENT OF JUSTICE:			
COPS	16.710		\$ 267,287
Bulletproof Vest Program	16.607		<u>27,455</u>
Total U.S. Department of Justice			<u>\$ 294,742</u>
U.S. DEPARTMENT OF TREASURY:			
Great Grant Program	21.053		<u>\$ 9,387</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Passed through the Pennsylvania Department of Transportation Highway Planning and Construction	20.205		<u>\$ 723,689</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>\$ 92,857</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 8,771,270</u></u>

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

"See accompanying notes and independent auditors' report."

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

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

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

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

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

July 24, 2004

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scranton, Pennsylvania as of and for the year ended December 31, 2003, which collectively comprise the City of Scranton, Pennsylvania basic financial statements and have issued our report thereon dated July 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

In planning and performing our audit, we considered the City of Scranton, Pennsylvania internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Scranton, Pennsylvania ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2003-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Scranton, Pennsylvania in a separate letter dated July 24, 2004

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

*Robert Rossi + Co.*

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

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

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

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

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

July 24, 2004

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, 2003. 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.

MEMBER OF AMERICAN & PENNSYLVANIA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS

As described in item 2003-2 and 2003-3 in the accompanying schedule of findings and questioned cost the City of Scranton, Pennsylvania did not comply with requirements regarding recordkeeping and reporting that are applicable to its Cops Ahead Program and did not comply with the requirements regarding indirect cost rate applicable to its CDBG/Entitlement Grant and Home Investment Partnership Program. Compliance with such requirements is necessary, in our opinion, for the City of Scranton, Pennsylvania to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Scranton, Pennsylvania complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

#### INTERNAL CONTROL OVER COMPLIANCE

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

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

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

*Robert Rossi + Co.*

CITY OF SCRANTON, PENNSYLVANIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

Section I – Auditor’s Result Section

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

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

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

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

2003-1

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

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

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

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

Department of Housing and Urban Development:  
CDBG/Entitlement Grant CFDA 14.218;  
Home Investment Partnership Program CFDA 14.239

2003 Project No. B – 03 – MC – 42 – 0014  
Project No. M – 03 – MC – 42 - 0205

2003-2

Condition: Indirect cost are those incurred for common or joint purpose benefiting more than one cost objective that cannot be readily assigned to the cost objective specifically benefited.

Criteria: In order to recover indirect cost, governmental entities must prepare cost allocation plan (Cap) or indirect cost rate proposals (Idcrp's). The Community Development Block Grant paid \$ 58,000 to the City of Scranton for rental of the third floor offices in City Hall. The Home Investment Partnerships Program paid \$12,000 for rental of the third floor offices in City Hall. The rental period was for July 1, 2002 to August 31, 2003.

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

The Community Development Block Grant paid \$38,667 to the City of Scranton for a proportional share of the City's monthly data processing expense. The Home Investment Partnership Program paid \$8,000 to the City of Scranton for a proportional share of the City's monthly data processing expense.

Effect: Indirect costs were charged to the programs without the preparation of a Cap or Idcrp.

Recommendation: A Cap or Idcrp should be developed if indirect costs are to be charged to the grants

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

2003-3

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

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

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

- 1.) Quarterly financial status reports are due within forty-five (45) days after the end of a quarter. None of the 2003 quarterly reports were filed within forty-five (45) days after the quarter's end.
- 2.) To draw down money from the program requires the use of (personnel identification number) PIN after quarterly reports were filed. The new personnel was not aware of this requirement or where such PIN was located. As a result, the City did not receive any Federal reimbursement in 2003 for the COPS program.
- 3.) The majority of COPS grants require an increasing local match each year and a decreasing federal share. The new personnel were not aware of such requirement and when

CITY OF SCRANTON, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

quarterly reports were prepared the incorrect federal and local expenditures were reported. The City has subsequently revised the original filing to properly report Federal and Local shares. Since no money was received the City did not owe any funds back.

- 4.) The Department's annual report and officer progress report is required to be filed annually within forty-five (45) days after year end. Such report was not filed until April 2004.
- 5.) Upon completion of the grant, the grantee is required to file a final financial status report within ninety (90) days. One grant expired in August 2003 and a final completion report was not submitted. In May 2004 the City requested an extension for this grant.

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

Department of Business Administration

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



SCRANTON

**CORRECTIVE ACTION PLAN**

Cognizant or Oversight Agencies for Audit: Department of Housing & Urban Development and the Department of Justice

The City of Scranton, Pennsylvania respectfully submits the following corrective action plan for the year ended December 31, 2003:

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

Audit period: January 1, 2003 to December 31, 2003

The findings from the December 31, 2003 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**

**2003-1 Accounts Payable Segregation of Duties**

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

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

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

### DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2003-2 CDBG / Entitlement Grant CFDA 14.218

Home Investment Partnership Program CFDA 14.239

Recommendation: A CAP or IDCRP should be developed if indirect costs are to be charged to the grants.

Action Taken: We agree with the finding of the independent auditor. However, since the OECD office has moved out of City Hall and no longer utilizes the City of Scranton's accounting software, this will not be an issue in the future.

### DEPARTMENT OF JUSTICE

2003-3 Universal Hiring Program CFDA 16.710

Cops In School CFDA 16.710

Cops in Community Prosecution CFDA 16.710

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

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



Leonard Kresefski  
Business Administrator

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

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

Finding 2002-2

The audit for the year ended December 31, 2002 noted that program income was not being disbursed before requesting additional cash payments.

Program income was only requested after prior cash was disbursed.